

# **RAUL PREBISCH AND THE CURRENT STATE OF ECONOMIC DEVELOPMENT OF GUATEMALA**

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## **ABSTRACT**

*The author in this article compares the economic development of the Republic of Guatemala from 1945 to 2015 against the theories of the economic development of Latin America as promulgated by the famous Argentinian economist, Raul Prebisch. The obstacles against economic development in Guatemala were social, political, commercial and industrial. Guatemala is still experiencing uncoordinated technological applications in the economy, anti-competitive practices are extant, and a small percentage of the entire population controls most of the land. However, positive changes have been taking place in society, politics, commerce and industry supporting the economic development of the country.*

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**KEYWORDS:** Raul Prebisch, Economic Development of Latin America, la Comisión Económica Para La América Latina y el Caribe (CEPAL), Centros Y Periferias /Centers and Peripheries, Native and Alien Technologies, Republic of Guatemala, Economic Development, Diseconomies of Scale, Economies of Scale, Agricultural Industries, Mining, Extraction of Raw Materials, Anti-Competitive Practices, Productive Employment, Underemployment.

## **INTRODUCTION**

**T**he purpose of this article is to present the reasons for the economic underdevelopment of the Central American Republic of Guatemala by using the economic theories of the famous Latin American economist, Raul Prebisch. Prebisch indicated that the reasons for the economic underdevelopment in Latin America, including Guatemala, were resistance to accept foreign technology since domestic technology was either limited or did not exist; agricultural, mining and raw materials producers opposed industrialization; the inclination of the Guatemalan people to favor imports rather than domestically produced goods and services; the rapid increase of the population that demanded the same limited resources; emphasis on the extraction of raw materials and the production of mining and agricultural products for exportation purposes; limited finances and consumer credit; the ownership of the majority of the land by a small percentage of the population that controlled the economy of that nation; and underemployment. Fifty nine percent (59%) of the people between the ages of 15-29 do not complete secondary education and take menial jobs (Estudio económico de America Latina y Caribe, Anexos Estadísticos, 2015, 2016). Guatemala is one of the less developed nations in Latin America. During the last six years, the per capita percentage of the internal gross domestic product was 2.3 whereas that of Argentina—a developed Latin American state-- was 7.4 (Estudio económico de America Latina y Caribe, Anexos Estadísticos, 2015, 2016).

There is abundant literature pertinent to the writings of Raul Prebisch, the problems that have existed in the economies of Latin America, including Guatemala, and the efforts that are being made toward the economic development of all Latin American states. However, there is no literature that uses Prebisch's theories to examine the past and present performance of the economy of Guatemala. To re-iterate, the author has taken the theories of the famous economist Raul Prebsich and used them as an infrastructure to examine the past underdevelopment and the economic developmental progression of the Republic of Guatemala. This form

of study is new and adds to the existing body of literature; it also invites other researchers to use this method to examine additional micro and macroeconomic elements of the Guatemalan economy and the economies of other Latin American states. The remaining of this document includes the Literature Review, Data and Methodology, Results and Discussion, A Path Forward, Concluding Statements and References.

Raul Prebisch (1901-1986) was one of the best economic thinkers of the previous century and his works paralleled those of John Maynard Keynes. Being a Latin American (Argentine), Prebisch dedicated most of his work to the economic development of Latin America. He taught economics and economic development in various Latin American universities and became Director of *La Comisión Económica para la América Latina y el Caribe (CEPAL)* which is also known as the *United Nations Commission for Latin America and the Caribbean*, established in 1948. He wrote many articles and books and made innumerable presentations in conferences and symposia mostly dedicated to the economic development of Latin America.

### Prebisch's Economic Philosophy on the Development of Latin America

In reference to economic development, Prebisch divided the countries around the world as *centros y periferias* or centers and peripheries. The centers were the developed nations, mainly the English-speaking ones, and the peripheries consisted of the underdeveloped and developing countries, with a strong emphasis upon Latin America (Prebisch, 1981). The precipitants and forces, according to Prebisch, that deterred the economic development of Latin America are being discussed in the following sections.

## LITERATURE REVIEW

Prebisch witnessed the ever-developing technologies that appeared after the end of World War II and their applications in Latin America and emphatically presented the fact that such technologies were not *native* to Latin America but came from the developed centers and were based on different cultures that gave birth to those technologies. Therefore, *alien technologies* were not accepted, in most cases, by the cultural idiosyncrasy of Latin America and their applications caused turmoil and impeded emerging native technological developments (Mayobre, Herrera, and Prebisch, 1969).

