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THE TERMS OF TRADE DEBATE: A CRITICAL REVIEW

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Abstract:

The notion of a secular decline in the terms of trade of primary producing countries is a persistent theme in the public discussion of the problems of developing areas, and has been advanced most forcefully in the writtings of Raúl Prebisch. Acceptance of such views is implicit in most critiques of the international economic order. However, upon reviewing the literature and available evidence, it is argued that such views are untenable, based as they are upon a faulty interpretation of the welfare implications of movements in the commodity or net barter terms of trade, an uncritical appraisal of the statistical biases involved in terms of trade estimates, and an overly selective survey of actual historical price trends.

1. Dissatisfaction with the International Order-An Overview

A persistent theme in the public discussion of the problems of developing countries and their role in the international economy is the notion of a secular decline in the terms of trade of these countries, indentified by and large as producers of primary raw materials, *vis-a-vis* the manufactured exports of developed, industrialized economies. The notion is often couched in geographical terms of a conflict between the highly industrialized North and an impoverished, mostly rural and agrarian South, though as with most rhetorical simplifications the call for a "North South dialogue" poses problems such as the need to place advanced though geographically Southern countries (*e.g.,* Australia) within the "Northern" camp.

The identification of primary producing countries and underdeveloped areas is also problemaitic, as witnessed by the cases of New Zealand, Denmark, and even the United States (the world's largest agricultural exporter). There is no denying, however, that most of the less developed countries (LDC's) *are* primary producers, and the alleged tendency is viewed as one of the major obstacles to economic development.

The worldview underlying much of the debate on Third World problems thus departs radically from the liberal view derived from the Classical theory of international trade which, as developed from Ricardo's doctrine of comparative advantage on through the Neo-Classical reformulations of Marshall, Taussig and Viner, and the modern generalizations of the Heckscher-Ohlin theorem, has always emphasized the gains accruing to both parties engaged in free trade, and the benefits derived from the international division of labor. The prevailing worldview is rather different, to say the least. The present international order is viewed, not as the outcome of an efficient process of resource allocation and specialization according to comparative costs and relative factor endowments –the working of Adam Smith's "invisible hand" on a global scale– but rather as the end-result of centuries of colonial exploitation which still exhibits the marks of neo-colonial "dependence"-hence the call for a New International Economic Order (NIEO).

Neo-Marxian versions of this viewpoint transplant the theory of capitalist exploitation to the internacional sphere. For instance, a major survey of the NIEO literature by Hoskins (1981) abounds in references to capitalistic exploitation of LDC's by the industrial countries. Thus,

> ...for the past four centuries, Third World countries have experienced economic underdevelopment, political dependence, and cultural deprivation under the oke of European hegemonism. These experience are the natural consequences of capitalist development and the internal contradictions of the capitalist system itself. Contradictions which range from the polarisation of the capitalist system into metropolitan centre and peripheral satellites to structural underdevelopment in the many peripheral satellites whose economic surplus is expropriated and development/industrialization in the few metropolitan centres which appropriate that surplus as part of the same dialectical process (p. 506).

In short, "the international order has been arranged to facilitate and perpetuate the domination of the backwards countries by the advanced countries by design and not by accident" (p. 510). To put it quite bluntly, "the underlying motive of the present order was to create a system in which the peoples of the Third World would permanently remain 'hewers of wood and drawers of water' as part ot the 'natural order of things" (p. 512).

There is not much that technical economics as such can contribute towards resolution of the ideological issues underlying the demands for a NIEO or the call for a North-South dialogue, whether they be of a Marxist nature or otherwise. On the other hand, the alleged secular decline in the terms of trade of LDC', which has remained an article of faith in the North-South/NIEO literature, is a clearcut empirical hypothesis which can be tested independently of ideological preconceptions. In fact, it is depressing to note that if the doctrine of secular decline is an essential element of exploitation theories and other critiques of the liberal economic order (though definitely not the only issue involved), its widespread acceptance seems to be based more on endless repetition than on cogent theory or solid evidence. Indeed, from a strictly technical point of view the generalized acceptance of the doctrine is rather surprising in view of the entirely negative findings of a host of impartial scholarly researchers. Specifically, upon revivewing the extant literature and the available evidence, it will be shown that the prevalent views regarding the terms of trade of developing countries are based upon a questionable interpretation of the welfare implications of terms of trade movements, an uncritical appraisal of the biases and measurement problems involved in terms of

trade estimates, and a highly selective survey of historical price trends. Each of these issues will be elaborated upon in what follows.

