



The roots and history of the structuralist development theory through the prism of Raúl Prebisch and ECLAC

Adriana Calcagno

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**Les racines et l'histoire de la théorie structuraliste du développement à
travers le prisme de Raúl Prebisch et de la CEPAL**

**The Roots and History of the Structuralist Development Theory Through
the Prism of Raúl Prebisch and ECLAC**

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Résumé de la thèse

Cette thèse étudie l'émergence de la théorie structuraliste du développement à travers l'évolution de la pensée de Raúl Prebisch et à travers les activités de la Commission économique pour l'Amérique Latine et les Caraïbes (CEPAL) entre 1930 et 1963. Elle montre que le structuralisme latino-américain était motivé par la recherche d'indépendance théorique, économique et politique de la part d'économistes latino-américains comme Prebisch. Ma démarche consiste à analyser l'émergence de la théorie structuraliste du développement en considérant sur l'ensemble de la période étudiée les travaux de Prebisch, l'un de ses fondateurs. En considérant les œuvres de Prebisch dans leur ensemble, ce travail montre l'évolution, les allers-retours occasionnels et les nuances de sa pensée, qui reste néanmoins cohérente. Bien que le point de départ de cette thèse soit la mise en évidence du rôle de Prebisch dans l'émergence de la théorie structuraliste, elle conclut que cette théorie est également le résultat d'un travail collectif. L'étude de la CEPAL permet, en effet, de réfléchir à l'élaboration d'une pensée « institutionnelle » nécessaire au renforcement de la théorie structuraliste du développement. Nous montrons comment des économistes latino-américains ont pu créer au sein d'une organisation internationale un cadre adéquat pour élaborer leurs propres théories et raisonnements, que l'on pourrait qualifier de pragmatiques. Si la CEPAL peut se présenter comme un cadre imposant certaines contraintes, sa force repose sur sa capacité à rassembler des économistes partageant des visions similaires du développement. C'est ainsi qu'ils peuvent réfléchir collectivement à des alternatives à l'approche néoclassique pour l'Amérique Latine. Cette quête d'indépendance théorique, économique et politique de la CEPAL s'affirme lors de l'élaboration d'une théorie structuraliste de l'inflation. Les économistes de la CEPAL s'opposent ainsi aux analyses et aux recommandations du FMI quant à la lutte contre l'inflation dans le continent Sud-Américain tout en proposant des alternatives.

Mots clés : CEPAL ; Raúl Prebisch ; structuralisme latino-américain ; théories du développement ; théorie structuraliste de l'inflation ; macroéconomie ; politiques monétaires ; théorie des cycles ; industrialisation ; Histoire de la Pensée Économique ; Histoire Économique.

Abstract

This PhD thesis investigates the emergence of the structuralist theory of development through both the evolution of Raúl Prebisch's thought and the activities of the Economic Commission for Latin America and the Caribbean (ECLAC) between 1930 and 1963. My analysis concludes that Latin American structuralism resulted from a search for theoretical, economic and political independence by Latin American economists such as Prebisch. My approach consists in analyzing how the structuralist theory of development emerged in the economic thought of Prebisch, one of its pioneers, through a comprehensive examination of his writings during the period under study. By considering Prebisch's works as a whole, this thesis shows the evolution, the occasional back and forth movements and the nuances of his thinking, which nevertheless remained coherent. Even though this thesis highlights Prebisch's role in the emergence of the structuralist theory of development, this theory was also the result of a collective work. The study of ECLAC allows us to consider the elaboration of "an institution's thought", the latter being key for the strengthening of the structuralist theory of development. This thesis shows how some Latin American economists were able to create within an international organization an adequate setting to elaborate their own theories and reasoning, which could be qualified as pragmatic. In addition to stressing the constraints to theoretical elaboration in ECLAC, this work shows that ECLAC's strength lay in its ability to bring together economists sharing similar visions of development. These economists could thus collectively think about alternatives to the neoclassical approach for Latin America. This quest for theoretical, economic and political independence for ECLAC is most striking in their elaboration of a structuralist theory of inflation. ECLAC economists could thus oppose the analyses and recommendations of the IMF regarding the fight against inflation in the South American continent and propose alternatives.

Keywords: ECLAC; Raúl Prebisch; Latin American structuralism; development theories; structuralist theory of inflation; macroeconomics; monetary policy; cycle theory; industrialization; History of Economic Thought; Economic History.

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General Introduction

This PhD thesis studies the emergence of the structuralist theory of development through both the evolution of Raúl Prebisch's thought and the activities of the Economic Commission for Latin America and the Caribbean (ECLAC), in a period spanning from 1930 to 1963. It argues that Latin American structuralism was born from the will of having a theory adapted to the Latin American economic and social structures, because in the eyes of economists such as Prebisch the economic theories developed in the last centuries in Europe and the United States did not answer the needs of Latin American countries. This search for theoretical independence was closely related to the purpose of promoting the economic and political independence for the continent.

The search for independence did not only (or mostly) stem from nationalistic values or ideological views: one of the aims of this thesis is to show how Prebisch understood that underdeveloped countries suffered from a subordinate and vulnerable position in the international scene, and that changing that situation was a necessary step in the path to development. Indeed, this search for independence led him to change his thinking and develop a new theory that was deepened and propelled by ECLAC under his leadership, in a framework that both constrained and facilitated the elaboration of this theory. This independence was intended towards the United States and Europe, not so much towards the Latin American governments. The ultimate goal of development was indeed to stop being in a subordinate position, but the goal of Prebisch and ECLAC was also to have a space for thinking that would be mainly under the control of Latin Americans. At least at first, the link with the Latin

American governments was not the issue¹: ECLAC's theoretical elaborations and policy proposals were meant for them.

There are three main characters in this thesis: the structuralist theory of development, Prebisch and ECLAC. My approach consists in seeing how the structuralist theory of development arose in the writings of one of its founding thinkers, and then to study how ECLAC further developed it at the theoretical and the applied levels through policy recommendations. Prebisch is both present in the structuralist theory of development and in ECLAC, which is why he occupies such an important place in this thesis. However, I also analyse the contributions of other relevant authors in ECLAC and reflect on the constitution of an institutional thinking. Hence, the respective research questions are: how did Prebisch's pragmatism and quest for sovereignty and independence lead him to elaborate a development theory based on the structural analysis of Latin American countries? How did ECLAC's institutional setting allow for the collective elaboration of an alternative economic theory?

I chose to analyse the emergence of Latin American structuralism by giving a particular focus to Prebisch's intellectual path because he was an economist at the core of that school of thought: he was the Executive Secretary of ECLAC from 1950 to 1963, at the beginnings of the Commission and when it was gaining influence in the region. Prebisch also held positions of influence in Argentina during the 1930s and 1940s, and became a Latin American reference in monetary policy and banking by the mid 1940s. Following Prebisch's evolving thought is an entrance point to studying the emergence of structuralism and a window towards Latin America's development challenges of the 20th century.

¹ECLAC employed several economists even though they were opposing the governments of their countries. In this respect, there is a certain autonomy regarding the governments.

The study of ECLAC allows us to see how Latin American countries used an international organization to create an adequate setting for elaborating their own theories and reasoning. This initiative allowed the gathering of economists sharing similar visions of development, both in theory and policy, that could collectively think about alternatives to the neoclassical theory² for Latin America. ECLAC's quest for theoretical, economic and political independence is most clear in its elaboration of the structuralist theory of inflation, that opposed the IMF's recommendations against inflation both in its theoretical and policy aspects.

The result, in a region where “the history of ideas (...) is typically confined to the description of regional adaptations of European ideas”, was the development of structuralism and of the dependency school, “arguably the most influential ideas ever to appear in Latin America” (Love, 1994, p. 393).

Choosing Raúl Prebisch as a focal point to understand the emergence of structuralism

Raúl Prebisch (1901-1986) is an Argentine economist known for his development theory that he championed in the realms of the Economic Commission for Latin America and the Caribbean (ECLAC) and the United Nations Conference on Trade And Development (UNCTAD) from 1950 to 1969. He is famous for his performance as the General Manager of the Central Bank (1935-1943). He also worked in the Bank of the Argentine Nation (1927-

² We follow the definition of neoclassical economics proposed by Bernard Guerrien and Emmanuelle Benicourt. This theory is characterized by the micro-foundations of macroeconomics, by the idea of the “crowding out” resulting from State expenditure or investment, or even the idea of the optimality of individual choice. They tend to conclude to the efficiency of private initiative and market deregulation against the intervention of the State in the economy and the society (Benicourt and Guerrien 2008).

1935) and was a professor at the University of Buenos Aires (starting in 1924, but most interestingly from 1943 to 1949 when he deepened his theoretical explorations).

He is also known for being an economist whose thought greatly evolved and matured throughout his whole career. In this thesis, I argue that Prebisch was a pragmatic, open-minded economist, and this trait was decisive in his theoretical changes. He did not just try to escape specific dogmatisms, but dogmatism itself. Since what was important to him was the final outcome, which is improving the living conditions of the population, it was natural for him to change his theoretical views when they proved wrong. As a prominent policy-maker, he could observe first-hand the outcome of economic policies, and was able to incorporate that empirical experience into his theoretical understanding of economic processes.

He first abandoned his ideas on market self-regulation in 1931, as the Depression was not ending on its own and the austerity policies that he initially endorsed were only worsening the Argentine economic situation. He started thinking about the particularity of the Argentine structure, that explained why the European theories could not work for his country. He also studied the specificities of the Argentine cycle. He started recognizing the need for a bigger role of the State in the economy, mostly to support and cooperate with the market. The biggest change in his thought at that point was that the State had to implement counter-cyclical fiscal policies, and saw in the Central Bank a powerful tool to complement them with counter-cyclical monetary policies. His main goal was to soften the cycles within an agrarian export-led economy, and not to change the economic structure of the country. The second biggest change in Prebisch's thought came with the Second World War. With the worldwide disruptions in international trade, he came to the realisation that the agrarian export-led growth was a significant factor of external vulnerability, which made it difficult for the Argentine economy to enjoy stable growth. Hence, he started advocating for the industrialisation of Argentina and

Latin America. He believed that if Latin American countries could strengthen their industry, they could benefit from the international market instead of being dominated by it.

These two changes in his thought led to his structuralist theory of development, which he completed during his years at ECLAC by working with other Latin American economists. As the head of ECLAC, Prebisch played a key role in giving a direction to the institution's theoretical elaborations and policy recommendations.

Recognition of Prebisch's pragmatism is not something new in the literature. Indeed, Matías Vernengo (2013) mentions Prebisch's pragmatism, saying that "while it is true that Prebisch, in contrast to Keynes who was more critical of the Gold Standard and conventional wisdom throughout the 1920s, was surprised by the intensity of the Great Depression, his relatively eclectic background and his pragmatism were central to his fast and evolving rethinking of economic theory and policy" (Vernengo 2013, p.4). Florencia Sember (2012) also mentions that Prebisch "was not a theoretician of central banking: his contribution appears from the beginning as pragmatic, based on his knowledge of the functioning of the Argentine economy". (Sember 2012, p. 135). However, Prebisch's pragmatism has not been used as a lens to explore the evolution of his thinking or his vision of economics. That is one contribution of this thesis.

A thought that gave rise to many different interpretations

Prebisch's intellectual work stretches from the 1920s to the 1980s and covers numerous subjects that reflect his professional activity at different points in time. Because of this, he is considered in the literature as a "complex and multifaceted man" (Pollock 1988 p. 121), as someone having "multiple public images" (Sikkink 1988, p. 91). His thought always presented

important nuances and was not easy to classify. There is often a certain ambiguity while reading his texts, as his past thoughts often linger in his later works. For his biographer Edgar Dosman, “Prebisch, quite simply, was hard to place. [...] The inner struggles that underlay his thought and work remained hidden by reticence and vulnerability”. (Dosman 2010, p. 35).

Prebisch was often criticised throughout his life, and there were numerous and contradicting attacks on him: during the 30s, he was criticised as being "a man of the British" by Argentinian authors like Arturo Jauretche (1955), then in the 1940s he was even suspected of being a Nazi agent by the US embassy (Sikkink 1988, p. 100; Pollock 1988 p. 121; Pollock, Kerner and Love 2002 pp. 547-548; Vernengo 2013, p. 5). Moreover, as the head of ECLAC, orthodox economists frequently portrayed him (baselessly) as a defender of autarkic policies, an opponent of private entrepreneurs or an enemy of primary exports. On the other hand, he was also accused of defending orthodox policies when he presented the “Plan Prebisch” to the Argentine Government, shortly after the 1955 military coup. Dosman summarizes this perception of Prebisch:

Few historical figures have been as vilified and misunderstood – or as uncritically acclaimed. Observers and critics saw two different lives and personalities. The CIA kept him under surveillance during the 1950s as a dangerous radical, but he was always firmly anti-communist and had worked closely with the US Embassy and US Federal Reserve a decade earlier. In Argentina he was viewed overwhelmingly as a symbol of the old oligarchy, but he disparaged the military and was never accepted by the elite (Dosman 2010, p. 35)

One area in which Prebisch’s views are particularly complex is that of credit, savings and inflation. A study of his writings between 1930 and 1963 shows how he goes back and forth in the use of credit for investment. On the one hand, two scholars who worked at ECLAC and studied Prebisch's thought argued that, on that field, he had orthodox ideas. In an interview

I had with Adolfo Gurrieri in December 2017, he stressed that Prebisch had maintained an “orthodox” approach to credit and savings for investment. In another interview (in July 2018), Arturo O’Connell confirmed this view and mentioned that Prebisch had not followed the structuralist theory of inflation.³ On the other hand, as we see in chapter 3, Prebisch developed an unorthodox approach on the relationship between credit, investment and savings, in which credit and forced savings played a leading role in capital accumulation. Similarly, we see in chapter 6 that in the 1960s he does subscribe up to a point to the structuralist theory of inflation, which contrasts with his “Plan Prebisch” of 1955 and particularly with his quantitative stances of the 1930s. These ambiguities seem to be at least partially related to the context in which Prebisch wrote: his views were not the same before and after he embraced industrialization as the main development strategy, and his focus changed with his institutional responsibilities. In fact, he tended to have a more conservative approach on credit while he was the general manager of the Central Bank or the head of ECLAC, which was very different from what he taught as a professor at the University of Buenos Aires.