Although alien technologies had found fertile ground in some sectors of the economy, such as in the sugar, bananas, coffee, raw materials and mining industries, in the remaining sectors of the economy they made limited inroads. On the contrary, in the developed nations technologies were well coordinated when applied to all sectors of the economy, from agriculture and the production of raw materials to advanced industrial production (Prebisch, 1963). Furthermore, there were insufficient funds in the economies of Latin America that could be used to meet the cost of imported technologies (Estay Reyno, 1990). Only those business organizations that had enough funds (and there were not many of them) were able to selectively buy the necessary technologies for the sustenance and development of their operations (Maragiños, 1991).

Another strong obstacle to the development of Latin America was the tendency of the people to imitate the way of life of the center nations in the demand and consumption of goods and services; such as, necessities, entertainment, education, and other products that resulted from the culture and the high economic standards of the center nations (Prebisch, 1970). Good examples include expensive imported foods, garments, vehicles, and vacations to expensive resorts in Europe or North America. Only the rich classes in the region (whose percentage in the economies of Latin America had been traditionally low) were able to benefit from such luxuries. The rapidly increasing number of the population was another strong impediment to the economic development of Latin America. According to Prebisch, such an increase did not allow for the economic development of the region since more and more people demanded the same scarce goods and services provided by the anemic national economies (Prebisch, Gatung and Iglesias, 1983). Furthermore, the rapidly growing population was engaged in underemployment, mainly in agriculture, domestic services,

and small businesses whose revenues were slightly over the cost of their operations (Prebisch, 1986). In other words, the working population was engaged in low productivity tasks because the imported technology was not accepted by most of the jobs engaged in the production and distribution of goods and services (Prebisch, 1974). In addition, firms engaged in agricultural, mining, and raw materials exports (on which all Latin American economies depended) were not capable of hiring more persons from the unemployed labor force that characterized their national economies (Prebisch, 1987).

The final obstacle to economic development was the opposition against it emanating from the large and medium classes of landowners who feared the loss of power and money caused by industrialization (Sotillo, 1986). For this reason, Prebisch supported the presence of the government in the economies of Latin America to regulate economic activities, spread technological development in all economic areas, and assist in overall development, both economic and social (Reyno, 1990). In continuing his research in the region of Latin America, the author of this work examined the extent to which Guatemala has overcome the impediments to economic development as specified by Prebisch in the previous sections of this article and noted the success (and non-success) this nation has made from 1945 to 2015 in economic development).

The Republic of Guatemala is in the northern part of Central America and has coastal areas facing both the Pacific Ocean and the Caribbean Sea. Guatemala was inhabited by the Mayas and became a Spanish colony in the middle of the 1500s and remained under Spanish control until its independence in 1821. It was a part of the United Provinces of Central America which were dissolved shortly after independence resulting in the creation of five states in the region, one of which is Guatemala. Since its independence, Guatemala has witnessed several uprisings, revolutions, and civil wars, the worse of which was the civil war of 1960-1996. Beginning with the turn of the current century, the country has experienced steady economic development under democratic administrations. It has the largest population for Central American standards and the largest gross domestic product in the region; the land is fertile and provides an abundance of agricultural products and raw materials (Schneider, 2014).

## **DATA AND METHODOLOGY**

For the purpose of this article, the author collected secondary materials published in English and Spanish by Latin Americans and foreign Latin American experts pertinent to the works of Raul Prebisch and the economic development of Guatemala. The present author who has a doctoral specialization in Latin America Affairs has been observing and studying the economy of Guatemala since the early 1970s through personal visits in such country and consulting academic and government commensurate publications.

## **RESULTS AND DISCUSSIONS**

### The 1945-1999 Period

This period started with the end of World War II and the strong appearance of Prebisch's contributions to the economic development of Latin America and ended with his last publications, some of which were posthumously published. It also coincides with the end of the civil war in Guatemala. The entrance of limited technology in Guatemala appeared after the Industrial Development Law was finalized by the government at the end of the 1950s (Asociación para el Avance de las Ciencias Sociales en Guatemala, 1998). Imported technology was used by the small number of economically powerful elite in the sectors of coffee, bananas, sugar, raw materials, and mining. Such elite were familiar with the culture of developed countries. In the following decade, sizeable investments from the United States in the area of agricultural products augmented the entrance of related technology. On the other hand, individual farmers operated under strong diseconomies of scale due to the underutilization of the limited land and capital and an over-supply of manual labor (Golas, 1972). In the remaining sectors of the economy—such as industrial

production-- any type of incoming technology was viewed with suspicion by the weak and underdeveloped stakeholders that characterized such sectors.

