

Cyclical crisis of capitalist development in the periphery. A reading from Argentina

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Abstract

Explaining the recurrence of crisis in Argentina under the form of balance of payment difficulties requires an answer to the question of why the real exchange rate does not tend to correct the external imbalances as should happen according to the neoclassical explanation. That is, why does the real exchange rate tend to move, systematically, towards values that make the result of the current account of the balance of payments unsustainable? In synthesis, why does the real exchange rate in Argentina tends to over-value in relation to the 'needs' of the balance of payments, if over-valuation expresses the impossibility of equilibrating it?

In this article we will show that it is Argentina's economic structure that generates this behavior. We will do so by combining three tools of analysis: the concept of 'des-equilibrated productive structure'; a model of 'structural' real exchange rate determination; and the effects of existence of rent from natural resources (typical of semi-industrialized Latin-American economies). With these ideas in mind we will show how structural forces act in the short- and long-run, emphasizing the fact that the effects of devaluation in peripheric economies are of a different qualitative nature as those in developed (center) economies. We will end our presentation with a few reflections on the contradictions and policy decisions that this economic structures pose.

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1 Introduction

Explaining the recurrence of crisis in Argentina under the form of balance of payment difficulties requires an answer to the question of why the real exchange rate does not tend to correct the external imbalances as should happen according to the neoclassical explanation. That is, why does the real exchange rate tend to move, systematically, towards values that make the result of the current account of the balance of payments unsustainable? In synthesis, why does the real exchange rate in Argentina tends to over-value in relation to the 'needs' of the balance of payments, if over-valuation expresses the impossibility of equilibrating it?

In this article we will show that it is Argentina's economic structure that generates this behavior. We will do so by combining three tools of analysis: the concept of 'des-equilibrated productive structure' (DPS) that is a domestic version of the 'Dutch disease' as developed by authors such as Marcelo Diamand (1973, 1988, 1993); a model of real exchange rate determination developed by Shaikh (2004), although with a few extensions of our own; and the effects of existence of rent from natural resources (typical of semi-industrialized Latin-American economies). With these ideas in mind we will show how structural forces act in the short- and long-run, emphasizing the fact that the effects of devaluation in peripheric economies are of a different qualitative nature as those in developed (center) economies. We will end our presentation with a few reflections on the contradictions and policy decisions that this economic structures pose.

2 Structural disequilibrium in a peripheric economy

Argentina's economy can be characterized as 'pendular'. In fact, several authors have observed that regularly the dynamic of capital accumulation in Argentina generates some sort of growth 'bubble' which is rapidly followed by a crisis in the balance of payments and then recession (Notcheff, 1994; Diamand; 1988). This phenomenon, better known as dynamics of 'arranque y parada' or '*stop-and-go*', is well characterized by Bacha (1986) who notes that in semi-industrialized economies (peripheric) it is particularly difficult to reach an equilibrium in the foreign-currency market and the labor market simultaneously.

2.1 *The limits of orthodoxy*

This recurring problem has been traditionally dealt with from different perspectives (Diamand, 1971). Assuming the non-existence of involuntary unemployment of the labor force, the neoclassical reading states that the limit to sustained growth is caused by low rates of domestic savings to finance investment. In general, this perspective emphasizes the negative role played by public sector's budget deficit (dis-saving), an 'excessive' level of industrial protection along with 'excessive' real wage levels, all of which impede sufficient export growth. On these premises, they favor reductions in real wages (that are euphemistically called 'labor cost reductions'), policies of surplus in the public budget, the elimination of trade protection and the deregulation of foreign trade. All of these measures should, it is proposed, increase the level of savings. However, during the nineties (and in several other periods of Argentina's history) the application of most of this policies have proven incapable of transcend the limits posed by capitalist development in Argentina (Diamand, 1971).

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On the other hand, we have the proposals of ‘Keynesian’ economists. These authors begin by stressing the evidence of significant ‘involuntary’ unemployment (open or covered as ‘informal’ labor); they also state that Argentina’s economy shows a sustained problem of weak aggregate demand for domestic production (the other side of unemployment). To confront this problem, they have proposed policies of wage increases and expansive fiscal and monetary policies, as well as strong regulation of the countries’ foreign trade. However, these policies also tended to stumble into the limits imposed by the ‘external restriction’, falling them too into balance of payments crisis (Diamand, 1971; Féliz y Pérez, 2004).

Beyond the possibility of the relevance of any of the previous frameworks of analysis for the understanding of capitalism within ‘central’ nations, it is clear to us that this ‘importation’ of ‘economic recipes’ has only increased the structural problems of Argentina’s economy. We understand that this results in part from the fact that both theoretical frameworks, do not take into account an essential element of the economic structure of many of the countries of the ‘periphery’ (‘under-developed’ countries) and in particular Argentina: the presence of a ‘des-equilibrated productive structure’ (Diamand 1968, 1973, 1988).⁵

2.2 *The Des-equilibrated Productive Structure (DPS)*

The des-equilibrated productive structure results from the existence of a substantial cost-gap between the traditional economic activities in the peripheric countries and the new and desirable economic activities. To say it different, the comparative advantage in the peripheric countries does not decline smoothly and imperceptibly from one class of mining and agriculture to another and eventually to certain classes of industries to others. There exists, in fact, a discrete and substantial step between the comparative advantages of the different sectors (Schydrowsky 1993).