2. The Prebisch Thesis and its Background

Theories of colonial and neo-imperialistic exploitation are anything but new, though th emphasis on the terms of trade is of relatively recent origin, and may be traced to the publication in 1949 of a United Nations report on "Post War Price Relations Between Under-developed and Industrialized Countries" (United Nations, 1949). The main findings of that study are presented in Table 1, and seem to indicate a sharp deterioration in the terms of trade of primary products in relation to manufactures over the period 1876 to 1938. (It is not always sufficiently stressed that, due to data limitations at the time of the original report, this series is actually the reciprocal of the terms of trade of the United Kingdom, and the conclusion as to the movement of the terms of trade of primary producing countries is valid only to the extent that prices of British imports [mainly primary products] and exports [manufactured goods] are in fact representative of world trends in primary and manufactured products, respectively).

TABLE 1

RATIO OF PRICES OF RAW MATERIALS TO THOSE OF MANUFACTURES GOODS[1]
(BASE: 1876-80 = 100)

Periods	Amount of manufactured goods obtainable for a viven quantity of raw materials
1876-80	100.0
1881-85	102.4
1886-90	96.3
1891-95	90.1
1896-1900	87.1
1901-05	84.6
1906-10	85.8
1911-13	85.8
......	......
1921-25	67.3
1926-30	73.3
1931-35	62.0
1936-38	64.1
......	......
1946-47	68.7

1 Average Import and Export Prices, According to Data of the Board of Trade.
Source: United Nations (1949)

These data were used by Dr. Raúl Prebisch as the basis of his influential report on *The Economic Development of Latin America and its Principal Problems* Prebisch, 1950), which presented his explanation of the observed deterioration, and his theory of the secular *tendency* towards the deterioration of primary terms of trade. Although his main interest was in the problems of Latin America, his generalizations are applicable to all primary producing countries (the world's "periphery" in his terminology).

In Latin America, Prebisch holds, "reality is undermining the out-dated schema of the international division of labour...". Conventional international trade theories are out-date as well. Prebisch summarizes the conventional wisdom thusly:

> It is true that the reasoning on the economic advantages of the international division of labour is theoretically sound, but it is usually forgotten that it is based upon an assumption which has been conclusively proved false by facts. According to this assumption, the benefits of technical progress tend to be distributed alike over the whole community, either by lowering of prices or the corresponding raising of incomes. The countries producing raw materials obtain their share of these benefits through international exchange, and therefore have no need to industrialize. If they were to do so, their lesser efficiency would result in their losing the conventional advantages of such exchange (p. 339).

According to Prebisch, however.

> If, ..., the concept of the community is extended to include the periphery of the world economy, a serious error is implicit in the generalization. The enormous benefits that derive from increased productivity have not reached the periphery in a measure comparables to that obtained by the peoples of the great industrial countries (p. 340).

Though he presents no supporting evidence, Prebisch states that "technical progress seems to have been greater in industry than in the primary production of peripheral countries, ..." Given this assumption, then

> ...if prices had been reduced in proportion to increasing productivity, the reduction should have been less in the case of primary products than in that of manufactures, so that as the disparity between productivities increased, the prices relationship between the two should have shown a steady improvement in favour of the countries of the periphery *(ibid.)*.

Appealing to the data in Table 1, Prebisch argues that the actual development of the terms of trade had been the exact opposite:

> ...the price relation turned steadily against primary production from the 1870's until the Second World War... With the same amount of primary products, only 63 per cent of the finished manufactures which could be bought in the 1860's were to be had in the 1930's; in other words, an average of 58.6 per cent more primary products was needed to buy the same amount of finished manufactures. The price relation, therefore, moved against the periphery, contrary to what should have happened had prices fallen as costs decreased as a result of higher productivity (pp. 340-41).