Guatemala received several assistance programs from international organizations, but only a small portion went to increase economic activities. There was practically no accumulation of savings in the private sector and very limited government funds were available to be used for paying for imported technologies conducive to the development of the country (Yañez, 1991). In this period, especially during the last decade of the previous century, the tendency of the Guatemalan people to imitate the life style of advanced nations increased (Rivadeneira, 2001). Only a small percentage of the buyers had sufficient disposable income to buy such expensive goods and services. The wealthiest 10% of Guatemalans earned, on average, 63 times more income per person than those among the poorest levels (Booth, Wade & Walker, 2010). Instead of purchasing less expensive domestic goods, even the poor, when they could, purchased imported goods and services (Nelson, 1999). The purchase of expensive imported goods and services inhibited the appearance and development of local industries from producing such products domestically (Yanez, 1991).

Between 1950 and 2000 the population of the country increased from three to eleven million inhabitants. Such an increase inhibited economic development and the needed quality of life because more and more people demanded goods and services from their limited availability on the market (Rivedeneira, 2001). The exportation of agricultural products slightly increased due to the addition of fruits, vegetables, and flowers that were exported to developed nations in North America and Europe. A small percentage of the labor force, especially in rural areas, was employed by the added agricultural exporters of the above-cited products (Hodara, 1987). Guatemala faced the increasing power of landowners who became the leading class in the economy and who had strong connections with international monopolies that also controlled the economy of the nation (Asociación para el Avance de las Ciencias Sociales en Guatemala, 1998). The people were deprived of having their own land to produce and sell agricultural products, either as proprietors or partners of small agricultural business enterprises. The 2000-2015 Period This period coincides with the initial recuperation of the nation after the bloody civil war that started in 1960 and with the strong signs of economic development. Lamentably, economic development did not take place in a coordinated effort in order to include all sectors of the economy (Romero and Gonzales, 2006).

Imported technologies continued to favor the agricultural industries— mainly coffee, sugar, and bananas - - that were controlled by powerful economic forces (Theodore, 2015). A good example was the additional development of the sugar industry, which in the previous period was characterized by low productivity and poor labor conditions, to a high productivity industry with vividly improved labor conditions (Fuentes, 2014). Another example was mining and the extraction of other raw materials that constituted 46.8% of the economic activities, whereas manufacturing—a highly important economic sector—remained low with 3.2% of the total economic activities (“Estudio económico de América Latina y Caribe, 2015. Anexos Estadísticos”, 2016). Guatemala did not receive sufficient assistance from foreign governments whose large business organizations engaged in anticompetitive practices in the country (Grandia, 2013). Guatemala could not reduce or eliminate such practices that militated against the interests of national organizations that were attempting to develop their technologies and thus provide domestic products for domestic and exported consumption at competitive rates (Romero and Gonzales, 2006).

Foreign investment has increased since 2006 and the average salaries have gone up by 6.0% since 2010, thus increasing the propensity to save (Comisión Económica para América Latina y el Caribe (CEPAL) (2015). *Balance preliminar de las economías de América Latina y el Caribe, 2016*). The availability of internal credit increased since 2011 and maintained its stability with minimal fluctuations (Way, 2012). Consumer prices have declined since 2011 and maintained their stability with minimal variations, thus increasing the consumption of higher quality domestically produced goods and services at competitive prices leading to the reduction of the consumption of their imported counterparts (“Estudio económico de

América Latina y Caribe, 2015. Anexos Estadísticos,” 2016). Despite the increase of the population, the gross domestic product showed a continuous and steady increase from 2006 to 2015.

Productive employment has also increased since 2006 in the sectors pertinent to domestic consumption and to exports whose volume had shown a large increase due to the high demands from developed nations (“Estudio económico de América Latina y Caribe, 2015: Guatemala”, 2016). Unemployment in the last two years of this period was 3.0%. Internal consumption, the availability for credit in the private sector, and household earnings increased, too (Estudio económico de América Latina y Caribe, 2015. Anexos Estadísticos 2016). Despite the fact that foreign, private national, and national governmental institutions with investments and financial interests in Guatemala have continuously demanded the realignment of land ownership, a small percentage of the population has controlled two thirds of the arable land, thus opposing the national government’s efforts for land distribution that was initiated with the *Economic and Social Reactivation Program of 2004* “Balance preliminar de las economías,” 2016). Furthermore, small landowners sold or were forced to sell their land to African-palm planters, cattle ranchers, and to other powerful economic forces in the economy (Fuentes, 2014).