The effects of the DPS on trade have been well discussed in the literature (Diamand 1973, 1988, 1993; Nochteff 1994; Bacha 1986). In fact, already Prebisch (1964) stressed that the tendency to external disequilibrium in developing countries was above all an expression of the disparity between the growth rate of primary exports in comparison with that of imports of industrial commodities. While the first ones develop quite slowly, save a few exceptions, the demand for imports tends to grow swiftly. This is a ‘spontaneous’ phenomenon relating to economic development in these countries (Prebisch, 1964). Meanwhile, Bacha (1986) calls the attention to the external restriction; within a double-gap model, he establishes that from the accounting identity $S-I = X-M$ cannot simply be said that the existence of a current account deficit implies that a ‘peripheric’ country is in fact living beyond its means. This conclusion is valid only if liquid exports are limited by excess internal demand, but it is incorrect when they are constrained by insufficient demand in world markets (as it is the case for industrial production in ‘peripheric’ economies; Bacha, 1986). Finally, while looking into the relationship between the real exchange rate and the balance of payments, Diamand (1988, 1993) mentions that if in a peripheric economy (which almost by definition has low levels of productivity) there existed only an industrial sector, the real exchange rate would adjust just enough to make it competitive worldwide.⁶ That is, the price paid by a purely industrial country for its low productivity would not be higher domestic prices but lower real wages (Diamand, 1993).

However, in those peripheric countries that begin their industrialization coexist both the new secondary sector (‘industry’) and a primary one (‘agropecuarian’), both influencing simultaneously the level of a single real exchange rate. This situation will provoke an adjustment in the real exchange rate that will take domestic relative prices to a level similar to the international one (Diamand 1993), although this price levels will not necessarily be compatible with the structural of productivities in the peripheric economy. That is, the national relative prices in autarky (closed economy) will not coincide with the relative prices fixed by conditions

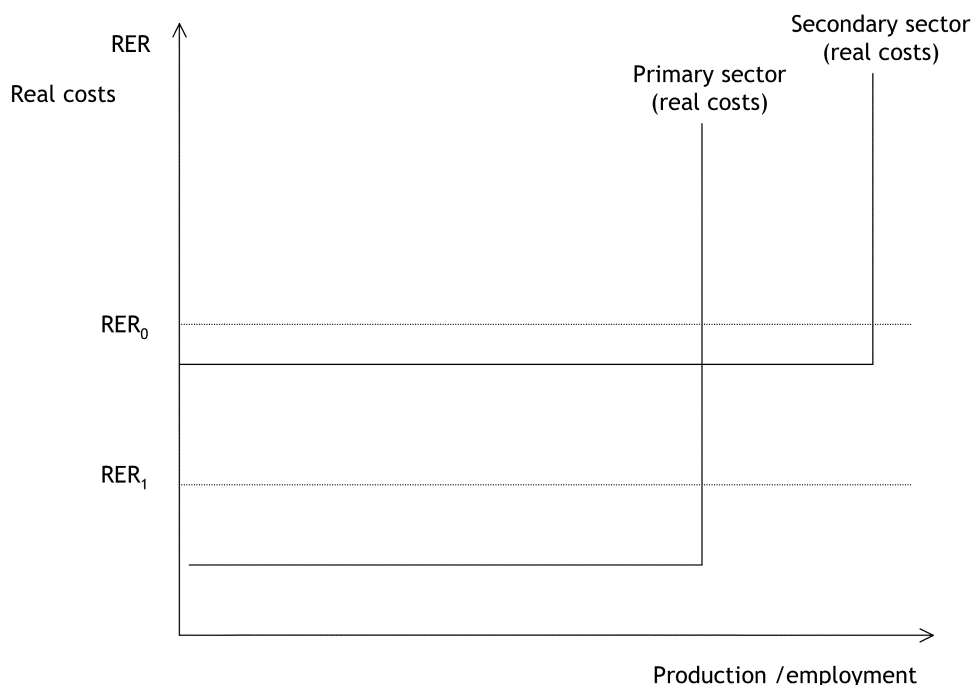
⁵ Also known as “evolutive Dutch disease” (Schydrowsky 1993). This type of productive structure and its limits has received almost no attention, some exceptions been the works of Braun and Joy (1968), Bacha (1986), Notcheff (1994) and the mentioned by Schydrowsky.

⁶ According to Diamand (1988, 1993) this was the case of Korea, Taiwan, Hong Kong and China in the beginning stages of their industrialization.

of integration to world trade. In this situation, the level of the exchange rate that will be determined will be compatible only with the needs of one sector, generating disequilibria in the other.

Figure 1 represents the structure of productivities in a two sector peripheric country. The secondary sector (industrial) has a level of average productivity that is systematically below (and thus, unitary costs are systematically above) those in the primary sector.

Figure 1. 'Stepped' productivity structure.