Therefore, an evaluation of Prebisch’s thought requires a comprehensive perspective, embracing different periods of his work and different aspects of his thinking. A significant part of the secondary literature on Prebisch focuses on particular subfields to the detriment of an overall vision of his thought, essential to understand its holistic nature. My aim is to grasp the complexity of his work by connecting the different fields that Prebisch worked on. The authors who adopt a global vision that takes into account the totality of Prebisch’s work are relatively few. Dosman’s biography of Prebisch (2010) covers the longest period, but it is necessarily a

³ Both Adolfo Gurrieri and Arturo O’Connell studied Prebisch’s thought and worked at ECLAC (see Gurrieri, 2001, 2016, and O’Connell, 2001). In particular, Gurrieri had been Prebisch’s personal assistant in ILPES since 1969 and in the CEPAL Review since 1976.

mostly descriptive work. Joseph Love (1987), Ronald V. Sprout (1992) and Joaquim Miguel Couto (2007), make an overview of his work, in which they cannot go in much detail given the length of the exercise. Máximo Lira (1986) also studies a long period of time, as he roughly goes from 1950 to 1981 to understand his path towards his theory of peripheral capitalism. More recently, Natália Bracarense (2013) looks at Prebisch's thought in the long run from the 1930s to the 1970s, with a special focus on Prebisch's political role within a specific international framework (notably the Cold War), and on his center-periphery analysis (for which she goes back to the 1920s). Bracarense (2016) contrasts Prebisch's "classic structuralism" of the 1940s and 1950s (that, in her view, presented an ahistorical approach of the center-periphery system, in which the understanding of individual countries and their domestic structures was secondary) with a more dynamic approach, starting in the late 1950s, which highlighted domestic social conflicts and envisaged a more complex center-periphery struggle.

This thesis wishes to go further into detail while retaining a relatively large perspective to understand the emergence of the structuralist theory of development. Indeed, it examines different aspects of Prebisch's thought, including his analysis on money, banking, cycles, trade, development and planning, and shows how they are linked together. It also includes his policy recommendations on these subjects. These subjects have been studied independently⁴, but by studying them together, it is possible to assess how Prebisch's writings integrate most macroeconomic and development aspects, showing the richness and thoroughness of his

⁴ Notably, his monetary thought and experience in the Central Bank has been studied by Felipe Pazos (1988) and Florencia Sember (2010, 2012, 2013, 2018); his cycle theory by Esteban Pérez Caldentey and Matías Vernengo (2011, 2016); and his development thought by José Antonio Ocampo (2001), Ana Maria Bianchi and Cleofas Salviano Jr (2006), Joaquim Miguel Couto (2007), Daniel Sotelsek Salem (2008), Aldo Ferrer (2010), Adolfo Gurrieri (2016) and Julio López (2020).

theoretical production. Still, as Sprout (1992) has mentioned, Prebisch failed to integrate a complete sociological aspect to his writings, as he came to realize only in the 1960s that social equality did not automatically follow with industrialization. Prebisch himself recognized that this aspect came to him belatedly (see his foreword to Rodríguez 1980). This choice of combining numerous aspects of Prebisch's thinking allows us to explain how they evolve together, not independently, which shows the coherence of Prebisch's thinking and the adaptiveness permitted by the structuralist methodology.

Studying ECLAC as an institutional setting and as an institution that “thinks”

In this thesis, I do not attempt to analyze the whole of ECLAC's works (as did, for instance, Octavio Rodríguez, 1980), but to understand how it provided the conditions for the emergence of an institution's thought. This is not equivalent to saying that ECLAC had an autonomous thinking, but I follow Mary Douglas (1986) into considering that institutions can foster thinking within precise lines. Indeed, ECLAC had an agenda and its publications followed an institutional line, that was defined by Prebisch, the staff and the member governments. We cannot say that Prebisch had the sole control on this line, but he greatly influenced it through his writings and recruitments (chapter 4). The staff's affinities in their economic thinking were also of paramount importance, as they could allow for a coherence in ECLAC's studies. The member countries also had their say, as the formal constituents of the Institution. In the bi-annual sessions (“Período de Sesiones”), they approved the work performed in the previous period, they discussed the work program for the next biennium, and stressed their priorities for technical assistance and analytical studies. In this way, they both legitimized and constrained ECLAC's activities (chapters 4 and 5).

As a result of these conditions, ECLAC as an institution contributed to economic theory. For example, it developed the structuralist theory of inflation. This theory was elaborated by ECLAC's economists and the Commission adopted it in its official writings, which constitutes in our opinion an example of an institution's thought (chapter 6). We can also more generally say that ECLAC contributed to the consolidation of the structuralist theory of development because of its influence in the region. Indeed, the fact that the theory was endorsed by an international institution increased its legitimacy. But most importantly, the Commission's missions of technical assistance in Latin America provided training to officials in member countries, increased its cooperation with the countries' institutions in the creation of statistics, and provided analysis of the countries' economic situation with policy guidelines.

Latin American structuralist theory of development

ECLAC economists are structuralists because they think in terms of structure and use the concept of structure in different levels: in the center-periphery system, where they think about the relationship between the center and the periphery; within the periphery, to analyze and understand its characteristics. They are not structuralists as a prolongation of structuralism in linguistics or anthropology, which focuses on relationships between elements in a conceptual system, not so much in the elements of the system by themselves⁵. Latin American structuralism analyses both the relationship between elements of a system and the elements by

⁵ According to Joseph Love, "Furtado's structuralism, unlike Prebisch's, was conditioned by his direct contact with French structuralist economics" and was "the only one of the early ECLAC economists to have been in contact with the French school", especially with François Perroux (Love 1999, p. 5 and p. 20). However, Love argues that Furtado's approach was heavily oriented towards history and "contributed more than any other theoretician to give a historicist essence to structuralist thought" (ibid, p. 4).

themselves. As we will see throughout this thesis, for Prebisch and other ECLAC economists, understanding the structure of peripheral countries is key. Hence, they will study the productive structure, the social structure, as well as the commercial structure (which is the link with the larger center-periphery relationship). All these structures are intertwined in different levels. For example, the issues of income redistribution and land tenancy (social structure) are determinant in the low productivity of the agrarian sector, which is also a factor for the low productivity of the industrial sector (productive structure), and these elements determine the position of Latin American countries in international trade and their external vulnerability (commercial structure). Each country has a different structure, which is historically determined. It is possible to find similarities between the structures of different countries, but this elaboration of ideal types such as “center” or “periphery” does not equate to denying their specificities. This focus on the structural (historically determined) characteristics of peripheral countries is what constitutes the originality of ECLAC’s approach, for example to study the issue of inflation in the second half of the 1950s (chapter 6).

Hence, Latin American structuralism is generally defined by its “historical-structuralist methodology”. Ricardo Bielschowsky (2009, p.173) suggested the following definition of ECLAC's structuralism: “The ECLAC analytical system is based on the ‘historical-structural’ method. This studies the specific productive, social and institutional characteristics, and international engagement of Latin American and Caribbean countries, which are seen as peripheral, in contrast to those of the ‘central’ economies, viewed mainly from the standpoint of medium- and long-term change”. Also in his words, “ECLAC’s historical-structuralist approach implies a method of knowledge production very attentive to the behavior of social agents and to the trajectory of institutions, which is closer to an inductive process than to traditional abstract-deductive perspectives” (Bielschowsky 1998, p.15). Hence, Bielschowsky distinguishes ECLAC’s structuralism from the structuralism found in linguistics and

anthropology, which he defines as being “synchronic or ahistorical” (ibid, p.14). The Latin American structuralist theory of development is identified as ECLAC’s theory. It is based on the concepts of center-periphery, the tendency towards the deterioration in the terms of trade for primary commodities, and a particular interpretation of the industrialization process (Rodríguez 1980).

ECLAC economists thought in terms of historical perspective in a spontaneous manner, that they used for analyzing their current economic situation. For example, Prebisch considered that “the cyclical way of growth” depended on “the economic structure of our countries” (Prebisch 1949, p. 63). These structures were the result of a historical process, and ECLAC’s work was to understand and analyze these economic structures. Some ECLAC economists have made major contributions to economic history; for instance, Celso Furtado (1920-2004) and Aníbal Pinto Santa Cruz (1919-1996) wrote important books on the economic history of Brazil (1959) and Chile (1964) respectively. Even though it wasn’t the case of Prebisch, he did not consider the structures as being ahistorical or static. For example, Prebisch (1949) used historical data produced by the United Nations that went back to 1876, mobilized data on the gold reserves of the US and the rest of the world going back to 1923⁶. Although ECLAC economists did not always explicitly place their writings in a historical frame and focused on their current economic situation, the latter is to be understood according to the structure, which is historically determined. Hence, the structure is the mediator between history and the current economic situation.

⁶ He combined data from the Board of Governors of the Federal Reserve System, 1943, from the International Financial Statistics of the IMF, 1949, from the Federal Reserve Bulletin, and from the Annual Reports of the Bank for International Settlements.

Furthermore, Latin American structuralism does not study the behavior of independent individuals, but the structured relationship between distinct groups or agents. The object of study is the stratified society and the relationship between the social groups, even when studying the productive structure of countries. It is not a rigid structuralism, it is instead dialectic and historic in the Marxist sense: agents can have an influence on the structure and modify it. In this sense, Latin American structuralism has a vision of development as a relationship between developed and developing countries that is dynamic, and it is not a linear path towards development that will inevitably happen. That link between countries makes the structure of underdevelopment, and allows us to think the problems of deteriorating terms of trade or global inequality. It is also this structuralist reading of development that pushes Prebisch and ECLAC to argue for changing the place of developing countries in international trade. This reading allows to analyze the long-term, or “structural”, reasons for the underdevelopment of different countries. Still, structuralism is not in my opinion a “theory of underdevelopment”, as Sharukh Rafi Khan contends (2014, p.19). Throughout this thesis, we will see that ECLAC’s structuralist theory also proposes policies to develop countries, and these entail changing their social and productive structure; i.e., changing the relationship between social groups and between sectors. Indeed, the problem of development is not only technical, it is also political. And behind every policy recommendation of ECLAC there is a theoretical view of how that policy would affect the country’s structure and lead it to development. Hence, ECLAC’s structuralism is inherently dynamic and focuses on changing structures and changing relationships between social groups.

By the early 1940s when Prebisch started elaborating his development thought that resulted in the structuralist theory of development, there was no “development economics” strictly speaking. This subfield started more clearly in the 1950s. Before, there were growth theories, and there were “development thoughts” that were often directly related to policy

action. Thinking about development has been present for centuries in economic writings. The most interesting example is found in the Scottish Enlightenment. Even if they did not use the word “development”, they gave great importance to the progress of society, be it moral, cultural or economic (Waszek 2003; Okan 2018). Adam Smith is of particular interest because he addressed the subject in economic terms, and his idea of progress can be assimilated to the modern concept of development as it included the increase in the productive capacity and in the standard of living of the population:

No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged (Smith 1776, p.96).

It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well governed society, that universal opulence which extends itself to the lowest ranks of the people (ibid, p.22).

Friederich List is also an important development thinker, whose influence was found worldwide. For example, Pencho D. Penchev (2020) showed his influence in Bulgaria in the beginning of the 20th century, and Luis Felipe Bruzzi Curi and Danilo Barolo Martins de Lima (2015) have put forward List’s influence in Brazil through the economist Roberto Simonsen in the 1930s. Carlos Bastien and Ana Bela Nunes (2020) study the debates and evolution of development thinking in Portugal, and highlight the lack of definite development theories in the country: in the 19th century there were the Smithian and Ricardian followers for development but also more protectionist authors, and in the first half of the 20th century manufacturing and industry gained importance. Similar debates and experiences took place in the same periods in Spain (Gallego and Trincado 2020). In Italy in the last quarter of the 19th

century during the period of the unification of Italy, there were debates between free-traders (later marginalists) and historicists (Pisanelli 2020). Penchev (2020) evidences how Bulgarian economists mixed different development strategies in a pragmatic way. Jou Ishii (2020) shows how from the 1870s to the 1940s Japan knew debates between protectionism and free trade, and how it developed a new vision of development.