Generalizing from these developments, Prebisch goes on to conclude that the net result had been a massive income transfer from the periphery to the centers[1].

Prebisch's initial explanation of this phenomenon relied on an asymetrical behavior of wages in the centers during the course of the trade cycle, though in later theoretical work he has attributed the secular decline to differences in the income-elasticities of demand for primary and manufactured, products, and in the rates of spread of technological improvements (Prebisch, 1959). He takes it for granted that the income-elasticy of demand for primary products in "generally lower than the income elasticity of demand for Latin American imports of industrial products..." (*ibid.*, p. 252). Critics often take issue with this "well established fact" on the grounds that in the empirical literature

the only well established fact is Engel's Law of a less than unitary income-elasticity of demand for *food* products, which certainly does not apply to primary products such as minerals, nor to all agricultural products (such as wool, jute, cotton, etc.), and not even to *all* food products. However, it is rather idle to criticize the assumptions of the teory, if even the *fact* that is purports to explain is open to question. Certainly, the assumptions of the Prebisch theory are *consistent* with a secular decline in primary terms of trade, and in this sense they can be said to *explain* such a pehnomenon. An evaluation of the Prebisch theories, however, requires a prior empirical effort to determine whether the alleged secular decline is a fact at all, since explanations of non-existent facts are redundant, and their theoretical discussion wasted effort, to say the least. These empirical issues will be addressed in the following sections, though a previous examination of certain conceptual issues involved in the terms of trade is in order. (For detailed analyses of the *policy* implications of the Prebisch theories see Flanders, 1964; Bauer, 1972, and Díaz, 1973).

3. Terms of Trade Concepts and Their Interpretation

3.1. Definitions of the Terms of Trade

In most statistical work, and in nearly all public and professional discussion, it is the *commodity*, or *net barter terms of trade* that are involved, which are defined as the average price of a country's commodity exports in terms of its commodity imports. Statistically, if P_x (t) is an index of the prices of a country's exports during a certain period t, and P_m (t) an index of the prices of the country's imports, then the index of the commodity terms of trade is defined as $T_c(t) = 100\,(P_x(t)/P_m(t))$, and is a measure of the movement in the country's a terms of trade up to period t as compared with the base period of the import and export price indices. Clearly, the index thus defined, like any other price index, can only indicate *relative* movements, *i.e.*, whether in any given period the terms of trade are "more" or "less" favorable than in some other period chosen for comparison, and judgements as to whether the terms of trade are favorable (or unfavorable) in some absolute sense are not warranted on the basis fo the prices indices alone.

Though the commodity terms of trade are often used as an indicator of national welfare, or of changes in the gains from trade, it is actually not a very reliable indicator, and recognition of this fact has resulted in the development of several alternative definitions. To be sure, an *improvement* in the commodity terms of trade can under most conditions be associated unambiguously with an increase in a country's welfare, though the converse proposition may not necessarily hold if there has also been an increase in the productivity of the export sector. Thus, supposing for a moment that prices are constant, a productivity increase in the export sector will result in a welfare gain since the same amount of factors of production can be exchanged for a larger amount of imported goods, even though the commodity terms of trade have not changed. In general, the country's welfare will decrease only if the decline in the commodity terms of trade more than compensates the increase in productivity, and therefore the relevant terms of trade concept is the *single factoral terms of trade*, defined as $T_{sf}(t) = T_c(t) \cdot F_x(t)$, where F_x (t) is an index of the change in the productivity of the export sector. Given the theoretical and empirical difficulties involved in choosing and measuring an appropriate index of productivity, the single factoral terms of trade are rarely, if ever, used in the statistical analyses, though they should clearly be borne in mind in interpreting observed changes inthe commodity terms of trade since, though the latter may be likened to a zero-sum game, it is quite possible for the underlying single factoral terms of trade to improve simultaneously for *both* trading partners.