Given that national relative prices (that is, in autarky) do not coincide with international ones, if the real exchange rate places itself at a level that allows for 'normal' profitability for the primary sector, the secondary sector will suffer huge losses (RER_1) since its unitary costs will turn out to be 'excessive'. Alternatively at an 'industrial' exchange rate (RER_0), which guarantees a 'normal' profitability for the secondary sector, the primary one will receive 'super-profits'. These extraordinary profits will be the product of redistribution of income from the working classes, since real wages will be lower (other things being equal) than it would be if only the agrarian (primary) sector existed, since in autarky the real exchange rate would be closer to RER_1 .

While in the short-run either situation is sustainable, historically the situation of RER_0 has tended to generate 'distributive struggles' that have slowly increased industrial unitary costs and thus prices, deriving in a re-appreciation of the real exchange rate (decreasing the ratio of international prices to domestic prices) (Diamand, 1988).

If we include a third sector (producer of 'non-tradable' commodities), this dynamics would accentuate. Beginning from a situation of 'high' real exchange rate (RER_0) following a devaluation of the domestic currency, industry as well as primary sector both obtain high levels of profitability that induce investment, thus expanding production and employment in both sectors. However, since a 'high' real exchange rate (a 'depreciated' domestic currency) implies 'low' real wages (in comparison with pre-devaluation ones), the distributive struggle translates into increases in domestic prices since firms try to preserve an 'adequate' profitability and thus their 'mark-up' over costs. However, since the economy is 'open' to the rest of the world, the wage pressure cannot be completely transferred into higher prices; thus industry begins to lose profitability, slowing down in its expansion. A similar process can be seen amongst primary producers, with the exception that this last sector remains within international profitability standards since it has strong cost advantages. Progressively, investment and employment are diverted into the production of 'non-tradable' commodities, whose profitability can keep up with increasing wages.

With or without a 'non-tradable' sector, the original devaluation turns into a progressive appreciation of the real exchange rate, sustained basically by the 'distributive struggle'; eventually the process collapses. The appreciation translates into a growing current account deficit that at some point ceases to be financed. The subsequent devaluation reduces real wages, taking the economy back again to the 'initial' position. The fall in wages (in real terms) reduces consumption and 'corrects' the external deficit in the short-run; on the other hand, it also 'corrects' the low profitability levels in both secondary and primary sectors. However, devaluation by itself does not change the conditions that will take to the beginning of a new pendular movement.

Synthetically, the 'Argentinean cycle' can be characterized by three stages that follow each other as the real exchange rate appreciates: 1) 'high' real exchange rate and highly profitable 'tradable' commodities producing sectors (agricultural and industrial), 2) 'medium' real exchange rate where agriculture and 'non-tradable' producers coexist (with a 'dying' industrial sector that loses ground), 3) 'low' real exchange rate and 'strong' 'non-tradable' commodities producing sector (with 'un-competitive' agricultural and industrial sectors). How long each stage lasts will depend on the possibilities available for financing the growing current account deficit and the characteristics of the 'distributive struggle'.

3 The structural determination of the real exchange rate.

The previous discussion represents, in a stylized fashion, the cyclical dynamics of a peripheric economy and in particular the dynamics of Argentina's economy (Diamand, 1988). However, there is something missing. We are left wondering why the real exchange rate does not reach a level that will 'clear' the external sector as it is assumed by the neoclassical explanation. That is, what forces define the level around which the real exchange rate will fluctuate?

To answer this, we will leave aside the traditional theories of exchange rate determination, looking for a more 'structural' approach.⁷ We propose, then, to complete our analysis with a framework of exchange rate determination that relates to the fundamental logic of the capitalist economy: the production for profit. That is, the exchange rate should be associated to movements in capital (at an international scale) that follow changes in the profit rates, which are in the end the motive for such movements. Anwar Shaikh (1999, 2000, 2002) has developed a framework with such characteristics.

3.1 Capital movements, profit rates and the real exchange rate.

According to Shaikh (2000) the real exchange rate between countries is determined by the need to tendentially equalize the profit rates between 'regulating' capitals at an international scale.

The idea of a tendencial regulation of the exchange rates assumes that in the short-run the exchange rate will always be above or below the level that equalizes the profit rates in 'regulating' capitals, but competition between capitals will systematically tend to move it to allow for a tendencial equalization. However, the concept of tendency or 'tendencial law of movement' implies that the real exchange rate will 'oscillate' around the tendencial value but never actually reach it (not even in the long run, which in fact does not exist as a relevant concept).

⁷ While this is not the place for a full critical reading of the literature on exchange rates, we may state that most standard approaches build on the following frameworks. On the one hand, neoclassical theories begin with untenable assumptions (such as 'full employment') or assume what should be proven (e.g., assume that the real exchange rate 'should' balance the external sector and to prove that they assume the condition of external balance as 'equilibrium'). On the other hand, post-Keynesian approaches emphasize the role of financial capital in exchange rate determination. Thus, the current account does not determine the exchange rate, but the capital account of the balance of payments. This explanation has the problem that leaves the exchange rate essentially undetermined since exchange rate could be 'in any value' according to the 'expectations' or 'mood' of the 'financial markets'. Of course, we could fall into the explanations based on 'fundamentals' but neither they are adequate since turn out to be mere empirical estimations which rely in multiple models and diverse explanations (which, in general, assume, as we said, that which should be proven).