Yet from the 1950s onwards, development theories appeared more systematically linked to schools of thought, and development economics had a growing place as a discipline. Paul Rosenstein-Rodan (1902-1985) is presented as one of the pioneers of economic development theories, notably through his 1943 text in which he developed his “Big Push” theory (Rosenstein-Rodan 1943, 1961). Nurske is also considered as an early development economist, with his “balanced growth” approach dating from 1952. Lewis with his dual-sector model for developing countries dating from 1954 is also considered as one of the most influential development economists (Oman and Wignaraja 1991). Hirschman is also a prominent development economist, whose unbalanced growth approach contrasted with Rosenstein-Rodan’s theory and who greatly influenced the field with his theory of backward and forward linkages.

In this thesis, I show how Prebisch’s development theory started taking its known shape through the 1940s. His focus on industrialization starts in 1940, and the urge to develop Latin American countries, which he considered as a “periphery”, dates from 1944. The first finished form of his structuralist theory of development dates from 1949, and can be considered in my opinion as a proper theory and not a “development thinking”. Hence, because of its originality compared to his contemporary economists and because of its emergence at the beginning of the subfield of “development economics”, we can consider Prebisch as being a pioneer in the field.

Regarding the other economic theories, Prebisch and ECLAC economists are not easy to classify (see below introduction to part 1). There are some clear affinities and oppositions that we will show throughout the thesis: an affinity in particular with Keynes (chapters 1 and 3), and an opposition with the Ricardian theories of comparative advantage (chapters 1, 3, 4, 5, 6), or with IMF's anti-inflationary policies recommended in Latin America in the 1950s, an opposition that continued in the 1960s with a controversy against monetarists (chapter 6). The contrasts or affinities become apparent in their respective proposals on economic policy, from which different theoretical approaches can be traced. However, most of the time it is open to interpretation.

In my opinion, the structuralist theory of development was not actively positioning itself in global theoretical debates; it only participated in those that directly concerned Latin America. It was not completely detached from the evolution of the economic theories of its time, but it did not give much importance to some major themes or theoretical elaborations. I think Prebisch and ECLAC economists were not trying to replace mainstream theories elsewhere than in Latin America, nor trying to prove that the other theories were intrinsically wrong. They mostly considered that a theory elaborated for an industrialized country could not work in an underdeveloped agrarian or mining country. This was based on their conception that economic theories are not universal, and that Latin America needed a theory built expressly for itself.

Hence, when ECLAC was founded in 1948 and through the 1950s, it did not necessarily engage in the dominant theories of the time such as growth theories. We can even see some incompatibilities with the dominant models such as Solow's (1956). Even though it was closer to the type of analysis proposed by the British Cambridge, in particular by Nicholas Kaldor (1957), the problematic of ECLAC and Prebisch was still different. Unsurprisingly, we find a

bigger affinity with Albert O. Hirschman's (1958) and Rosenstein-Rodan's (1943) works, since the main focus was not explaining growth but thinking about the causes of underdevelopment and the strategies for development. We will further develop the positioning of ECLAC and Prebisch in the international intellectual framework in the second half of this thesis.

A hybrid methodology to study a policymaker, theoretician and an institution geared towards policy recommendation

This thesis tackles these questions through a combination of two disciplines, the History of Economic Thought and Economic History. The methodology adopted is a hybrid, and does not entirely fall into precise schools. Hence, I intend doing both analytical and contextual history (Lapidus, 2016). I contextualize in a selective manner, according to my main goal and research questions. I focus on the events that make Prebisch react and evolve in his thinking, which means that I choose the degree of contextualization. As a consequence, I study the case of Argentina with more detail than other Latin American countries because the Argentine context directly impacted Prebisch's thought. Hence, my methodology might be closer to that of Pierre Dockès (2019), who considers that economic history and history of economic thought are complementary and even inextricably linked. In his words:

We cannot understand the evolution of economic facts if we put aside the evolution of ideas and of economic theories. [...] I do not think it is possible to separate ideas from interests and to rank them. [...] Economic theories, often linked to interests, accompanied and prepared the great transformations of the economy and society. In other words, economic history ("histoire des faits") cannot be dissociated from the history of economic thought. (Dockès 2019, p.17)

In his book *Le Capitalisme et ses rythmes* (2019), he combines both disciplines, but his main focus is the history of economic thought. The elements of context that he brings into his analysis are necessary to understand the emergence of new theories or their evolution. He draws on existing economic history literature to bring his own analysis on a global subject enriched by the history of economic ideas. For example, he explained the extraordinary growth in Europe, the United States and Japan in the period 1945-1973 before dwelling into detail on the growth theories of the time: in particular Harrod's, Domar's and Solow's, but also British Cambridge's alternative theories. The methodology used in this thesis is similar to Dockès', as I draw on existing economic history literature and the main direct contributions are in the history of economic thought. However, this thesis also contributes to economic history, because it analyses the emergence of an influent economic theory in Latin America that shaped the growth strategies of different countries throughout the 1940s, 1950s and 1960s.

More precisely, I study the evolution of Prebisch's thought (mostly in chapters 1 and 3), the making of an institutional thinking (in chapters 4 to 6), and through this the elaboration of the Latin American structuralist theory of development. In other words, I seek to understand the formation of the Latin American structuralism through one of its key figures, Prebisch, and the main institution that spread it across Latin America, ECLAC. I contextualise Prebisch's and ECLAC's theoretical elaborations, and reconstruct parts of it, like the structuralist theory of inflation in chapter 6. I use some historical sources and rely on modern works of historians and economic historians on Latin America to understand the context and situate the authors or the debates. This combination seems to be adequate for studying an economist and policymaker like Prebisch and an institution like ECLAC that had as departure point the development problems of Latin America and aimed for their economic theories to be applied. There is thus an interaction between context and theory that justifies this hybrid methodology. I try to understand the context in which a thought emerges. I sometimes complete with newer studies

what the authors were experiencing (mostly in chapters 1 and 3) and other times I give more emphasis to the author's experiences to understand their theories without trying to refute or confirm them (chapters 4, 5 and 6). In particular, in chapter 5 I focus on the data production by ECLAC without trying to verify it, because that effort of creating statistics was important by itself. Hence, the weight of the context is different for each chapter, and the way it is mobilized varies too: it is thus more important in chapters 1 and 3 because it is a main element to understand Prebisch's theoretical evolution.

This methodology and research subject required the use of a wide variety of primary sources⁷. It was necessary to study both individual and institutional documents, but also Argentine law projects, Central Bank projects, Prebisch's university lessons, policy proposals, ECLAC meeting minutes, Prebisch's drafts for monetary advice in Latin America (specifically for Paraguay), and speeches. Some were anonymous institutional documents, in which the authorship could not always be determined. The Annual Reports of the Argentine Central Bank had been directed by Prebisch and mostly written by him (see chapter 3), but it's harder to determine for some anonymous ECLAC documents. The latter, however, are indicative of numerous elements, such as the official orientation of ECLAC or the constraints of writing within an international organization. The ECLAC archives were essential in finding both unpublished documents and published ones that were difficult to find elsewhere, especially Anibal Pinto's writings.

While this research is focused on past theories and studies the Latin American context (especially the Argentinian History), Prebisch's status as policymaker and theoretician raises the more general question of the relationship between economics and policy, and echoes with

⁷ Most of the sources are in Spanish or Portuguese. All translations that will follow are ours.

the debate of positioning economics as a social science or as a “hard” science. This debate of the “neutrality” of scientific (i.e., mathematized) models in economics was particularly present in econometrics, as can be seen in Ariane Dupont-Kieffer’s work (2019) on the Vatican Conferences of 1963. Should economic theory be “pure” and isolated from politics, policy, history? This thesis does not have the ambition to provide a definite answer but is clearly positioned in the debate by choosing to study an economist and policymaker such as Prebisch that adopted the historical-structuralist methodology in his theoretical elaboration. This thesis will emphasize on how that methodology allows to adapt one’s views to a changing context, avoiding dogmatism.

This thesis shows the intrinsic link between economics and politics: an economic theory will, directly or indirectly, provide guidelines for public policy action. This is most clearly seen during Prebisch’s years in government: because he embraced different theories over time, the policies he recommended were different. And reciprocally, he incorporated his practical recommendations into his theoretical framework, as is shown in the first part of this thesis. Even if the accent is not put on Prebisch’s political interests, this change in policy recommendation meant that the countries could change their growth strategy, and different social and economic groups would be benefitted. That is also why economic theory and policymaking are deeply intertwined and should not be studied separately one from the other. Prebisch is then a perfectly appropriate economist to study: he was both a keen analyst and an influential policymaker, and his policy recommendations always were present even in his most theoretically oriented works. And vice versa, we can see his theory and his ideas while reading his most policy-oriented writings. Prebisch’s pragmatism was linked to his status as policymaker, and it allowed him to reconsider his theoretical beliefs after times of crises, in particular after the Great Depression and with the Second World War. In particular, from being against State intervention in the economy until 1933, he increasingly gave a central role to State

action: first to end a crisis, then to prevent crises, and finally to change the nature of the Argentine cycle by changing the structure of the country. This pushed him to abandon the growth strategy based on the export of primary commodities and adopt industrialisation as the means to reach development, as we will see in chapters 1 to 3.

Thesis outline

The first part of the thesis (chapters 1 to 3) answers the first research question: how did Prebisch's pragmatism and quest for sovereignty and independence lead him to elaborate a development theory based on the structural analysis of Latin American countries? It analyzes Prebisch's intellectual evolution from the Great Depression until his arrival at ECLAC. By tracing his path, we see how Prebisch's central concern was to achieve stable economic growth, independent of external fluctuations for Argentina and Latin America because, without it, economic development would not be possible. This economic development goes hand in hand with a quest for sovereignty and independence (economic, intellectual and political). This quest is underlying in every stage, but the methods to achieve it evolved. This period ends in 1949, when the beginning of the structuralist theory of development in Prebisch is formed: development, independence and sovereignty are only possible through a profound change in the economic and social structure of Latin America through industrialization.

The second part (chapters 4 to 6) answers the second research question: how did ECLAC's institutional setting allow for the collective elaboration of an alternative economic theory? To do so, it focuses on the period from 1949 to 1963 when Prebisch joined ECLAC. While keeping Prebisch as a main focus of my analysis, especially as a reference, I discuss also the implementation of a regional institution that will influence the region in various ways. ECLAC will put forward a development theory that defends structural change through

industrialization with an important role of the State and planning but without underestimating the importance of the private sector (vision of a mixed economy). It was a process that had already started in the continent; ECLAC rationalized, legitimized and provided guidance to a praxis that was already in progress. ECLAC presented itself as a necessary institution to develop theories adapted to Latin America, in opposition to the theories developed in Europe and the United States, both past (i.e., by Smith, Ricardo, Marshall) and contemporary (i.e., by Keynes, or the emerging monetarism). It posited that Latin Americans were best able to understand their region and develop the relevant theories, and to defend the interests of Latin American countries. It was therefore of the utmost importance for the new institution to be independent from developed economies, especially from the United States: this was the first crucial goal when it was created. ECLAC also increased its cooperation with institutions in member countries, and therefore its presence in the region. As part of its technical assistance program, it will train experts in countries, and it will propose economic policies. It will thus impose itself over other international organizations, such as the OAS or the IMF. Such an institution was what Prebisch had desired for Latin America, because it would help achieve his objective of independence and development.

Chapter 1. Prebisch's turning point in his theoretical framework: the key role of the Great Depression in Argentina (1930-1934)

In this first chapter, I analyze how Prebisch's structuralist analysis emerged. In the midst of the crisis, Prebisch realized that Argentina, not having the same structure than European countries and the United States, and occupying a subordinated position in the international economy, was subject to specific economic vulnerabilities and could not rely on mainstream theories (elaborated in developed economies) to recover from the crisis. I show how this pushed him to gradually put aside austerity as the way out of the crisis. Although he

concurred with part of Keynes's recommendations to face the depression, he considered that other parts of his writings could not be applied to Argentina. In this stage, he accepted state intervention in the economy and sought for ways out of the crisis adapted to the problems of his country, especially as a policymaker, then as a theorist.

Prebisch starts elaborating the structuralist theory of development while trying to understand the economic problems of his country and to propose solutions. Prebisch's challenge in the 1930s was to determine whether the problems Argentina was facing were circumstantial or structural. By recognizing them as structural, due to the recurrent vulnerability of his country caused by fluctuations in international trade, he took his first step towards a structuralist analysis.