Other definitions include the *double factoral terms of trade,* $T_{df}(t) = T_c(t) \cdot (F_x(t)/F_m(t))$, which takes into account changes in the productivity of the *foreign* export sector, and purports to measure changes in the terms on which *resources* are exchanged, and the *income terms of trade,* $T_i(t) = T_c(t) \cdot Q_x(t)$, where $Q_x(t)$ is an index of the volume of exports. The double factoral is of interest in certain theoretical contexts, and was in fact the major terms of trade concept in early formulations of Classical trade theory, though it is not very relevant from the welfare point of view of an importing country. The income terms of trade is interesting from the point of view of changes in the "capacity to import", but as an indicator of changes in welfare it can be quite unreliable. (More complete technical discussions of these concepts are provided by Viner, 1937, pp. 555-70, Dorrance, 1948; Baldwin, 1955, and Kemp, 1968).

3.2. Import and Export Prices-Measurement Problems

These conceptual issues thus preclude the drawing of any facile inferences from observed movements in the simple commodity of trade. The problems are compounded by the practical difficulties posed by the empirical measurement of the underlying price indices.

The measurement of aggregative price trends over time is always problematic due to shifts in consumption patterns between different classes of goods as a result of substitution in consumption in response to changing relative prices. This is of course the well known Laspeyres-Paasche problem of index number theory. The kind of price comparisons between very distant time periods required for the determination of long-run terms of trade are further complicated, to the extent of actually losing much of their meaning, as a result of the introduction of new products and of changes in the quality of existing goods. In the specific case of price comparisons for the terms of trade of primary products, the practical difficulty of taking these factors into account introduces a statistical bias in the estimates, as they will have a greater impact upon the price index of imported manufactures than upon the export price index, since primary exports do not change much in either quality or variety.

Both of these factors tend to bias the measurement of import prices paid by primary exporters in an upward direction. Clearly, improvements in quality will tend to overstate the increase in *real* prices to the extent that part of the price change is simply a reflection of better quality. On the other hand, it is reasonably well established that the price history of a new product is one of rapid decline in its early stages. Since new products by definition are difficult to include in commodity samples of price indices, they are eventually included only upon revisions of the indices, which are then linked to earlier series. The initial exclusion of these products hence tends to underestimate the relative price decline of the total commodity list.

Another upward bias is due to the fact that price indices of international trade are generally not based upon actual prices, but rather upon implicit unit values. A unit value index differs from a price index in that it measures changes in average values per physical unit, regardless of whether they are due to price changes, or to changes in size, quality, or other circumstances. Unit value indices are computed generally from customs data on values and quantities. The unit value for each component series is derived by dividing

quantities into values, and the individual unit value series are the collected into an overall index. Unit value series are often unreliable approximation to the underlying price changes since even for relatively simple types of products, such as steel pipe, changes in the mix of products (*e.g.*, from narrow to wide pipe, from thick to thin, etc.) can change the unit values even if not a single price has changed. A major handicap is in the case of complex manufactures such as machinery, where strict quantity data are not collected as the number of units in meaningless when size, design, power, and other product characteristics vary widely from one unit to another. In the special case of machinery imports, the unit values are computed dividing the value of imports by their physical weight, and as machinery become more efficient but less bulky –a common form of technical improvement– the unit values will show an increase, even if prices remain unchanged, though the price per efficiency unit may have actually declined.

Given these upward biases in the measurement of changes in prices of imported manufactures, the estimated terms of trade of primary producing (manufactures importing) countries will have a systematic downward bias, *i.e.*, they are biased towards the indication of deteriorating terms of trade, a bias which will moreover increase through time. Hence, even a substantial decline in the observed commodity terms of trade may be consistent with the hypothesis of no change in the true commodity terms of trade, and an actual improvement in the single factoral. At this point, one may honestly wonder what purpose may be served by the examination of long term movements of price series which in the best of cases provide useful information only under the assumption that "all else" is constant.