3.1.a Capitalist competition and the profit rate

Let us develop the argument. Within each country, competition amongst capitals tends to equalize the profitability of investments in those capitals that act as ‘regulating’ capitals within each sector or branch (Shaikh, 2004). ‘Regulating’ capitals are those that for having the lowest unitary costs tend to ‘set’ the international price for the commodities in the branch in which they operate. The condition of reproducibility of regulating capitals assumes that in the nation or region where they operate they can expand their level of production at lower costs than the rest of their competitors within the branch; as a result regulating capitals in the different branches (‘markets’) will be those that obtain a growing or majority stake in their ‘market’.

At this level of abstraction, we assume the existence of a tendency for real wages within each country to be homogeneous;⁸ we assume that working classes in each country have reached different standards of living so real wages will be different amongst countries.⁹ Besides, within each country, the different branches of production have reached different levels of technological development and each have a different degree of labor exploitation.¹⁰ There exists unemployment of the labor force in every country; this is an essential condition for capitalist production and can appear as ‘open unemployment’ as well as ‘hidden’ (for example, under the form of ‘informal’ labor or ‘partially’-forced labor). In any case, we assume the existence of an abundant labor-force available for expanding production. Finally, the different countries have different levels of technological development and the more advanced technology is not easily accessible to capitals operating in less developed countries.

In each productive branch, at an international level, there exist a variety of technologies in use simultaneously. The firms that represent regulating capitals will be the ones that tend to set the price (in international currency) for commodities in each branch, while the rest of the capitals within each branch, with ‘less competitive’ technology (that is with higher costs) will operate in each ‘market’ with a profit rate determined simultaneously by its production technology (productivity level) and the real wage level within each country. The need to expand its capital and (re)produce its profit will force the firms to try to innovate so as to reduce unit costs and increase its ‘market share’ (Shaikh, 2004).

New investment will be directed to the different branches and it will be applied to establish, or increase the size of, regulating capitals, with the reproducible technology that allows for the lowest unit production costs; the movement of capital tends in that way to equalize capital’s profit rates between regulating capitals in the different branch (Shaikh, 2004). On its part, non-regulating capitals will be forced by competition to sell their commodities at the price set by regulating capitals, thus obtaining a range of profit rates determined by each capital’s particular conditions of production.¹¹

3.1.b Real exchange rate determination

To concretely analyze the problem of real exchange rate determination we will think through the problem with the example of two countries that we will call Periferia and Centria, and we will simplify the discussion by assuming the existence of only two sectors, industrial (secondary sector) and agriculture (primary sector).¹²

We may begin with the simplifying assumption of complete autarky (which, nonetheless, describes the historical moment of closure by developed economies after the thirties, which set

⁸ That is, in this explanation we do not (and we need not) take into account the possible role of different wages within workers in the same country.

⁹ Migration of labor force between countries is actually very limited making it simpler for different wage levels to be sustained, they being determined by local social, political and/or cultural factors.

¹⁰ Here, the level of technological development is taken to be the ‘average productivity of labor’ while the degree of exploitation of labor is expressed as the relation between the aggregate value-added in production and the value of the wage bill in the country under analysis.

¹¹ Since each branch in each country has its own non-regulating capitals, whose productivity levels depend on the history of technological change in each sector, the average profit rates between branches need not tend to equalize, only those of regulating capitals will tend to do so.

¹² It is important to keep in mind that we understand that Argentina is a prototypical example of what we call Periferia, although our discussions intend to be general, or a higher level of abstraction.

forth the context for the development of industrialization in the periphery).¹³ In such circumstances, each country has its own regulating capitals within each sector, since they do not compete with producers (capitals) of the rest of the world. Consequently, profit rates will tend to equalize between capitals in both sectors within each country, but not between them (Shaikh, 2004). It is important to stress that profitability of regulating capitals in both sectors in any country cannot be determined independently (that is, for example, by the degree of concentration in each sector) but there exist between them an underlying connection due to commodity exchange between them. Tendentially no sector can sustain profit rates higher than those in the rest of the sectors.¹⁴

Simultaneously, given the technological development (labor productivity) and the level of real wages in each country, the resulting absolute prices (in the domestic currency of each country) will be set and thus also the domestic relative prices ('domestic exchange rate'). The relative prices will be set within each economy from the absolute costs levels of the regulating capitals (precisely those with the lowest reproducible unit costs).

Before we continue, it is worth stating that in the conditions in which competition between capitals operates, price levels will not adjust within the countries to reach 'full employment of resources'; prices will tend to warrant the equalization of profit rates (for regulating capitals) between branches. As a consequence, prices will be tendentially 'rigid', determined by wage costs and labor productivity levels, although effective prices ('market prices') will actually vary around those tendencial values (that is, 'production prices', which tend to warrant profit rate equalization).¹⁵

Now, if both countries open up their territories to world trade, international competition of capital between sectors will determine which capitals will be the international regulating capitals, so that these will be the ones that will now tendentially equalize inter-sector profitability at an international scale (Shaikh, 2004); in historical terms, within the countries of the periphery this has been the trend since at least the 60s when world markets began to open up again after the inter-war period.¹⁶ Thus, profit rates (determined at world-wide scale) together with productivity levels and real relative labor costs between both countries will determine international relative prices (real exchange rate).¹⁷ Again, absolute costs in regulating capitals for each branch at international scale will determine absolute prices in international currency.¹⁸

3.1.c ¿How does the real exchange rate react to trade imbalances?