There is secondary literature that covers part of this period in Prebisch's thinking. González and Pollock (1991), Gurrieri (2001), Love (1980, 1996b), O'Connell (2001), Pérez Caldentey and Vernengo (2012), Bracarense (2013), have studied his early writings and evolution from "orthodoxy" (*laissez-faire* and austerity approach to facing the economic crisis) to "heterodoxy" (State intervention). Sember (2010) has studied in detail Prebisch's monetary thought in this period. Pérez Caldentey and Vernengo have studied Keynes's influence on Prebisch (2015) and his cycle theory (2011, 2016), both pertaining to the period covered in this chapter. I converge with this literature, but my focus is different. González and Pollock (1991), Gurrieri (2001) and Pérez Caldentey and Vernengo (2012) had not really studied the context in their analysis of Prebisch's evolution. Bracarense (2016) does not study how the change from "orthodoxy" to "heterodoxy" appears in Prebisch's writings since she focuses on how Prebisch follows the changing international context. She also studies for the same period his center-periphery analysis specifically. Caldentey and Vernengo (2011, 2016) mainly focus on Prebisch's analysis of the economic cycle and his monetary theory. O'Connell (2001) also

focuses mostly on the analysis of the economic cycle and gives more importance to the study of the Argentine economy than to Prebisch's theoretical evolution. Love (1996b) makes the link between Prebisch's policy experience and his theoretical views, but does not analyze much his quantitativistic views. Love (1980, pp. 48-53) brings in numerous elements of context (such as the consequences of Great Depression and the Second World War), and focuses on the theoretical aspects of Prebisch's writings, his objective being to find the origins of the doctrine of unequal exchange. This last text has common points with this chapter and is perhaps the most complementary. Nevertheless, my analysis intends bringing a different perspective from all the mentioned literature, as I focus on the emergence of Prebisch's structural thinking through the analysis of his writings on money, banking, the cycles and of his policy proposals.

This theoretical elaboration was closely linked to the implementation of active monetary policies, including credit and foreign exchange management, which were needed to face the crisis. In this context, one major step was the creation of the Central Bank, a decision that resulted from very concrete domestic needs rather than academic concerns or general views conveyed by foreign "money doctors".

Chapter 2. The creation of the Central Bank of Argentina: a tool for sovereignty

In this chapter the main question I address is how Prebisch's influence in the creation of the Central Bank of Argentina shows his attempt to elaborate a flexible institution that can adapt to the country's structure and needs. This chapter builds on existing works to show the importance of the Central Bank of Argentina in Prebisch's quest for sovereignty.

It presents a comparison between the Central Bank of Chile, which was created in 1925 following the lines proposed by Edwin Kemmerer, and the Central Bank of Argentina, whose creation was influenced by Prebisch as evidenced by Sember (2010, 2012, 2018) and

mentioned by Pazos (1988). It also compares the Central Bank projects of Prebisch and that of Otto Niemeyer. It highlights how the conception of these central banks reveals the vision of development, independence and sovereignty of the economists who created them. Indeed, the Central Bank of Chile (1925) was conceived as a primarily passive and pro-cyclical institution. Moreover, it was a gateway for the United States into the country rather than a development tool; in fact, Rebeca Gómez Betancourt (2008) and Paul Drake (1989) evidenced a conflict of interest in the Kemmerer mission. The chapter also shows how Niemeyer's (1933) plan for the Argentine Central Bank was not that different from Kemmerer's plan for Chile, despite the fact that the Great Depression was still unfolding. Niemeyer too had thought of the Central Bank as a passive institution and had added elements of subordination to England (Sember 2018).

By contrast, Prebisch proposed an active Central Bank (1935) with the necessary tools to intervene in the economy, both at the banking level (because it had the role of banking supervision) and at the level of economic activity (notably through counter-cyclical policies). Thus, the Bank that Prebisch proposed was discretionary, versatile and adaptable: it was a tool that could be actively used in the service of a global development policy if so decided by the central government, that owned 50% of the Bank's shares. It was this conception that allowed Prebisch to establish counter-cyclical policies from 1935 to 1939 to maintain a stable currency and to smooth business fluctuations. It was also this conception that allowed him to modify the Bank's role in 1940 to help the country's industries develop, notably through a new credit policy. It was, indeed, a necessary tool for reinforcing Argentine sovereignty and, eventually, for linking the monetary policy to a strategy of development.

This evolution in the Prebisch's conception of the role of the Central Bank, from applying counter-cyclical policies to financing longer-term investment, took place in parallel with his definition of industrialization as the main development strategy in the 1940s.

Chapter 3. How industrialization became the core of Raúl Prebisch's thought

This chapter addresses the question of how in Prebisch's intellectual path industrialization becomes the solution to change the socioeconomic structure of Argentina and Latin America to achieve development and independence.

There is a consensus in the literature that Prebisch's ideas on industrialization emerged with the Second World War; for instance, it is mentioned in Gurrieri (2001, p.70), González and Pollock (1991, p. 484), Love (1980, 1996a). However, none provide a detailed analysis of this evolution.

I will show how from 1933 to 1948 the promotion of industry shifted from a “short-term” strategy to fight the depression to a conscious tool for structural change. Prebisch's first solutions did not consist in changing the socioeconomic structure, but in palliating its shortcomings via a counter-cyclical policy. After 1940, the solutions were to change the socioeconomic structure to considerably reduce this external vulnerability. This is where the structuralist theory of development begins to shape.

From 1933 to 1935, in addition to expansionary fiscal and monetary policies, Prebisch included industrial policies as a tool for the State to decrease unemployment, increase economic activity and end the Depression. The structural changes (long-term effects) resulting from this promotion of the industry are not highlighted. It was presented as a short-term policy to solve an immediate problem.

This analysis becomes clearer when Prebisch became the Director of the Central Bank of Argentina in 1935, as he did not mention the industry or industrial policies until the outbreak of World War II. From 1935 to 1939 he focused on counter-cyclical monetary policies and the study of the Argentine business cycle, which is defined as characteristic of a predominantly

agricultural economy subject to shocks from international trade and capital movements. Then, with the economic turmoil caused by World War II, Prebisch puts at the center of his writings the structural nature of the external vulnerability of the Argentinian economy, and the need to reduce it through industrialization. Thus, from 1940 to 1943, Prebisch (BCRA 1940, 1941, 1942, 1943) will put forward from the Central Bank the need to industrialize the country and the role that the Bank can have in this new strategy. As a policymaker, he could apply or propose a set of policies that would reinforce and deepen the on-going industrialization process.

Then, from 1943 to 1948, as a Professor at the University of Buenos Aires, he theorized the link between industrialization, structural change, independence and economic development. Industrialization would change the economic and social structure of the Latin American countries, allowing them to become more independent economically because they would be less vulnerable to fluctuations in prices and demand for raw materials on the international market. I will show that by the end of the period, he had the basic elements of the structuralist theory of development. It is therefore a theory that is based on practice: in Prebisch it was born out of a pragmatic desire of reducing the external vulnerability of his country; and its purpose was ultimately to guide economic policies. It was also born out of Prebisch's experience as a policymaker. When he left government responsibilities, he pursued the same goals with different tools. After some years of academic activity, he found a powerful way to give new impetus to his ideas, as the director of a nascent U.N. institution, whose goal was, precisely, the economic and social development of Latin American countries.

Chapter 4. The emergence of an institution geared towards development planning and technical assistance

In this chapter, the axis of the thesis changes: it is now interested in ECLAC, and Prebisch is mostly regarded as having an important role within it. While Prebisch's thinking

will continued to be studied, the focal point is expanded to understand other ECLAC economists' personal thinking and their interactions with Prebisch. The chapter addresses the question of how ECLAC, since its creation in 1948, emerges as an influent institution that could provide economic theories, development planning and technical assistance. ECLAC's theoretical production would be necessary for theoretical independence from the centre; its propositions for development planning would help with economic and political independence; and its technical assistance program would allow the countries to have a functioning bureaucracy and, thus, maintain economic and political independence.

I focus on how ECLAC's mission promoted economic growth and development in the region, and provided studies and data on the region's economy. I show how it constituted an intellectual hub that rationalized and legitimized Latin America's ongoing industrialisation process through the elaboration of a new economic theory. The structuralist theory of development grew and was reinforced by the contributions of other great Latin American economists, contributions that were facilitated by the institutional framework provided by ECLAC. This theory was also nourished by its commitment in Latin America, the importance it gave to policy recommendation and technical assistance.

The objective of the Commission was to produce an economic theory adapted to the socio-economic structure and to the development challenges of the region. It also aimed to provide technical assistance to member countries in the training of officials in these countries, in statistical elaboration, in economic analysis and in the proposal of economic policies. Indeed, technical assistance missions of training had as a goal to increase the number of experts in the government with capacities to elaborate and implement a development plan. The missions could also have the objective to send ECLAC experts to gather data and create statistics, sometimes through the collaboration with local institutions such as development banks (United

Nations, 1956) or through cooperation with local governments (Furtado, 1985). Technical assistance could also consist of ECLAC experts sent to countries to study their economic situation and provide an extended report with the analysis and policy proposals.

For ECLAC's influence in the region, a certain unity at the theoretical level was important in order to have a coherent speech; ECLAC's economists had to share similar visions of economic development. Prebisch had laid down the fundamental principles of the structuralist theory of development in 1949, which heralded the theoretical direction the institution would follow. However, it was not just Prebisch who formed the institution and who had these ideas. Among several other economists, Celso Furtado and Aníbal Pinto⁸ agreed with Prebisch's vision for development. The three economists shared the same goals and the same methods to achieve development.

ECLAC also had to be in agreement with its member countries and benefit from their support. I show that at the beginnings of the Commission the delegates of the member countries supported its work in the region, in particular its technical assistance. They called for more interventions from the Commission, in particular regarding the training of experts in their countries.

Finally, I show that ECLAC, through its technical assistance in the 1950s, was able to forge links with national institutions, which increased the influence of the former in the region. Technical assistance missions allowed the Commission to obtain important data for analyzing

⁸ Celso Furtado joined ECLAC from 1948 until 1957 where he was the Director of the Development and Planning Division, and from April to September 1964 at ILPES-ECLAC. Aníbal Pinto joined ECLAC in the mid 1950s and held a variety of positions, notably as the Director of the ILPES-ECLAC office in Rio de Janeiro (1960 to 1965), Director of the Development and Planning Division (1970-1979), and the Director of the CEPAL Review from 1986 until his death in 1996.

the economic situation of the countries, but it could also suggest important reforms for the structural change of countries, a topic developed in the subsequent chapter.

Prebisch's development thought is studied to some extent in this chapter, an aspect that has been widely studied by the secondary literature (Bianchi and Salviano 2006; Couto 2007; Ferrer 2010; Gurrieri 2016; López 2020; Ocampo 2001; Rodríguez, 1980; Salem 2008). His development thinking is used as a reference to explore the subject of theoretical unity within ECLAC and to analyze the evolution of Prebisch's writings, which leaved behind important monetary subjects.

Chapter 5. Conditions for the emergence of the thinking of an institution

This chapter analyzes the conditions in which ECLAC staff members conducted their theoretical work. They were characterized by strong synergies between prominent economists, but also by some limitations to intellectual work conducted within an international organization. The need to maintain a good relationship with member governments made it difficult to formulate severe criticism in the official institutional reports made for member countries (Furtado, 1985). This was particularly true for unsigned documents, as they represented the official position of the institution. I use for this analysis three different types of documents: an official ECLAC report on Brazil (United Nations, 1956), the autobiography of Celso Furtado (in which he refers to a document he co-authored on income inequality in Mexico) and some works of Nicholas Kaldor on Latin America (mainly Chile). The three documents present an analysis and policy recommendations regarding income distribution in the mentioned countries. This is an interesting exercise because ECLAC had not given that much importance to the subject yet, as Prebisch considered that it was “naturally” solved with industrialization (Prebisch, 1980) (see also Sprout 1992).

The official report on Brazil was one of the first reports resulting from ECLAC technical assistance and cooperation with a national institution, in this case the Brazilian National Bank for Economic Development (the BNDE) (United Nations, 1956). This is an example of in-depth analysis of national Latin American economies, that ECLAC conducted at the time, and contributed to identify specific development challenges and to better design appropriate policies. This report is also of main importance because Celso Furtado was the head of this joint ECLAC-BNDE group (Furtado 1997, p. 11). According to him, the report it produced was “the basis of the Jucelino Kubitschek government's Plano de Metas⁹” (ibid), an element that Kathryn Sikkink (1989, p. 104) mentions, although she has not analyzed the report. It is also mentioned in *Introducción a la técnica de programación* (United Nations 1955, Chapter 3 written by Furtado), a text also found in *Cincuenta años de pensamiento en la CEPAL* which is Bielschowsky’s selection of ECLAC’s most important works for the first 50 years after its creation (Bielschowsky, 1998). It was also one of the first reports resulting from the Commission’s technical assistance and cooperation with a national institution. I will investigate why despite its numerous contributions, this report’s policy propositions on income distribution were not fully satisfactory and were, to some extent, contradictory. I try to understand these shortcomings by linking them to the nature of the report, the difficulty of criticizing a member country or of cooperating with a different institution.

These limitations are brought to light, for instance, by Celso Furtado’s account of his own experiences within ECLAC’s technical assistance missions in Mexico and Venezuela (1956-1957).

⁹ The “Plano de Metas”, or target program, was a program of industrialization that was launched in 1956.

While most of ECLAC documents were anonymous, and as such conveyed an institutional view, in some cases the works elaborated within the institution were signed, meaning that they might represent the author's opinion rather than that of ECLAC itself.

This may be a reason why the writings of Nicholas Kaldor on Latin America between 1959 and 1965 contrast with the joint CEPAL-BNDE report, as they provide a clearer analysis of income concentration in Chile and concrete propositions for a fiscal reform. These works partly resulted from Kaldor's stay at ECLAC in 1956, and some were published there. These were non-anonymous texts by an external consultant, which might explain why Kaldor had more freedom. However, as we will see, this freedom was not without limits: after his work on Chile sparked a controversy in 1958, it could not be published in the Economic Bulletin of ECLAC (Palma and Marcel, 1989).