4. The Factual Record

4.1. The British Data, 1876-1938

As sated previously, the initial Prebisch thesis was based upon the movement in the British commodity terms of trade up to 1938. The biases summarized above explain a large share of the trend in the empirical series, but there are some additional considerations which shed doubt as to the adequacy of the British data as a (reciprocal) measure of primary terms of trade. To begin with, and granting the assumption that the terms of trade of industrial countries move inversely to those of primary producers, it is not clear that the British series is representative of industrial countries taken as a group. Complete series for the entire period covered in Table 1 are not available, but Kindleberger (1956) has provided estimates of the commodity terms of trade of industrial European countries for the period 1900-52 (Table 2) which suggest that the British data are not representative. Though Kindleberger's data do show an improvement in European terms of trade of about 34 per cent between 1913 and 1938, a movement roughly equal to that of the British series over the same period, the European terms of trade had *declined* 13 per cent in 1900-13, as opposed to a decline of only 1 per cent in the British series. Thus the increase in the Kindleberger series over the entire period 1900-38 is less than 19 per cent (which it is well to recall has no adjustment for statistical bias in the price series)[2].

Even conceding the relevance of the oft-cited British series, the behavior of the British terms of trade *prior* to 1876 is clearly relevant in the context of the secular decline hypothesis. Though price data for the remote past are naturally imprecise and of doubtful accuracy, the weight of the available evidence suggests that the use of 1876 as a comparison base is somewhat misleading. For instance, Imlah's data (Table 3) indicate that British terms of trade were at their lowest historical levels precisely in the period 1860-80 (see also Imlah, 1948; Rostow, 1953, pp. 272-75, and Ashton, 1954, pp. 132-39).

TABLE 2

INDUSTRIAL EUROPEAN MERCHANDISE TERMS OF TRADE
(1913 = 100)

Year	Terms	Year	Terms	Year	Terms
1900	113	1920	96	1934	137
1901	113	1921	108	1935	135
1902	109	1922	110	1936	130
1903	109	1923	114	1937	124
1904	108	1924	113	1938	134
1905	107	1925	108		
1906	107	1926	109	1947	125
1907	106	1927	109	1948	118
1908	108	1928	108	1949	118
1909	103	1929	109	1950	106
1910	100	1930	119	1951	102
1911	101	1931	129	1952	109
1912	100	1932	136		
1913	100	1933	138		

Source: Kindleberger (1956), Table 2-1, p. 12.

TABLE 3

UNITED KINGDOM, NET BARTER TERMS OF TRADE,
1798-1913 (1880 = 100)

1798	222	1860	96
1800	205	1870	103
1810	174	1880	100
1820	161	1890	109
1830	146	1900	126
1840	106	1910	113
1850	112	1913	122

Source: Imlah (1950), Table I, pp. 177-82.

A final problem in the interpretation of the 1876-1938 British series is posed by transportation costs. The basic British export price index is on a f.o.b. basis, while import prices are measured c.i.f., that is, including transportation charges. Clearly, an improvement in British terms of trade due to cheaper c.i.f. imports resulting from a reduction of shipping costs is no indication of a corresponding decline in foreign terms of trade. In fact, freight rates fell about 50 per cent between 1870 and 1913, and Baldwin (1955) estimated roughly that this accounted for 5 percentage points of the 19 per cent improvement in British commodity terms of trade this period (p. 269). Ellsworth (1956, pp. 55-56) goes so far as to state that from 1876 to 1905 the larger share, perhaps even the entire decline in British primary import prices was due to the sharp decline in freight rates, and since the prices of British manufactured exports declined 15 per cent, the terms of trade of primary producing countries may well have *improved* over that period, as opposed to the 15 per cent decline as indicated by Table 1.

4.2. *Post-War Price Developments*

The much-touted long run decline in primary terms of trade as of 1938 is therefore at best unproven. Post-war price developments do not support the secular decline hypothesis either. Prebisch glossed over the 7 per cent improvement in primary terms of trade, as implied in the British series, between 1938 and 1947, which he attributed to a minor cyclical movement (1950, p. 341). In a later influential report (Prebisch, 1963) the much-emphasized the decline in primary terms of trade during the latter half of the 1950's. Clearly, however, no far-reaching conclusions can be drawn regarding the secular decline hypothesis unless the price trends of the intervening period 1948-55 are considered as well. As it happens, these years witnessed a spectacular rise in the terms of trade of developing countries as a result of the Korean War commodity boom, a rise which was far from completely compensated by the subsequent decline (see Table 4). From 1937 to 1948 developing countries' terms of trade improved 8 per cent, and those of Latin America by over 20 per cent (Ahumada and Nataf, 1950, however, determined a somewhat smaller improvement for Latin America during that period-see also Fink, 1955). Developing countries' terms of trade improved a further 52 per cent by 1951, and though they subsequently declined during the rest of the 1950's, as stressed by Prebisch, by 1959 they were still 23 per cent above their pre-war levels (again, it must be recalled that these estimates have no adjustment for quality changes and other sources of bias).