We have not said anything yet with respect to the role of real exchange rate in the equilibrium of the balance of payments. In fact, within this framework, trade patterns between Periferia and Centria need not reach equilibrium.

¹³ After the crisis of the thirties, many countries of the periphery began their process of 'industrial substitution', thus establishing the historical preconditions of our two-sector discussion.

¹⁴ This does not mean that in the short-run there are no sectors in which, for several reasons, the profit rate could not remain above the 'regulating' rate. What is important is that under such circumstances 'innovations' will be induced, accentuating the entrance of new capitals within that branch. New entrants will tend to increase supply of commodities in that branch, progressively reducing prices till they accord capital's 'regulating' profitability.

¹⁵ Real wages do not have to 'adjust' to the neoclassical assumption of 'full employment', since they must allow for the reproduction of the labor-force's ability to labor and thus it has a minimum value (historically, socially and politically given) that may not be generally crossed (Marx, 1994).

¹⁶ Actual capitalist competition, as against neoclassical 'competition', works not only through commodity-exchange. It also acts through financial capital movements and movement of 'real' capital (i.e., direct foreign investment). With force since the 60s, within countries in the periphery international competition (and thus international 'regulation' of prices) has operated with growing strength, in particular through foreign investment (Neffa, 1998).

¹⁷ For a full mathematical development of this argument, see Shaikh (1999; 2000; 2004).

¹⁸ As it can be appreciated, contrary to the neoclassical in which relative prices are determined first with absolute prices resulting as a 'residue', we understand that determination of absolute prices (at a national or international scale) comes first, with relative prices being just that, a 'residual' ratio of absolute prices.

The question to be asked now is whether a situation of sustained current account imbalance will or not put into motion ‘forces’ which, through changes in the real exchange rate (nominal exchange rate and/or domestic prices), that will tend to equilibrate it ‘in the long run’, as it is suggested by the theory of comparative advantages (developed originally by David Ricardo at the beginning of the 19th century, and backbone of neoclassical theories of trade).

In general terms, the comparative advantage arguments is that within a fix exchange rate regime, a country in deficit will experience an out-flow of international currency that will generate a reduction in domestic money supply, which in turn will cause a reduction in domestic prices, thus depreciating the real exchange rate until the trade balance has been restored (assuming that the so-called Marshall-Lerner condition of elasticities holds).¹⁹

However, this assumed process of adjustment has been seriously questioned. In the first place, it assumes full employment in the nations that trade and cuasi-instantaneous mobility of capital between sectors; in this way, ‘costs of adjustments’ are assumed away. Besides, it assumes (and this is an essential point in our discussion) that nominal prices are completely flexible, and that they will adjust to the needs of the balance of payments. In fact, as we have discussed, prices cannot be set arbitrarily to correct an unbalanced current account. Given wage levels (in real terms) and labor productivity in each sector, ‘absolute’ prices expressed in the same currency will tend to warrant the equalization of profit rates for regulating capitals. In consequence, prices will inflexible due to the usual dynamics of the economic system (and not simply due to the intervention of external agents).²⁰

Thus, once Periferia ‘opens up’, absolute prices (and relative ones) will tend to be set by the tendencial equalization of profit rates, and for that reason balance of payments imbalances can remain in deficit in sustained manner with systematic tendencies to crisis since there are no ‘automatic mechanisms’ that allow for balanced trade with the rest of the world (Shaikh, 2004).

In sight of external imbalances, nations have in the short-run the alternative to look for finance for the external deficit, but in the long-run trade with the rest of the world will collapse unless deep structural changes occur in the relationship between productivity levels and real wages.

4 DPS, real exchange rate and agrarian rent.

Normally, if capitals within a country regulate international prices in any sector this is allows for them to translate more easily their increases in costs to prices (Botwinik, 1993). For example, if those capitals with less unit costs in the primary sector operate within Periferia, they could translate to its prices (which ‘regulate’ international prices in the sector) increases in internal costs (Botwinik, 1993).²¹ But increasing the price of primary commodities will imply, on one hand, a reduction in the profitability of industrial capitals that must now buy more expensive primary supplies, and, on the other hand, a reduction in real wages in Periferia and Centria due to the increase in the price of consumption commodities (those produced by the primary sector); this last effect will probably lead to a ‘wage-push’ that will increase industrial costs in Periferia again²². In any case, Periferia could improve its ‘terms of trade’ (real exchange rate) within certain boundaries.

¹⁹ In the case of a flexible exchange rate, the out-flow of international currency will depreciate the nominal exchange rate and (with fixed prices) also the real exchange rate, till the trade balance is back in equilibrium.

²⁰ That is, prices of different commodities whose production is internationalized will tend to be rigid, even in conditions of ‘free market’; then, State intervention, for example, is not what makes prices inflexible.