Chapter 6. The structuralist theory of inflation: elaboration and scope of an institution's thought

In this chapter, I address the question of how ECLAC as an institution elaborated an economic theory. Because of the importance of the structuralist theory of inflation, there is a rich literature about the subject, in particular contemporary to the debate (see Olivera 1960; Aaron 1967; Baer 1967; Randall 1967; Thorp 1971; Canavese 1982, among others), but also more recent. Indeed, the past twenty years saw a renewed interest on the structuralist theory of inflation and the debate against monetarism. For instance, Esteban Pérez Caldentey (2002) tried to assess the real differences between the structuralist (and neo-structuralist) theory of inflation and the monetarist approach of inflation and considered that the structuralist theory of inflation did not succeeded to offer an alternative to the monetarist analysis. Colin Danby (2005) focuses on Noyola's approach to inflation, analyses some theoretical influences and argues for considering it more as "institutionalist" rather than "structuralist". Mauro Boianovsky (2012)

studies the structuralist-monetarist debate on inflation and economic stabilisation programmes in Latin America, giving a special emphasis on Celso Furtado's contributions to both the theoretical debate and policy proposals to stop inflation. He shows that Furtado had a central place in the elaboration of the structuralist analysis of inflation, and argues that Furtado strongly influenced Noyola's theory of inflation. Fajardo (2015) analysed the ECLAC-IMF debate on inflation, by focusing mostly on the Argentinian, Brazilian and Chilean experiences of inflation and the political responses, and less on the theory itself.

I will show that that the structuralist theory of inflation was the result of the particular ECLAC institutional setting, and that it illustrated the thinking of an institution. Indeed, I reconstruct the theory through different writings of the Commission's economists, but also through official institutional works. I show that this contribution was a response to a theoretical and policy debate against the IMF, that pushed the institution to adopt an official position based on the theory elaborated by its staff. The structuralist theory of inflation was also coherent with ECLAC's development theory and policy recommendations. While it could be taken separately, it forms an integral part of the Latin American structuralist development theory.

I compare this theory with Kalecki's writings on inflation, showing that its influences and scope went beyond Latin America and Latin American structuralism. I also study the IMF's theoretical position and policy recommendation regarding inflation in the 1950s. I place the theory in its economic context since persisting inflation was a common problem for most Latin American countries since the 1940s. From very low levels in the 1930s, the annual average inflation rate jumped to 21% in Mexico in 1940-1945, to around 20% in Argentina, Chile and Peru in 1946-1950, and reached 49% in Chile in 1951-55, 43% in Argentina and 23% in Uruguay in 1956-60, and 65% in Brazil in 1961-1965 (see table 7, chapter 6). Besides, the theory was the result of the authors' opposition to the stabilisation plans proposed by the IMF

(1955-1956), which collided with the development recommendations of ECLAC. The structuralist theory of inflation proposed an alternative understanding of inflation as a structural phenomenon that had to be combated through long-term development policies. They contradicted the “monetarist” conception of inflation posited by the IMF and its policy recommendation that they considered harmful for Latin America. I show that the originality and the strength of the structuralist theory of inflation resides in its political, institutional and intellectual contexts taken all together.

Once again, through this theory we find ECLAC’s will to maintain intellectual, economic and political independence in Latin America.

First part. Raúl Prebisch from 1930 to 1948: the shift in his theoretical framework

Introduction: a changing international context

The evolution of Prebisch's thought during the period 1930-1948 was greatly linked to the changes that occurred in Argentina at that time. This period was one of great changes in economic theory and policy worldwide; hence, before entering in the core of the subject, a more global picture on some of those changes can be necessary. Of particular interest are the generalization of State intervention and economic planning, as well as the rise of Keynesianism as the dominant economic theory instead of liberalism.

The advent of the Great Depression followed by the Second World War forced governments to intervene in the economic sphere, breaking with the liberal tradition of the 19th century. World trade fell by 60% between 1929 and 1932, and the need for States to raise barriers and protect their national economies in response to the Depression continued to undermine multilateral trade. While these measures were mostly a short-term response, they had a long-term implication, as “the Great Slump destroyed economic liberalism for half a century” (Hobsbawm 1994, pp. 94-95). Western governments needed to address the problems of massive unemployment (Myrdal 1951, p.22), as it had proven to be socially and politically explosive, and Keynesianism became greatly influential in both the economic and political spheres (Hobsbawm 1994, p. 95). As a consequence, modern welfare systems started appearing in industrialized countries, normalizing State intervention in the economy (but the term welfare state was used after the 1940s) (ibid, p. 96).

However, beyond State intervention, economic planning became the norm¹⁰; it was not a temporary response to times of war or depressions anymore, as was the case in the 1930s with the New Deal (Myrdal 1951, p. 6; Christian, Kott and Matějka 2018, p.4). USSR's industrial performance during the period 1929-1940¹¹ contrasted with the stagnation of Western industrialized countries, and it was a consequence of its Five Year Plans. According to Hobsbawm, "echoing Russia's Five Year Plans, 'Plan' and 'Planning' became buzz-words in politics" (Hobsbawm 1994, p.96). Planning was everywhere – be it in Great Britain, Nazi Germany, France or the USSR (ibid, p. 96 and p. 272) – and was particularly prevalent in the postwar period where *laissez-faire* was no longer an option. According to Gunnar Myrdal, "there exists no alternative to economic planning. There is, therefore, no case to be made for or against economic planning, for or against free enterprise or free trade" (Myrdal 1951, p.40). The question was rather which type of planning should be adopted (Christian, Kott and Matějka 2018, pp. 1-2). Indeed, during the Cold War planning was adopted by both the East and the West, hence they shared similar tools even if their policies differed (ibid, pp. 5-7). For instance, Myrdal¹² wrote in 1950:

¹⁰ Gunnar Myrdal contended that "economic planning" is tautological, as "the word 'economy' by itself implies [...] a coordination of activities, directed towards a purpose". He argued that the "notion of an automatic direction of economic life towards an inherent goal, was the fundamental metaphysical value notion underlying the economic doctrine of late eighteenth and nineteenth century liberalism. [...] it rationalized the entire system of hidden political premises that are often referred to as *laissez-faire*" (Myrdal, 1951, p.1). Hence, "this tautological notion [...] signified a conscious break with liberal economic thinking" (ibid, p.2).

¹¹ It rose from 5% of the world's manufactured products in 1929 to 18% in 1938. Besides, there was no unemployment (Hobsbawm 1994, p. 96).

¹² We will mostly use Myrdal as a reference on planning because he was the Executive Secretary of the UN Economic Commission for Europe (1947-1957) in a context where both socialist and capitalist economies were incorporating planning as a main tool for reconstruction, for using the resources of the Marshall Plan or for

I believe that there is a fundamental difference between, on the one hand, the economic planning which has followed upon political revolution in Russia [...] and, on the other hand, the economic planning which is gradually becoming the recognized frame of economic policies in Western democratic, industrialised countries (Myrdal 1951, p. 3)

According to Myrdal, the trend towards planning was not only the result of the Great Depression and the two World Wars. It was also the natural result of social changes in industrialized countries, in particular of new unions and organizations that affect the markets¹³ (ibid, pp. 9-12). These changes were important for Myrdal because as the population wished for more economic equality and income redistribution, “this drive for equality springs over into a more direct demand for State economic planning of production” (ibid, p.20). However, planning stayed a mostly national phenomenon and Myrdal deplored that there was no international planning nor a real international economic co-ordination despite the numerous international organizations that appeared at that time (ibid, pp. 32-33).

We will see in this part that Prebisch’s evolution corresponded to this trend. He accepted in the early 1930s State intervention as a means to exit the Great Depression, but it seemed to be only a “short-term” extraordinary measure. The more systematic role of the State in the economy appeared in 1934, along with Keynes’s influence (chapter 1). Keynes’s 1933 writings on the necessary intervention of the State were the most immediate influence, while his criticism of the gold standard did not seem to influence Prebisch at that time¹⁴. The need for an

transitioning towards a socialist system. Besides, Myrdal is relevant from the point of view of ECLAC, as he was a colleague in a UN Economic Commission at the same hierarchical position than Prebisch.

¹³ He will even contend that “all prices and wages and, in fact, all demand and supply curves, are then in a sense “political” (Myrdal 1951, p.14).

¹⁴ For more details on Keynes’s influence on Prebisch, see Pérez Caldentey and Vernengo (2015).

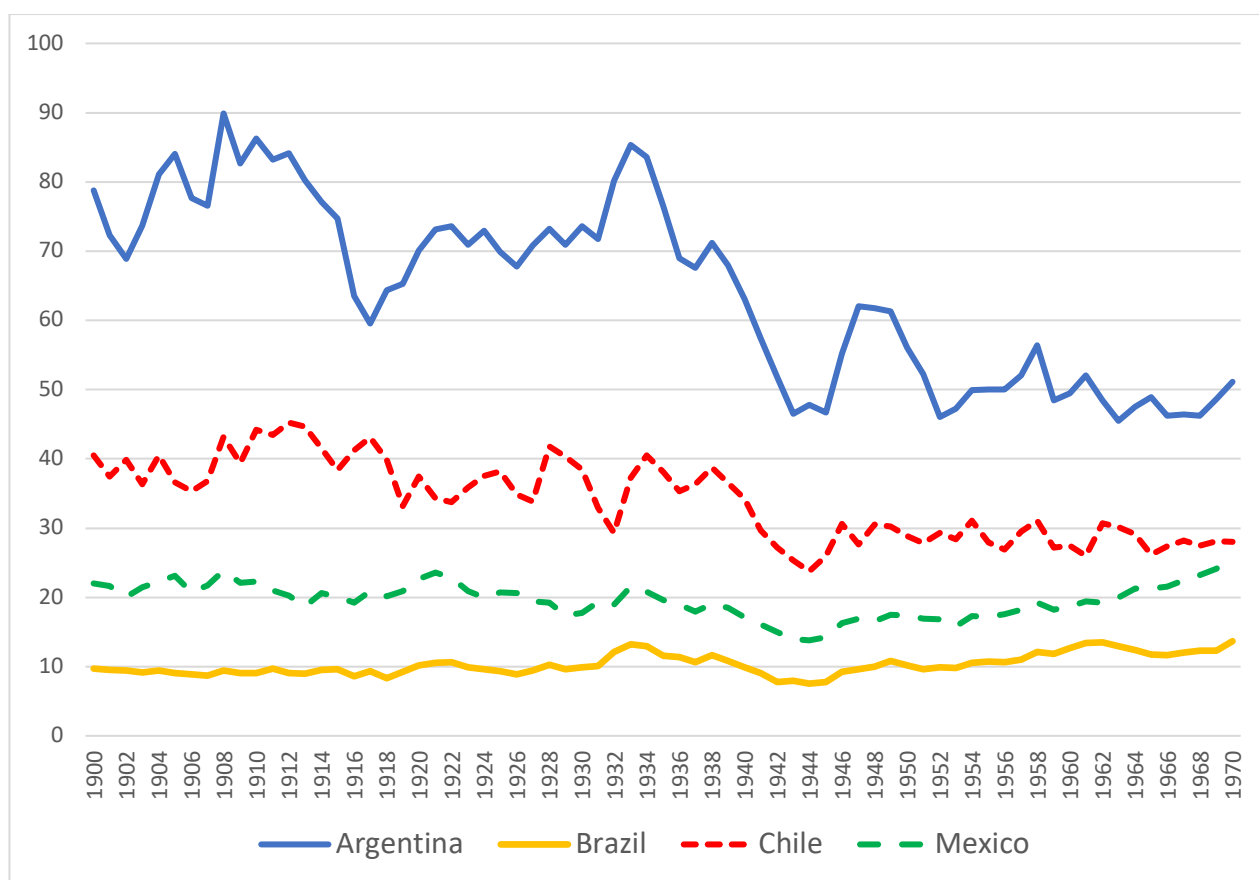
industrialization plan will only appear with the Second World War, in particular by the mid 1940s (chapter 3). However, the more explicit defense of economic planning will mostly appear at ECLAC in the 1950s, which will be studied in the second part of this thesis.

There were also significant macroeconomic changes in Latin America during that period. The First World War, the Great Depression and the Second World War (mostly the last two), ended up protecting and boosting national industry up to some point, providing a favourable framework to “import substitution industrialization”.

Within Latin America, Argentina was a singular case, considering its comparatively high per capita income and degree of industrialization (Figure 1). Indeed, by the 1880s, Argentina’s economic growth attracted European investors, despite a deteriorating macroeconomic and financial situation in the second half of that decade (Flores 2011, pp. 193-195). Due to its integration into international financial flows, the country had already suffered a large-scale financial crisis in 1890, the Baring Crisis¹⁵, “arguably the world’s first example of a modern ‘emerging market’ crisis, combining debt crisis, bank collapses, maturity and currency mismatches, and contagion” (IADB, 2007, p. 68). Being the most “advanced” economy in the region, while remaining an “agrarian economy” subject to commercial and financial shocks, Argentina provided a good empirical scenario to identify relevant development issues.