TABLE 4

TERMS OF TRADE (1937 = 100)

	1937	1948	1951	1954	1957	1959
Underdeveloped Countries	100	108	160	128	127	123
Latin America	100	123	138	139	128	110

Sources: Morgan (1965), Table 3, p. 164; CEPAL (1976), p. 25.

For the post-1959 period we rely on the two terms of trade series reported in Table 5: (i) CEPAL's index of Latin American net barter terms of trade, a weighted average of the terms of trade of 19 Latin American countries, and (ii) the IMF's price index of the 30 main primary commodities (excluding oil) exported by developing countries, deflated by the unit value index of imported manufactures. From 1959 to 1970 both series show minor fluctuations, but on the whole they were remarkably stable. It is thus hard to understand, as of for instance 1970, Prebisch's continued complaint about deteriorating terms of trade (1970, p. 70).

TABLE 5

TERMS OF TRADE, 1959-83 (1970 = 100)

	Latin America Total	Latin America Non-Oil	Primary Products		Latin America Total	Latin America Non-Oil	Primary Products
1959	102	–	108	1971	97	–	90
1960	102	–	106	1972	100	–	93
				1973	113	–	124
1961	100	–	101	1974	131	–	130
1962	94	–	98	1975	114	82	95
1963	95	–	105				
1964	97	–	109	1976	119	–	105
1965	93	–	105	1977	126	98	117
				1978	113	–	98
1966	95	–	105	1979	117	82	100
1967	93	–	98	1980	121	–	98
1968	95	–	98				
1969	96	–	102	1981	110	66	88
1970	100	100	100	1982	101	–	80
				1983	94	63	88

Sources: Latin America - CEPAL (1976), p. 25, and CEPAL (1985), pp. 40-41; *Primary Products*-Chu and Morrison (1984), p. 98.

The wide swings in the early 1970's seem to have affected Prebisch's outlook, for though in his major theoretical article of 1976 he restates the thesis, he writes that "it has been interpreted as an assertion that in primary products there is an immanent and irreversible tendency towards deterioration" (1976, p. 63). Indeed, this would seem to be the only valid interpretation of his writings over the previous 25 years. He goes on to state that "to show that such a relation has not deteriorated does not mean that there is no problem... Some [terms of trade] have always been unfavorable ever since the periphery was incorporated into the international economy" (p. 64). This last statement is difficult to interpret in terms of conventional terms of trade statistics, which by definition can only indicate relative movements and from which no valid inferences can be drawn regarding *absolute* terms of trade. In any case, Prebisch's views concerning the secular decline, as reflected in the 1976 article, seem considerably weaker than in earlier writings.

If the secular decline hypothesis has any relevance at all, *some* evidence would have had to show up by the 1970's. Indeed, even if there had been no long run change in the *real* terms of trade, one would have expected a decline in the *measured* commodity terms of trade due to the statistical biases involved (which would still have been consistent with a significant improvement in the single factoral). The statistical record as of the mid-1970's admits of no clear-cut conclusion in this regard (Spraos, 1980; Ray, 1977), and in the specific case of Latin America, though terms of trade have certainly been quite variable in recent years, considering that they were about 10 per cent above their 1937 level in 1959, the measured Latin American terms of trade did not begin to approach their 1937 level till about 1983[3]. It might be argued, however, that this is partly due to the fact that some Latin American countries are major oil exporters. Indeed, the terms of trade of non-oil exporting Latin American countries deteriorated by about 40 per cent between 1970 and 1983 and, assuming that non-oil Latin American