²¹ Of course, this will only be possible if greater costs do no make Periferia capitals in the primary sector leave their place as ‘regulating’ capitals; this will happen if higher costs in Periferia make unit-costs for primary sector’s capitals higher than the unit-costs of primary sector’s capitals for its competitors in the rest of the world (Centria).

²² The fall in real wages in Centria may cause increases in the prices of industrial commodities if workers in Centria push to recover the real value of their wages (reduced by higher primary commodities’ prices). It should be remembered, that many of those industrial commodities are intermediate inputs of Periferia’s industrial capitals.

However, ¿what will happen if Periferia did not regulate prices for any commodity worldwide? In this case, the real exchange rate would be ‘structurally fixed’ and there would be no way of transferring higher costs (for example, higher wages) to Centria.

Besides, if capitals in Periferia’s primary production have lower unit costs than the rest of the world’s producers in that sector, but it cannot expand its production indefinitely (due to low elasticity reflecting the limited supply of productive land), then lower-cost Periferia capitals will no be able to operate as ‘regulating’ producer²³. In this case, primary production capitals in Periferia will no regulate prices but will obtain an extraordinary profitability, greater than that of ‘regulating’ capitals, resulting from their unit costs being lower than ‘regulating unit-costs’. Thus, they obtain a ‘rent’ that will not tend to ‘dissolve’ since the resources they exploit at very low cost are not reproducible. As we stated earlier, the existence of this rent results in lower profitability for all industrial capitals in Periferia which are forced to pay prices for their inputs from the primary sector that are ‘too high’ in comparison to local production costs for such commodities.

If the economy were closed, the price of primary production would be regulated by lower-cost local capitals, but after opening up to world trade, this price begins to be regulated by ‘regulating’ capitals globally (in this case, with higher unit-costs). That is, openness allows capitals in the primary sector of Periferia to obtain permanent ‘super-profits’, and impedes for industry to benefit from the lower costs of primary production in Periferia. In other words, with international trade, industry in Periferia loses its advantage of low cost primary inputs, while industry in Centria keeps the benefits it reaps from its higher technological development (since technological know-how has low international tradability, and trade openness does not change that).

Under this economic structure, in Periferia not only the real exchange rate will be ‘rigid’ but also industrial capital’s profitability will tend to be lower than in the case (presented earlier) when Periferia regulated primary commodities’ prices. All this makes the possibilities for industrial development and growth in Periferia doubly limited.

Finally, ¿what will happen with the price of primary commodities, now that we know that its prices are set by ‘regulating’ capitals whose costs are growing as demand increases, in contrast with constant costs, which is the general rule for the rest of commodities? In this case, ‘regulating’ prices for primary commodities will tend to fluctuate more than industrial commodities’ prices. Periferia will then suffer a third cost of ‘hyper-competitive’ ‘non-regulating’ primary sector capitals: highly volatile export prices.

5 Structurally low real exchange rate and devaluation in the periphery

Taking into account the structural and sector particularities analyzed, one may wonder how can this discussion be used to describe the dynamics of the economy in Argentina that is, in our opinion, the paradigm of Periferia. To do this, we will analyze an economy whose capitals regulate the price of primary sector’s commodities, but given real wages, low labor productivity impedes domestic industrial capitals to regulate theirs.

In such conditions, while the economy is relatively closed to world trade, the real exchange rate will be favorable for industrial capital; that is, the relative price for industrial commodities will be relatively ‘high’. This explains, partially, why during ‘import substitution’ foreign capital flowed into Argentina’s economy to act within the industrial sector (Féliz y Pérez, 2004).

When Periferia’s economy opens to competition (and trade) with Centria, ‘regulating’ capitals in industry become the latter’s, and the real exchange rate of Periferia ‘falls’ (the internal prices of industrial commodities falls, since now they have to adjust to the ‘price of production’ set by ‘regulating’ capitals that operate from Centria). In consequence, at the new tendencial real exchange rate, Periferia’s primary sector tends to obtain ‘normal’ profits for its regulating capitals, but industrial capital gets only very low or even negative profits. If such situation continues the industrial sector would disappear altogether due to its low profitability.

²³ In other words, the expansion of demand for primary commodities will be partially fulfilled by capitals with unit costs higher than those of Periferia’s capitals; thus, the less efficient capitals of Centria will cover excess demand.

In an economy such as Periferia's with a very pronounced DPS, the structure of relative prices (real exchange rate) is such that the whole of the industrial sector is structurally marginalized, since its low profitability allows it to accumulate little and thus forces it to grow less than average. In fact, given that the exchange rate is set by Periferia's primary sector²⁴ and Centria's secondary sector, industrial production in Periferia tends to have difficulties for expansion and compete internationally. Since the primary sector is not a strong employer of labor force, open unemployment and underemployment tends to become rampant in Periferia.²⁵

If, on the contrary, the structure of productivities were not so unbalanced in Periferia, it could occur that several branches or capitals within the industrial sector could expand even at the tendentially low real exchange rate, allowing for the absorption of at least some of the surplus labor force (although never all of it).²⁶ If productivity in Periferia's primary and secondary sectors were similar, unit costs would not be so different, allowing for 'fair' profitability in the industrial sector, even at a 'low' tendencial real exchange rate. Besides, in such situation, it would be more likely that the current account could turn into surplus or at least the deficit could be reduced, since more capitals in Periferia would be in shape to stand international competition and maintain (or even increase) its market share world-wide.