¹⁵ For a microeconomic analysis of the Baring Crisis, see Flores (2011).

Figure 1. Argentina, Brazil, Chile and Mexico: Per capita income as a proportion of the per capita income of the USA, 1900-1970, in percentages.



Source: Calculations based on Maddison Project Database 2008; values are in 2011 PPP dollars.

In the case of Argentina, in 1923 there were 40% more industrial plants and between 50 and 60% more workforce employed in the industry than in 1913 (Dorfman 1983, p.42). The part of the manufacturing industry in the GDP increased, in that period, going from roughly 17% in 1913 (with a drop to 15% in 1915) to 20% in 1925 and 25% in 1945 (see Figure 2, chapter 3). That tendency was accompanied by a qualitative modification of the industrial sector where textiles and heavy industry became more important in the 1930s and 1940s (see table 1). Especially interesting was the increase of the heavy industry, in particular the significant increase of metallurgy and chemical industry, that are more capital-intensive and need newer technologies than the textile industry. Table 1 shows that the industrial sector

became more diversified and the distribution of the manufacturing production, plants and workforce more balanced between foods, textiles and heavy industries.

These changes are coherent with what we will see in the following chapters, as they reflect the consequences of the new strategy of import substitution and industrial diversification adopted in Argentina in the 1940s.

Table 1: Industrial structure of Argentina in 1913, 1935 and 1946 (in % of respective totals)

	1913			1935			1946		
	Plants	Employed	Production	Plants	Employed	Prod	Plants	Employed	Prod
Food	40	33	58	31	27	42	22	23	34
Clothing, textile	20	19	11	15	21	20	20	23	26
Metal-mechanic industry	6	7	5	23	20	14	27	22	14
Chemical industries	1	3	3	3	5	10	3	6	11
Other	33	38	23	28	27	14	28	26	15

Source: adapted from Dorfman (1983, pp. 34, 48, 53)

Note: the author did not provide data on the other sectors of the industry in all the tables.

The 1930 crisis prompted widespread macroeconomic responses. Latin American countries that had returned to the Gold Standard were forced to abandon it. Those that had not created a Central Bank by that time, such as Argentina, established one after the crisis. These changes led to generalized currency devaluations and, in some cases, to active exchange rate policies that resorted to exchange controls, multiple exchange rates and imports regulation.

Even if these macroeconomic changes were mostly forced by the loss of international reserves and aimed at supporting export activities affected by depressed prices, they also

provided fresh stimulus to domestic manufactures and, by doing so, set the path towards structural change. They were soon reinforced by several measures that, going beyond short-term urgencies, created new institutions and tools in the hand of States. Governments could use them with a long-term perspective, spurring industrialization and developing economic infrastructure.

This was quite a general trend in Latin America. In 1939, the Chilean government created a public entity, the *Corporación de Fomento de la Producción* (Corporation for Production Promotion, CORFO), for the development of basic industries. In Brazil, the Getulio Vargas government not only followed protectionist policies, but also created new State-owned industries (most notably, the steel plant of Volta Redonda, in 1943). Mexican government nationalized oil in 1938 and stimulated industry through government procurement and the adoption of an Industrial Promotion Act (1946). In Argentina, political conservative governments (in which Prebisch served) created in 1933 the National Grain Board and the National Meat Board to regulate foreign trade; then the Peronist government reinforced its control over the foreign trade of those goods through the Argentine Trade Promotion Institute (IAPI, 1946). Furthermore, it nationalized railroads and public services, captured agrarian rent through the control of foreign trade, and established a “public banking system” (in which even private banks had to distribute part of their credit following public criteria) to finance the industrial sector. In Venezuela, the State managed to capture a large part of oil rent and created the Venezuelan Development Corporation (*Corporación Venezolana de Fomento*, in 1946) to promote the metallurgical and agro-industrial sectors. Moreover, Bolivia nationalized its oil resources (1937) and its tin industry (1952), and applied a vast agrarian reform (Rosemary Thorp, 1994 pp.136-145).

These developments that took place both in Latin America and in more developed countries, provided a background that open-minded economists, like Prebisch, were able to incorporate into their theoretical thinking and their policy advice.

Chapter 1. Prebisch's turning point in his theoretical framework: the key role of the Great Depression in Argentina

Until the early 1930s, Prebisch was an advocate of monetary and fiscal austerity and adhered to the quantity theory of money. He believed that only market mechanisms could guarantee an efficient economic recovery from the 1929 crisis and thus pledged for as little State intervention in the economy as possible. Adolfo Gurrieri (2001) and González and Pollock (1991) wrote about Prebisch's shift from "orthodoxy" to "heterodoxy"; Prebisch himself explained that he had a turning point after the Great Depression, in which he moved away from "orthodoxy" and the neoclassical theories he believed in (Prebisch, 1983). However, a more detailed examination of Prebisch's change of theoretical perspective and framework is an essential step to understand his development theory and the impact of the policies he advocated for Latin America.

This chapter aims at showing that his shift is deeply intertwined with the economic, social and political situation of Argentina from 1929 to 1935 and was influenced by the major changes in the dominant economic theories. It asserts that this theoretical change was possible because Prebisch's goal was mainly to propose policies that could have an impact on the economic situation, and not theories which could end up being disconnected from reality. Finally, it contends that this mind-set allowed Prebisch to go towards a development theory that he would continuously seek to improve and enrich.

The period under examination goes from 1930 to 1934, during which Prebisch worked in the Banco de la Nación Argentina¹⁶ (BNA, in English Bank of the Argentine Nation) (1927-1935), was Undersecretary of Finance (1930-1932), and counsellor to the Ministry of Finance and the Ministry of Agriculture (1933). I study some of Prebisch's writings produced mostly from within public institutions. However, a strict chronological order of Prebisch's evolution will not be followed. Indeed, it was a long process and not an abrupt change, as he went back and forth between his past beliefs and new theoretical proposals depending on the object of his writings: if an economic necessity arose he would adapt his policy advice, but he would go back to more classical stances when writing about his theoretical views.

This chapter is structured around two main parts. The first will briefly present the economic background and focus on Prebisch's "orthodox" approach to address the Great Crisis, which mostly consisted on reproducing the main elements of the quantity theory of money and focusing on fiscal discipline and monetary stability as the primary goals of policies during the depression, with the belief that the economy will recover on its own. The second part will show how he started changing his views, progressively proposing policies that were more adapted to the Argentine economic structure, and sacrificing monetary stability to address the problem of increasing unemployment, distress selling ("liquidations") and bankruptcies. He will end up advocating for State-led policies in order to help the economy recover after a depression.

¹⁶ The BNA was performing most of the tasks of a Central Bank in Argentina.

I. The adherence to the quantity theory of money: pro-cyclical policies and monetary stability are key to recover from the crisis

Prebisch studied between 1918 and 1921-22 at the Faculty of Economics of the University of Buenos Aires, which conveyed the theories taught in Europe before the First World War¹⁷ (Dosman 2010, p. 55), and from 1922 he held positions of increasing responsibility in public institutions. It is therefore important to understand the context in which he was educated and formed as an economist before we analyze Prebisch's early thought.

In the Argentina of the end of the 1920s and early 1930s, despite the Great Depression, there seemed to be good reasons for adhering to classical theories and to the agrarian export-led growth model. Firstly, Argentina seemed to constitute a "success story" of both, having witnessed an extraordinary growth in the previous 50 years. Secondly, the country had already suffered and overcome several cyclical crises, including the very deep one triggered by the First World War. Views in favour of maintaining this growth model and prevalent economic policies seemed legitimated by experience.

Hence, at the beginning, the 1929 crisis was considered as a normal cycle and Prebisch's stances and policy proposals were mainly consistent with the Quantity Theory of Money. Yet, he did not propose overly restrictive monetary policies to avoid further depressing the economy.

¹⁷ Among the authors figured Marshall, Ricardo, and Fisher. In particular, Fisher's *Purchasing Power of Money* had an important influence on Prebisch, mainly during his student years (Sember, 2013).

A) The economic and social context

The concentration of the land property, massive immigration and a robust economic growth.

Argentina's export-led growth model started producing remarkable results around 1880. The culmination of the long, difficult and violent process of institutional organization of the country provided a favourable framework for rapid economic expansion and social transformation. One factor for that expansion was the incorporation of vast fertile territories previously occupied by the indigenous people (the Mapuche). This "Conquest of the Desert" campaign resulted in a further concentration of land in the hands of a few individuals. As a result, the *latifundios* – a great extension of land in the hands of one owner – were the main organization of agrarian production, and used mainly extensive methods of production.

However, workforce was needed to cultivate the lands and the Argentine population was not sufficient (1 750 000 inhabitants in 1869). Hence immigration was the second major factor of the economic boom. Active government promotion (with the 1876 law of *Inmigración y Colonización*¹⁸), perspectives of relatively high wages and an expanding migrants' network (since the friends and family of the immigrants often joined them; see Míguez, 2011) led to a spectacular demographic growth from the 1880s to the 1929 crisis. Indeed, from 1857-60 to 1931-35, the balance between immigration and emigration was 3 502 665, with a peak of 1 120 220 in 1901-10¹⁹ (Cortés Conde, 2000, p. 278).

The third major factor was the investment in infrastructure, with the creation of an extensive railway network and new port capacities. Indeed, a large quantity of foreign capital,

¹⁸ This law opened the chance for immigrants to buy small portions of land; it opened agencies in Europe to promote emigration to Argentina; and even covered the expenses of the trips from 1888 to 1890.

¹⁹ The 1914 census recorded a total population of 7.9 million, 30 per cent of which were foreigners.

mainly British, had been invested in railways that connected the agrarian zones with the main ports.

Between 1875 and 1913, the economy expanded at 6.7% per annum and 3.7% in per capita terms (Cortés Conde, 2000, p. 267). This growth was largely owed to its very competitive and expanding export economy: by mid 1920s, "Argentina furnished 66% of the world export of maize, 72% of the linen, 32% of the oat, 20% of the wheat and wheat flour, and more than 50% of the meat"²⁰(Ferrer, 1963, in Cantón, Moreno and Ciria 2005).

The average standard of living in Argentina was quite high: income per capita was similar to most of Western Europe, and illiteracy had fallen (Rock, 1986)²¹. Argentina was often considered as part of the high-income countries (see figure 1). However, there were important social inequalities. Labourers were precarious workers, often seasonal employees or immigrants. Some of them returned to Europe after the seasonal harvest, and others rented the lands in order to harvest them. The latter often faced abusive situations, which led to a series of protests throughout the period going from 1910 to the Great Depression. We can mention the Pampa farmers' protest of 1910, the "Grito de Alcorta"²² of 1912, the Patagonia Trágica in 1921-1922²³, and the 1928's demonstration of rural workers in Buenos Aires (Balsa, 2012).

²⁰ To some extent, Argentina's exports were quite diverse regarding the different primary products it offered.

²¹ Furthermore, by 1930 there were 435 000 automobiles, which was more than in many Western European countries according to Rock (1986).

²² Led by the *chacareros* (small and medium farmers), the main claims of the protest were to have a minimum of 4-year contracts, the right to build better and bigger homes, and to be able to sell the products to whomever offered the best deal.

²³ The wool workers in the Patagonia went on a strike to complain about excessive working (between 14 and 16 hours daily) for a negligible wage. However, this protest was led by anarchists and was violently suppressed: the

The central role of agriculture was not an obstacle to some economic diversification: by 1914, 31% of the workforce was employed in the primary sector, the same share in the secondary sector, and 38% in services (Míguez, 2011). The secondary sector expanded significantly its share in total employment and value added since the 1890s (Míguez, 2011; Regalsky, 2011). A significant part of it revolved around the processing of the Argentine primary products or was held by foreign investors (except the petrol industry in which the government-held YPF produced most of it)²⁴. However, with the economic growth and the developing of an internal demand, the domestic industry diversified mainly around manufactures and the textile industry. The number of manufacturing establishments doubled from 1895 to 1914, and by mid 1920 these employed around 530 000 people (Míguez, 2011). However, the industry could hardly compete with more advanced manufacturing producers.

An experience of frequent cycles

Having insufficient industrial production, Argentina was very dependent on its imports of manufactured goods, especially of capital goods and industrial inputs. For instance, in 1929, machinery, capital goods and industrial inputs represented 63% of total Argentine imports (Gerchunoff and Llach 2018, p.132). It was thus subject to frequent cycles following the changes in world prices of both its exports and imports. Depressions in Argentina followed the cycles of Europe, that were transmitted through the decrease of the prices of Argentine exports. This in turn reduced the quantity of imports and the major source of revenue for the State,

workers were tortured, the leaders were killed along with half of those who had surrendered. Around 1500 rural workers were killed.

²⁴ For instance, there were important meatpacking industries (which were mainly held by US companies), but also sugar, wine and other industries revolving around the wheat production.

which depended mainly on the export and import tariffs. When a depression brought a decrease in the volume and the prices of exports, the State faced debt problems and had to adjust its expenditure (O'Connell and Seibert, 1984; Bulmer-Thomas, 1994). But even deep depressions were followed by significant recoveries: after the Baring Crisis in 1890 the economy grew at 6.7% per annum until 1913. During the First World War, with falling prices of the agricultural exports and rising prices of imports, the GDP fell 10.4% in 1914; it recovered the following year with a growth of 0.5%, but fell again in 1916 (-2.9%) and 1917 (-8.1%). After the War, GDP growth recovered, with an average of 5.8% per annum between 1919 and 1929 (Gerchunoff and Llach, 2018, statistical annex).