terms of trade moved proportionally to those of Latin America as a whole prior to 1970, it can be roughly estimated that they were about 30 per cent below their 1937 level as of 1983. On the other hand, most of this deterioration has been due to a development which has nothing to do with the factors stressed by the Prebisch theory, namely, the OPEC oilprice surge. In fact, the relative price of primary products *vis-a-vis* manufactures, the relevant concept in terms of the Prebisch theory, shows a deterioration of only 12 per cent from 1970 to 1983. Furthermore, though primary terms of trade deteriorated about 20 per cent in the period 1959-83, if the data in Table 4 are taken as a proxy for primary-manufactures terms of trade prior to 1959, the nominal deterioration of primary terms of trade for the full period 1937-83 has been at most 10 per cent. (Once more, no great significance can be attached to this statistic in the absence of adjustments for quality change and other sources of bias).

5. Closing Remarks

A rather curious incident will serve as a fitting postcript to this review. In 1980 the prestigious Third World Prize was awarded to Raúl Prebisch in recognition of his "outstanding contribution to Third World development". Not unexpectedly, the award citation stressed the secular decline hypothesis: "Dr. Prebisch's analysis of the centre-periphery relationship in international trade and the concept of the secular decline in the terms of trade of developing countries had a profound impact in stimulating economic thought over the last three decades" (Husain, 1981, p. vii). Rather *unexpectedly*, in his acceptance lecture Prebisch himself did not make a single reference to the secular decline (1981; see however Prebisch, 1983 and 1985).

Once ideas are launched, however, they acquire a life of their own, eventually ossifying into ideology, and it is unlikely that even an open admission of error on Prebisch's part would revert the trends his theses have spawned. To cite Prebisch himself, "in economics, ideologies usually tend either to lag behind events or to outlive them" (1950, p. 339). Or to cite the famous last page of Keynes' *General Theory:*

> ...the ideas of economists and political philosophers, ..., are more powerful than is commonly understood... Practical men, who believe themselves to be quite exempt froum any intellectual influences, are usually the slaves of some defunct economist... I am sure that the power of vested interests in vastly exagerated compared with the gradual encroachment of ideas. Not, indeed, immediately, ..., for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil (Keynes, 1936, pp. 383-84).

Though this passage does not induce much optimism as to the power of ideas in the short run (few economists would care to become influential if they must first become "defunct economists"!), Keynes own experience would seem to indicate the contrary, and likewise that of Dr. Prebisch, his erstwhile foremost Latin American disciple (see Prebisch, 1947; on the intellectual background of the development of Prebisch's thought see Love, 1980).

In any case, the doctrine of secular decline will probably remain an article of faith of critics of the liberal world order for some time to come, as for most of them the grounds for conviction appear to be neither logic nor evidence, but the simple will to believe.

NOTES

1 "In other words, while the centres kept the whole benefit of the technical development of their industries, the peripheral countries transferred to them a share of the fruits of their own technical progress" (Prebisch, 1950, pp. 341-42). Similarly, Hans Singer at about the same time argued that, under the prevailing scheme, the gains of technical progress in industrial countries were distributed to producers as higher incomes, while in primary producing countries these gains accrued to consumers via lower prices. In effect, "the industrialized countries have had the best of both worlds, both as consumers of primary commodities and as producers of manufactured articles, whereas the undervedeloped countries have had the worst of both worlds, as consumeres of manufactures and as producers of raw materials" (Singer, 1950, p. 473).

2 The subsequent decline in the European series is interesting in the context of the theory of secular terms of trade movements, as the beginning and ending values over the period 1900-52 are virtually identical. Divergent movements in the series for individual countries, however, should not be overlooked, and are the main concern of Kindleberger's investigation-see also Kindleberger (1958).

3 It is well to note that in the case of Latin America comparisons with the 1930's can be greatly affected by the choice of a particular base-year, since that region's terms of trade were quite variable at the time:

1930 ... 105	1935 ... 91
1931 ... 82	1936 ... 97
1932 ... 88	1937 ... 100
1933 ... 82	1938 ... 95
1934 ... 94	1939 ... 94

Source: CEPAL (1976), p. 25 (see also Baerresen, *et al.*, 1965, Table B, p. 22).

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