5.1 *Periferia's Pendulum. Devaluation and crisis.*

The condition of DPS makes the real exchange rate in Periferia structurally low in relation to the 'needs' of industrial capital. Besides, given that this implies the existence of a structural deficit in the current account, the real exchange rate will fluctuate 'pendularly', depreciating when finance is 'cut-off', re-appreciating again later.

It is clear that if a devaluation of Periferia's currency lowered unit production costs in the 'long-run' and in the amount necessary (by reducing 'long-run' real wages or increasing labor productivity) industrial capital in Periferia could eventually obtain a 'regulating' profitability (or at least operate in 'competitive' conditions) while the profitability of the primary sector would turn extraordinary (due to the DPS) but in a persistent manner. Both sectors would begin to expand, as will employment, and the current account would improve.

In the short-run devaluation can in fact alter unit costs expressed in international currency, by lowering real wages, which increases capital's profitability at least temporarily. However, this 'correction' works only until the 'wage-push' takes real wages to its previous level and 'prices of production' for primary commodities returns to their previous level, thus assuring the tendencial equalization of profit rates. As for industrial commodities, since regulating capitals operate in Centria, domestic producers in Periferia will tend to see their profitability levels reduced by increasing labor costs, while its margin to compete with foreign producer is limited as is its ability to export. Thus, the initial expansion in industrial production tends to recede.

More specifically, devaluation in Periferia allows for an swift reduction in the international price of the commodities whose price is regulated by Periferia's capitals (that is, primary commodities) while at the same time, increasing the local price, in domestic currency, of industrial commodities whose prices are still regulated by Centria's capitals.²⁷ It would seem that 'magically' Periferia's capitals had become competitive internationally in both sectors. However, this is the effect, not of magic, but of a huge transfer of income from labor to capital in both sectors. This reduces demand for international currency in Periferia (due to a reduction

²⁴ As we stated before, it should be possible for Periferia's primary commodities producers to satisfy the marginal demand for those commodities, since otherwise they could not act as 'regulating' capitals.

²⁵ Trends in unemployment and underemployment in Argentina, as well as in the rest of Latin America, confirm our presumptions. From the sixties underemployment has turned into a growing problem in Argentina, while open unemployment began to reach problematic levels since mid-seventies (Neffa, 1998; Torrado, 1994; Féliz y Pérez, 2004).

²⁶ We hold that unemployment of the labor-force is an immanent characteristic of the system of capitalist production.

²⁷ To avoid confusions, devaluation in Periferia will not 'instantaneously' reduce the 'market price' for primary commodities, but these prices will tend to oscillate around a new 'price of production'. Of course, this will happen only in as much as the new conditions of 'competitiveness' in Periferia can be sustained.

in imports for consumption and inputs of production) and increases its supply by improving exports in several branches²⁸.

In as much as devaluation has reduced real wages, the newly gained current account surplus tends to reduce the price of the international currency (in domestic currency's terms) while, simultaneously, growing wage pressure induces a drop in profitability for capital in Periferia.²⁹

It is important to notice that, after devaluation, since Periferia's industry does not regulate international prices (since for that to happen, it would have to structurally increase industrial profitability mainly by technological development), industrial capital will have to translate increasing unit costs into domestic prices (and/or reduced unit profits), thus slowly reducing its 'competitiveness'. Increasing wages (together with the reduction in price of the international currency, as expressed in Periferia's currency) will also diminish profitability in the primary sector, until it reaches, again, a 'normal' (regulating) one. As the real exchange rate slowly returns to its previous level, the external deficit reappears.

In every case, the structural deficit could be financed in the short run with capital inflows. If international conditions are such that there exists high liquidity and 'adequate' conditions in Periferia (for example, high interest rates), the deficit could be financed even for a long time.³⁰ However, maintaining 'appreciated' the real exchange rate (in relation to the 'needs' of industrial capital) promotes an accelerated process of dis-industrialization, with concentration and centralization of capital (Basualdo, 2000), accompanied by the expansion of the 'non-tradables' sector.³¹ However, the situation will be very precarious since any of the so-called 'exogenous shocks' could put things in its place, exposing the immanent contradiction of the process, cutting-off 'voluntary' finance and sending the real exchange rate to a new, higher level.³² Industrial capital will be able to expand in as much as the income transfer resulting from devaluation/depreciation of the domestic currency sustains; that is, in as much as it can hold real wages in its new, lower level.

6 Summing up, Periferia is Argentina

Within the framework of capitalist economic relations of production, the peripheric position of an economy establishes strong limits to the maneuvering space for traditional economy policy.