Therefore, in the early 1930s, there was no sign that the economy would not recover by itself after a crisis, and the export-led growth model was not confronted to harsh criticism. Thus, the traditional mind-set at the time of the crisis made sense in Argentina: there was no need for counter-cyclical policies, and even less for a change in the growth strategy. Trying to recover the previous economic functioning was also justified by its remarkable achievements in the previous decades.

Despite its magnitude and worldwide extension, it was generally thought in Argentina that the 1929 crisis only constituted a phase in a cycle as the previous ones, and that recovery was going to happen without the need of State intervention. In June 1930, Prebisch considered the crisis to be a “general and transitory phenomenon” (Prebisch, 1930, p. 634):

[It was] a process that due to its characteristics, [...] is similar to those cyclical movements that happened systematically before the War, alternating growing activity, recession, stagnation and recovery.

In an interview later in his life, Prebisch recalled about the 1929 crisis:

The United States's press said that recovery was around the corner. I believed in that, based in the normal economic cycle. Thus, I thought that we had to prepare for recovery (González and Pollock, 1991).

The following tables illustrate the situation of Argentina before (1928), during (1929-1933), and after the crisis (1934-1935). These two tables present some differences, partly due to the authors using different units (current and constant pesos); but, taken together, they show the general trends we want to highlight.

Indeed, we find in both tables that the terms of trade greatly deteriorated from 1929 to 1933, and recovered slightly in 1934 without reaching 1913's values. Despite some discrepancies in the trade balance for 1928 and 1929, both tables show that 1930 was the harshest year for trade in Argentina: values of total exports had greatly fallen, but the values of total imports didn't diminish as much. This is partly due to the deterioration of the terms of trade: import prices fell, but not as quickly as export prices as shown by O'Connell and Seibert (1984)²⁵. We can also see, for instance, that the price of wheat, which was one of the main exports of Argentina, had fallen from 9.68 pesos per ton in 1928, to 5.56 pesos per ton in 1930. After 1931, the trade balance recovers due to a drastic fall in imports. This was due to the different policies aiming to control imports, such as exchange control. On the other hand, we can see in table 2 that GDP deteriorated in 1930, 1931 and 1932, and table 3 shows that the ratio of consolidated government deficit / GDP had risen in 1929 and 1930. Finally, table 3

²⁵ "From peak to trough – 1928 to 1932 – export prices for Argentina dropped 64%. As import prices fell 41% in the same period the external terms of trade declined "only" 40%" (O'Connell and Seibert, 1984, p. 172)

shows that investment falls greatly in the midst of the crisis, as it was to be expected, and starts to recover in 1933, coinciding with the recovery of GDP growth shown in table 2.

Table 2: Argentine Foreign Trade Indicators and GDP growth, 1928-1935 (in million pesos moneda nacional, index numbers and per cents)

Year	Exports	Imports	Balance	Wheat price	Terms of Trade	GDP Growth in market prices (%)
1928	2 397	1 902	495.0	9.68	97.0	6.2
1929	2 168	1 959	208.5	8.79	90.4	4.6
1930	1 396	1 680	-284.3	5.56	79.1	-4.1
1931	1 456	1 174	282.0	6.40	60.3	-6.9
1932	1 288	836	451.5	5.28	58.7	-3.3
1933	1 121	897	223.7	6.07	56.9	4.7
1934	1 438	1 109	328.5	7.28	68.6	7.9
1935	1 569	1 175	394.4	10.52	70.3	4.3

Import data is calculated in real values. Terms of Trade, 1913=100

Source: Mario Rapoport (2000)

Table 3: Argentina Foreign Trade Indicators, Investment and Deficit/GDP (Real variables, million of paper pesos at 1913 prices and percentages)

Year	Exports	Imports	Balance	Terms of Trade	Investment	Consolidated Government Balance/GDP (%)
1913	1 805	2 270	-465	100	579	-0.8
1928	2 901	2 991	-90	99	900	-1.7
1929	2 847	3 048	-201	90	1 029	-2.3
1930	2 100	2 533	-433	88	871	-4.3
1931	2 871	1 651	1 220	65	533	-2.7
1932	2 636	1 282	1 354	68	374	-1.8
1933	2 474	1 506	968	64	418	-1.7
1934	2 546	1 584	962	79	554	-1.8
1935	2 754	1 836	918	79	691	-1.2

Terms of trade, 1913=100

Source: della Paolera and Taylor (1999)

This fall in international trade was also felt in the total GDP, that diminished by 13,7% between 1929 and 1932 (Gerchunoff and Llach 2018, p. 139).

Capital flows also contributed to worsening the situation in Argentina. Indeed, between June 1928 and September 1929 there was a massive capital outflow linked to the Wall Street Bubble which contributed to a loss of 173 million dollars from Argentine reserves (ibid, pp. 133-134). When the Depression began, foreign capital became even scarcer, which worsened the balance of payment distress. As a debtor country, world deflation only contributed to increasing the real value of its debt, and the deterioration in the terms of trade mainly because

of the drop in exports made debt repayment even harder. The necessary reduction of imports had reduced government revenue since 60% of taxes were obtained through import tariffs in 1930. This forced the Argentine government to finance 40% of its spending through debt, but also to try reducing public spending and to look for new sources of income (ibid, pp. 136-137). Hence, there was a contraction of wages in the public sector and a diminution of public investment. In 1932 a new income tax was implemented, and it is important to note that Prebisch had written the decree-law for it²⁶, as we will see that he was involved in the policy solutions for ending the crisis. As we can see, the crisis had greatly affected Argentina because of its situation as an open economy greatly dependent on international trade and vulnerable to capital movement shifts.

We will now see how the crisis drove Prebisch to propose institutional changes such as the creation of a Central Bank that would allow more control on money, credit and foreign exchange transactions.

- B) The project for a Central Bank, the return to the gold standard and the control of credit

The late creation of the Central Bank and its foreign influences

Until 1935, Argentina didn't have a Central Bank: the Banco de la Nación Argentina (BNA) and the Caja de Conversión (currency board) fulfilled most of the functions of a Central Bank. The Caja de Conversión was a financial institution created in 1890 for maintaining the

²⁶ In the following sections, this measure is not particularly analyzed as it was not a pillar in Prebisch's changing thought. However, it is worth noting as a part of his search for solutions to recovering from the Depression.

gold conversion of the peso and issuing the paper money²⁷. The BNA, created in 1891, was supposed to be in charge only of the credit operations (Pontón, 2013). However, the BNA was ultimately serving almost as a Central Bank²⁸ although this was primarily not its role.

The creation of a Central Bank came late in Argentina, compared to many Latin American countries. For instance, the Central Banks of Chile (1925), Colombia (1923), Ecuador (1927) and Peru (1922) were created following the missions of E. W. Kemmerer, a "money doctor" from the United States²⁹. This delay was probably due to two reasons. Firstly, that decade proved prosperous, and the need of having a more performing financial institution did not rise. Secondly, no financial advisor such as E. W. Kemmerer was sent from the United States to Argentina, since it was, with Brazil, mostly under the influence of Great Britain, whereas Chile and the other countries had been closer to the U.S.A.

The idea of having a Central Bank had been explored previously, in 1917, when President Yrigoyen and his government tried to create an institution very similar to a Central Bank –the Banco de la República– without succeeding because of an important political opposition (Rapoport, 2010). However, after the 1929 crisis, the monetary and financial system showed its shortcomings and the urgency of reforming it. The Caja de Conversión had failed

²⁷ It was only active from 1900 to 1914 and from 1927 to 1929, since before 1900 gold reserves were too scarce (Pontón, 2013).

²⁸ The BNA was in charge of rediscounting, it was lender of the State, had the Government deposits, was the clearinghouse, and was considered as being the main bank in relation to the provincial banks (Prebisch, 1934c, p. 355)

²⁹ According to Drake (1989), financial advisors from the U.S. had been sent in the continent to protect U.S. economic and political interests and help accomplish diplomatic objectives. Thus, in his counselling for the creation of these Central Banks, Kemmerer proposed approving laws similar to those of the United States, and recommended having administrators from the U.S. (Drake, 1989, p. 19-20).

to control the outflow of gold during the times of crisis as well as the excessive money emission in times of inconvertibility (ibid). Furthermore, Prebisch argued that the BNA was overwhelmed and advocated for the creation of a Central Bank that could efficiently manage the Depression (Prebisch 1932 p. 62, 1934 p. 355). In 1931, an informal commission was created to elaborate a project for a Central Bank in Argentina, and in its Memorandum³⁰, Prebisch expresses his concerns about the crisis and the situation of the commercial banks in that context. He insists on “the necessity of successfully facing every banking hardship, the urgency of amortising the floating debt, the interest of following a program of fiscal and monetary adjustment”, and a Central Bank seemed to be necessary to accomplish these goals (Prebisch 1931c, p. 18). Since 1931, Prebisch worked actively in those projects for a Central Bank. Prebisch’s economic thinking at that time is clearly reflected in the article « Project for the creation of a Central Bank»³¹- written by him and approved by the members of the commission.

Even if most of the projects for a Central Bank came from an Argentine team, Sir Otto Niemeyer, a British money doctor, had an influence in the plans for a Central Bank in Argentina. Niemeyer was invited for counselling by the Minister of Finance, Alberto Hueyo in 1932, and wrote a report in 1933 (Fodor, O’Connell and Santos 1973; Carvalho Loureiro de Souza and de Paiva Abreu 2011; Rapoport 2010). Niemeyer’s proposal was revised by Prebisch

³⁰ Published in the *Revista Económica* of the BNA in 1934. It was signed by President Uriburu but was written by Prebisch in 1931, based on the statements of Prebisch and of Ernesto Malaccorto (M. Fernández López, 1991).

³¹ The article does not have a clear writing date and first publishing date. It was reprinted in 1972 in *La creación del Banco Central y la experiencia monetaria argentina entre los años 1935-1943*, Central Bank of the Argentine Republic. However, according to M. Fernández López, it was written when the commission for a Central Bank was created, in 1931.

in 1934, before the project of law was presented by the Executive Power to the Congress. We can see in that project that Niemeyer's advice was integrated in some aspects. Indeed, Prebisch supported, like Niemeyer, the independence of the Bank from the Government (Carvalho Loureiro de Souza and de Paiva Abreu, 2011); he also quotes Niemeyer on the principle of selecting the Bank's board members from different sectors of the economy (Prebisch, 1934b, p. 364). Niemeyer is also quoted regarding the relation of the Central Bank with smaller banks (ibid, p. 365). However, the two last points were already present in the project of 1931, before Niemeyer went to Argentina³², and overall the project adopted in 1935 was different from Niemeyer's (Rapoport 2010; Sember 2010, 2012, 2018), maybe because at that time, Prebisch's thought had evolved further away from classical theory³³.

The project of returning to the gold standard

The Project for a Central Bank of 1931 was an unfinished project³⁴. It establishes that the Bank would be the only institution able to issue paper money, and its main objective would be to "guarantee the gold convertibility of its paper money at the exchange rate fixed by the monetary law" (Prebisch 1931c, p. 8). Its duty would be to exchange the foreign currencies into gold, to exchange gold for Central Bank notes, as well as Central Bank notes to gold within a limit of 35kg of gold per transaction (ibid, p. 12). The Bank should also have a permanent

³² There are several possible reasons for this. These ideas could have been shared and developed by different authors in Central Bank discussions. Also, Prebisch could have previously read Niemeyer's works and advice for other countries, such as Brasil and New Zealand in 1930, but didn't quote him in 1931. Finally, Prebisch could have developed these ideas without Niemeyer's influence, but wanted to legitimize these ideas by mobilizing Niemeyer's influence.

³³ I will further study the originality of the Argentine Central Bank and Prebisch's influence in its creation in the next chapter.

³⁴ The project of 1931 often misses exact numbers or percentages by leaving a blank symbolized by "...".

gold reserve in relation to the circulating paper and to the deposits, the minimum being 40% of reserves: if it were lower, the Bank should pay a tax to the State (ibid, p. 13). The other banks, foreign or national, having more than 1 million *pesos moneda nacional* should have assets in the Central Bank in proportion to their capital, and they should have deposits in the institution³⁵.

The insistence we find in the project for a Central Bank for the return to the gold standard could seem surprising given that Argentina had operated most of the time without it. The country often alternated the phases of convertibility and inconvertibility: the gold standard was valid only from 1867 to 1876, from 1881 to 1885, then from 1903 to 1914, and finally from 1927 to 1929 (Prebisch, 1931c) (Salvucci, 2006). After 1929, Argentina never came back to the gold standard. However, given that Argentina had moved back and forth to the gold standard, the commission could have considered that the return to it was likely and thought it was the ideal policy for monetary stability in Argentina. Indeed, the gold standard provides in theory self-adjusting mechanisms which regulate the quantity of money in the country and which would guarantee monetary stability.