### **A PATH FORWARD**

Guatemala can go forward in a positive way in its economic sectors specified by Raul Prebisch’s theories. To begin with, both the government and the private sector need to encourage large, medium and small enterprises to accept and utilize technology, preferably domestically produced technology. Local and national chambers of commerce and business associations must continue convincing and supporting enterprises to accept and use modern technology. Although Guatemala has to continue producing agricultural products and raw and mining materials for exportation purposes, it profoundly needs to accelerate its industrial development which is sponsored by the government, the private sector and Latin and Central American economic and trade organizations.

The government of the country and foreign economic assistance programs must continue contributing to the increase of the availability of finances and consumer credit which enable the population to better satisfy its basic needs through financial support and easy access to credit and to accelerate the support to business organizations to receive financial assistance/loans and easy access to credit. The government and international assistance programs must continue aiding the nation’s educational system in all levels starting with the primary one and ending with university education in order to better prepare the people to enter into the labor market and reduce underemployment. The pressure upon the government by the national private sector and international governments and organizations needs to continue for the implementation of the redistribution of the land for private and commercial/industrial uses. Both the government and the private sector need to continue making every effort to convince the Guatemalan people to support local and national industries that produce goods and services for them.

### **CONCLUDING COMMENTS**

The purpose of this article was to present the reasons for the economic underdevelopment of Guatemala by using the economic theories of the famous Latin American economist, Raul Prebisch. Prebisch indicated that the reasons for the economic underdevelopment in Latin America, including Guatemala, were resistance to accept foreign technology; the inclination of the Guatemalan people to favor imports rather than domestically produced goods and services; the rapid increase of the population that demanded the same limited resources; emphasis on the production of raw materials, mining, and agricultural products for exportation purposes; limited finances and consumer credit; the ownership of the majority of the land by a small percentage of the population that controlled the economy and opposed industrialization; and underemployment. For the purpose of this article, the author collected secondary materials published in English and Spanish by Latin Americans and foreign Latin American experts pertinent to the works of Raul

Prebisch and the economy of Guatemala. The present author who has a doctoral specialization in Latin America Affairs has been observing and studying the economy of Guatemala since the early 1970s through personal visits in such country and consulting academic and government commensurate publications.

The only limitation this study has is the absence of similar studies in order for the author to compare them for the purpose of gaining additional information and providing increased knowledge in the related literature. In summary, the findings of the study are presented in this and the following paragraphs of the Concluding Statements. During the 1945-1999 period in Guatemala, imported technologies were accepted by the powerful stakeholders of the coffee, banana, sugar, mining and raw materials industries; the remaining sectors of the economy, that were weak, considered such technologies as alien to the cultural idiosyncrasy of the Guatemalan people. Savings in the private sector were limited and consumers, with the exception of the rich, had limited or no access to credit. All economic stratifications of the Guatemalan people had the tendency to buy imported goods and services, a tendency that caused tremendous financial strain upon the poor people and inhibited the formation and development of domestic industries producing such products. The rapidly increasing population participated in the consumption of the already scarce goods and services, thus adding an additional burden to the constrained economic development. Finally, economic development was further inhibited by landowners who considered such development as threatening to their economic and political security and power in the country.

During the 2000-2015 period, economic development did not take place in a coordinated effort in order to include all sectors of the economy. Imported technologies continued to favor the agricultural industries, mining, and those of the extraction of raw materials that were controlled by powerful economic forces. Anti-competitive practices by foreign business organizations, whose presence and exports had increased, continued to militate against the interests of national organizations producing similar products. On the other hand, foreign investment, availability of internal credit, and the consumption of domestically produced goods and services increased. Industrialization increased; the gross domestic product was augmented due to the rapidly increasing productive manpower; and employment showed gains due to increased industrialization, exportation of agricultural products, raw materials and minerals. Internal consumption, the availability for credit in the private sector, and household earnings increased, too. Finally, landowners who have been a small percentage of the population, still controlled two thirds of the arable land and continued to oppose the government's efforts for land redistribution conducive to economic development. Therefore, it has been detected that Guatemala's economic development, based on Raul Prebisch's economic concepts, has made progress in certain sectors and that it is still being inhibited by a number of deficiencies that are specified in this article. The present author highly recommends other Latin Americanists or persons interested in Latin American studies, to conduct similar research in the region, especially in the other Central American states of El Salvador, Honduras, Nicaragua and Costa Rica that have similar cultural and socioeconomic characteristics with Guatemala.

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## **BIOGRAPHY**

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