As we have discussed, in 'normal' conditions (that is where commodities and capital move freely but not the labor force and technological development) a peripheric nation such as Argentina will face systematic balance of payments crisis for the simple reason that the development of its productive forces (expressed in the productivity of social labor) force it into a structural

²⁸ Nonetheless, it is not clear that devaluation will have by itself a positive effect on exports (Bacha, 1986). In fact, for a reduction in the international currency price of exported production (thanks to devaluation) to increase the volume of exports there should exist a world market in 'equilibrium' of in excess supply for this type of national commodities (situation that might be reasonably assumed for industrial commodities). If, however, there is a situation of excess international demand (as we may sensibly assume occurs for primary products), the reductions in prices will only increase excess demand but not the total value exported.

²⁹ The improvement in the current account is the result not only of the reduction in unit costs of production (and thus of increased 'competitiveness' of capital in Periferia) but also of the violent reduction of imports; this relates mainly to the reduction in real wages (and real wage bill) and thus the reduction in labor class' consumption.

³⁰ In Argentina, the experience of the nineties shows a 'long' period (about 8 years) of adequate financial capital flows (Félic y Pérez, 2004; Félic, 2005).

³¹ While we may not advance further here, we may state that within competition amongst capitals within a peripheric economy, while trying to reach 'regulating' profitability, capitals in the 'non-tradables' sector will tend to generate poor quality, low wage employment to compensate for its lower labor productivity.

³² The movement will be violent and be preceded by a crisis that will present a set of prototypical stages: out-flow of capital through the capital account of the balance of payments (under the form of world money, e.g. international currency), falling 'real' activity and employment (due to increasing financial costs and thus falling profitability for productive capital), deflationary pressures, chain bankruptcies, falling international reserves, till things reach a point where the devaluationist 'correction' 'closes' the economy for a while to any kind of international capital flow (under its different forms: commodities, money, direct investment).

external deficit. This situation makes itself clearer as the peripheric economy integrates fully in world markets.³³

To this problem we may add the existence of a des-equilibrated productive structure (DPS), which is proper of most semi-industrial Latin-American economies, and Argentina in particular. In this situation, primary sector capitals are not the 'regulating' ones although they present very low unit costs; thus the DPS tends to allow for the (high productivity) primary sector to obtain 'super-profits' ('rents') while the real exchange rate tends to be structurally low for industrial capital. The extraordinary profits of the primary sector result of income transfers from industrial capital (expressed in lower profits) and from labor (expressed in lower real wages).

This combination of elements, which turns to be highly conflictive from a dynamic point of view, is the historical result of the period of relative protection shaped mainly by adverse circumstance where wage levels and the limited development of labor productivity clash in growing conflict as capital internationalizes and national economies open up again.³⁴ This conflict expresses in successive balance of payments crisis linked to the structural impossibility of peripheric economies to compete internationally.

In this context, devaluation is the usual economic policy at hand due to the impossibility to solve the crisis within the existing social relations that constitute in the end the economic structure: the conflict between the will of capital to expand (and thus obtain 'competitive' profit rates) and the will of labor to reproduce its material conditions of existence (that is, to sustain and increase its standard of living).

This contradiction accentuates when the peripheric primary sector does not regulate its prices, since it obtains 'super-profits' due to the 'natural' productivity of labor and the private property of non-reproducible resources (in particular, the one usually called 'land'). Extraordinary profitability in the primary sector, obtained by opening up the economy tends to depress profitability levels for industrial capital (which pays higher prices for its inputs) and intensifies industrial (class) conflict (since primary commodities' prices are higher, in particular food commodities, which in principle imply lower wages).³⁵

In the end, the recurrent crisis of peripheric economies is the product of the contradiction between the capitalist organization of production and the role of labor as the key of the process of valorization (e.g., creation of profit). The structural restriction of Periferia is the result of the limits posed by capitalist competition on its technological development and the need to obtain 'adequate' profit rates while participating in world markets. In this context, the crisis only expresses the impossibility (or extreme difficulty) for Periferia to make compatible the need to compete (that is, to accumulate) and the needs of labor to reach dignifying standards of living.

The secular crisis puts peripheric countries at a crossroads. One alternative is to accept the systemic restrictions, imposing the burden of 'under-development' (that is, of low productivity) on labor that must the 'accept' to lower its standards of living to warrant capital's reproduction, at least 'until the country reaches development'.³⁶ The other choice is to take the leap and put under social control the whole development strategy, something which no doubt will mean deep measures such as taking control of primary's sector extraordinary rents for its use in planning independent technological development, defining the 'adequate' profitability for capital, and even discussing the need for partial 'dis-connection' from the world economy.

³³ Although the crisis might be postponed, but its negative effects amplified, due to the existence of 'abundant' finance as such integration takes place.

³⁴ The period of 'semi-closed' economy, better known as that of 'import substitution', was not in the periphery the result of the application of a rational program of 'development' but the imposition of (adverse) external circumstances (Prebich, 1964; Marini, 1973). In fact, after having reached its highest point during the forties, the world capitalist system slowly regained its historical levels of openness.

³⁵ The use of this 'super-profits' is an important problem that we have left un-discussed here but should take on somewhere else in the future.

³⁶ This argument is typically expressed as the so-called 'trade-off' between 'growth and distribution', whose first term (growth) is usually given priority (see for example, Gerchunoff and Llach, 2004; for a critique see Nahón and González, 2005).

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