Argentina was not an isolated case of going back and forth to the gold standard. After the First World War, the gold standard had been suspended or abandoned in many countries, and events such as the Genoa Conference in 1922 wanted to reinstate it. At that time, it was still difficult to conceive a system other than the gold standard, that was restored in several countries after 1925. Nevertheless, the discussion on the return to the gold standard featured important opponents such as Keynes's, as we can see in *A Tract on Monetary Reform* (1923), and this discussion was still taking place in the 1930's after the crisis, as we can see in Keynes's *A Treatise on Money* (1930). Discussions around the gold standard were likely to have reached

³⁵ These monetary policy goals of the Central Bank correspond to some of Hawtrey's views after the First World War on monetary stability under the gold-exchange standard (Hawtrey 1923, p. 64-65).

Prebisch when he was starting his professional life in government institutions related to foreign exchange and banking³⁶, and during the Great Depression.

In accordance with Pérez Caldentey and Vernengo (2016), we consider that it is possible that Keynes's 1923 book had some influence on Prebisch's arguments in 1932, although we do not see his influence on Prebisch in 1931 regarding the discussion about the gold standard and monetary policy. Interestingly, in *A Tract on Monetary Reform*, Keynes considers that the gold standard is "a barbarous relic" (Keynes 1923, p. 172) and provides numerous arguments against it, but he also explains why the standard is still being favoured worldwide: it provides "a reasonably stable standard of value"; and it may be better than a managed currency because the "governing authorities lack wisdom as often as not" (ibid, p. 164). Furthermore, the stability of exchange provided by the gold standard is "a convenience which adds to the efficiency and prosperity of those who are engaged in foreign trade" (ibid, p. 155)³⁷. If we consider the central role of foreign exchange in the Argentine economy, the gold standard could provide great advantages in theory, and this argument could have been fundamental for Argentina.

³⁶ In 1923, he worked in the Ministry of Finance; in 1924 in the Ministry of Agriculture; and from 1927 to 1935 in the National Bank of Argentina.

³⁷ Keynes contends that the "pre-war system for regulating the international flow of gold" is "inapplicable to post-war conditions" (1923, p. 159). The new context has unstable external price levels, and the gold standard fails to maintain both stability of exchange and stability of prices. He argues that a choice has to be made, and price stability has been recognized as a more important goal: "all of us, from the Governor of the Bank of England downwards, are now primarily interested in preserving the stability of business, prices and employment" (ibid, p. 173).

Keynes also mentions that "enlightened advocates of the restoration of gold, such as Mr. Hawtrey" understood that the gold standard cannot return as it was before the First World War, but want it nevertheless as a "constitutional monarch" because of "the force of sentiment and tradition" (ibid, p. 173-174).

We can see that the gold standard had a great academic and symbolic importance, and Keynes's fight against the standard had not had enough influence. The gold standard will start losing its prominence after the Great Depression: Great Britain abandons the convertibility in 1931, the United States in 1933, France in 1936, etc. In 1932, Prebisch's concerns are not the gold standard and gold convertibility of the peso anymore, but rather the necessary devaluation of the peso as we will see later. The 1934 project for a Central Bank actually represents a progressive departure from the gold standard, as we will see in section II- 3). However, it seems that Prebisch's change regarding the gold standard was not that much due to Keynes's influence than the global tendency.

Credit expansions weaken the financial institutions

In January 1932, while working in the Finance Ministry, Prebisch wrote and published a paper entitled « The emergency action amid the monetary problem ». In this article, he combines classical elements, such as monetary restriction, with new elements that go against the quantity theory³⁸. The ambiguity of this paper shows, in my opinion, how Prebisch was torn between his past theoretical stances, and the necessity to break the rules in emergency situations allowing some "heresies".

³⁸ He elaborates similar thoughts in a seminar he gave at the University of Buenos Aires in 1934, entitled "Depreciation and money inconvertibility".

Prebisch recalls the episodes of convertibility in Argentina, particularly the return to convertibility in 1927, and he focuses on the harm done by credit expansion. By 1927, cereals and meat were highly priced, and this resulted in high inflows of gold and foreign currency into the country, an increase in foreign investment and a surplus in the trade balance. Thus, in 1927 it was possible to return to the gold standard³⁹.

Prebisch explains that although desirable, the return to convertibility in 1927 was a mistake because it was not well planned, but was brought by the favorable international context for Argentine products:

[The country returned to the gold standard] adrift, dragged by the favourable circumstances that, in this case like in other cases in its financial history, spontaneously solved its problems without having to immediately bear with the cost of its errors and lack of foresight (Prebisch, 1932, p. 42).

Indeed, for him, the return to convertibility and the rehabilitation of the Caja de Conversión happened without solving monetary problems beforehand. Most notably, the existing “floating” (short-term) debt hadn’t been wholly consolidated, and yet the new exchange inflows were used in new government expenses. Also, access to credit was easier as interest rates decreased. According to Prebisch, growing imbalance in public finances was starting to be felt during the second half of 1928. This imbalance was due to the previous credit expansion and growing expenses following the inflow of gold and currency in the country. He also explained that the abundant funds of the banks pushed them to invest, which is

³⁹ Prebisch observed that between May the 1st 1927 and September the 1st 1928, metal stock in the Caja de Conversión increased by 180,5 million dollars.

“incompatible with the principle of liquidity of the bank assets” (ibid, p. 43) even if the investments are not intrinsically bad⁴⁰.

Prebisch contends that limiting the quantity of credit during the expansionary phase of the cycle is positive for the country, as its financial institutions can stay strong during crises. During the crisis of 1907 (triggered by the United States Panic), Argentina managed to maintain gold convertibility. For Prebisch, that was because there hadn't been an exaggerated credit expansion before 1907, which limited the outflow of gold and helped the Caja de Conversión stay strong in adversity. However, before 1913, there had been a massive gold inflow and the banks responded by expanding their credit. Prebisch explains that with the 1914 depression Argentina abandoned the gold standard because the previous credit expansion put the banks in the impossibility to face the withdrawal of gold.

We see that the main issue worrying Prebisch is abandoning the gold standard, since this would be a major cause of financial instability. Still, containing the credit expansion at a time of gold inflows goes against a (theoretical) central self-regulating mechanism of the gold standard system, according to which surplus (deficit) countries would experiment inflationary (deflationary) pressures, which would alter competitiveness and automatically correct balance of payment imbalances.

⁴⁰ It is interesting to note that this idea goes radically opposite to what later Keynes would write in the General Theory about “liquidity fetishism” and how it is harmful for the economy. Indeed, Keynes criticised the turn that finance was taking with an increasing importance given to stock markets, and the decrease of long-term investment because of its lack of liquidity. Keynes advocates for a return to the more traditional entrepreneurship where long-term investments are the source of business success, and not short-term asset placement where what matters is liquidity and profit.

This analysis of credit expansion and cycles, where excessive credit during cyclical expansions play a key role, is found in different authors. For Marshall, credit expansion in the upward phase of the cycle results in more intense cycles both in the upward phase and in the downward phase (Humphrey, 2004)⁴¹. However, Prebisch's analysis reflected the Argentine conditions, with a high vulnerability to shocks in foreign trade and financial gyrations, and the need of a still missing Central Bank for better controlling domestic credit⁴². How to address this external vulnerability to short-term capital movements and their negative impact on the domestic economic stability will be a key element of the counter-cyclical policies that Prebisch would conduct with the Central Bank (see chapter 3).

The Quantity Theory of Money in Prebisch's propositions

In 1932, Prebisch did not question either the efficiency of the gold standard or the relevance of the quantity theory, which was widely spread in the 1920s in Argentina as pointed out by Dosman (2010) and Sember (2013). Even the leader of the Socialist Party, Juan B. Justo, contended that money creation was responsible for Argentine monetary instability.

⁴¹ A similar analysis is found in Minsky's "paradox of tranquility" much in 1980. Minsky's theory contends that crises are formed during the upward phase of the cycle characterised by a boom. During the general euphoria, banks lower their standards and grant loans to less solvent agents – enterprises and individuals - that take financial risks. The turning point occurs when the Central Bank, concerned by the credit expansion, rises its interest rate. A panic occurs, the less solvent agents cannot repay, causing a financial crisis. This corresponds to Marshall's "excessive

⁴² Sember (2010, pp. 132-133) observes that, as early as 1921, Prebisch was aware of the destabilizing effects of capital movements, an idea that he may have taken from Tugan-Baranowsky.

Prebisch emphasises the fault of government expenditures and public deficit, of the Argentine monetary institutions and of the banking law: the policies implemented are the ones to blame.

A proper banking law would have avoided in time these diversions and those exaggerated capital immobilizations (Prebisch, 1932, p. 45).

Besides, since the Central Bank should aim at the return to convertibility, the peso should not further devalue. Prebisch expresses his concern about the use of inflationary policies as a way to ease the burden of the debt without solving the debt problem. Thus, inflationary pressures need to be curbed through the control on paper currency issuance and the quantity of money in circulation. Monetary austerity is thus the type of policy that the Bank should follow, as it should “regulate the amount of means of payment in circulation and the volume of credit in the country”.

Furthermore, to guarantee monetary stability the Central Bank should facilitate debt management:

The essential task will consist in allowing a gradual liquidation [...] of the non-performing portfolio and of the long-term investments of the banks, and not to facilitate new business, until the beginning of a new ascending phase for the country (Prebisch, 1931c, p. 24);

In solving the floating debt problem, the Central Bank would avoid the danger of inflationist measures, that would fatally lead to a greater depreciation of our peso with all its serious economic, social and political consequences (ibid, p. 25).

Prebisch also thought that the CB should not invest in long-term assets or productive activities, because it would go against its principle of being a non-profitable institution. It

should only focus on monetary stability. Indeed, long-term investments should only be financed by the population's savings:

Investments, even if they are extremely productive, should only be financed by the population's saving [...]. Savings are not supplied by credit [...]. The violation of this principle, [if certain limits are crossed, usually brings] very serious monetary disruptions, [as facts have proved various times] (Prebisch 1934b, p. 369).

With this statement, Prebisch is close to the classical tradition in the debate about the causality between savings and investments. He is thus close to the thesis Hayek (1931) championed by the same years, and opposed to Keynes's. Indeed, Prebisch asserted that savings should create investments. Investments could in fact be financed by credits, but they should not, as they only create disruptions.

We see here that Prebisch seems closer to the Currency School's logic, since over-issuance of notes should be avoided with a strict banking law. We see other signs of adherence to the quantity theory as he links price levels to the stock of money, and price instability to monetary causes. In the Project for a Central Bank, Prebisch seems to consider that credit is an equivalent of money, at least on its effects on prices and the economy. Moreover, this idea is found in one of Prebisch's previous student works in which he refers to both Fisher and Taussig⁴³ to assert that although credit is not a perfect substitute of money, an increase of it has the same effects on prices than an increase of the quantity of money:

⁴³ In this work, Prebisch exposes Fisher's view of the quantity theory of money as found in *The Purchasing Power of Money* (1911). In that book, Fisher had indeed expressed that using book credit increases the velocity of circulation, as there is no need to have "idle" cash in one's pocket waiting for transaction, and thus book credit

Credit expansion constitutes, thus, an increase in the circulating means of payment that have an impact on prices, in the same fashion than an increase of money (Prebisch, 1921b).

In 1931, Prebisch seems to endorse Fisher's ideas, but he will gradually change his views about the applicability of the quantity theory in Argentina.

As we will see later, in 1934 Prebisch contended that credit expansion increased imports rather than prices. However, trade deficit could eventually lead to currency depreciation and, as a consequence, to inflation (Prebisch 1934c, 318-319). He will highlight the high propensity of imports as being among the main factors behind the vulnerability of the Argentine economy. However, at the beginning he didn't suggest facing this vulnerability by reducing external dependency, but kept some elements of the Quantity Theory. For instance, he considered that public deficit created credit expansion and hence would lead to an artificial increase of imports. Thus, he contended that the future Central Bank (CB) should not lend to the Federal Government, because it would mean that the CB would be creating artificial means of payment, i.e., unnecessary for the level of transactions. Prebisch insisted that government resources should not come from CB loans, but should rather result from taxation (Prebisch, 1934c, p. 379-380).

Prebisch did not give a clear definition of "artificial means of payment" or "artificial expansion of credit". He seemed to use his own terminology and sometimes lacked clarity, so the understanding of these terms is open to interpretation. In 1939, he gave a definition of what "normal bank credit" was:

tends to increase the level of prices (Fisher, 1911, p. 109-111) When talking about credit, he also quoted Taussig's *Principles of Economics* (1911), chapter 31, p. 428

This normal bank credit presupposes an easy liquidation, since it has in view the prompt sale of the goods that, thanks to it, are produced, imported and moved until they reach the buyer. It also involves the creation of purchasing power by banks, but for the relatively short time spanned by the normal circuit of business, from production or import to the payment of goods or services (BCRA 1939, p. 10).

Even if this definition is given some years apart, it implies that credit is not “normal” (hence, artificial), when its liquidation is not “easy” and the creation of purchasing power by banks extends in the middle or longer terms. Long-term credit, especially for creating new businesses or industries that increase the level of transactions, would hence be considered as “artificial”.

C) Yet, the policies should be flexible and adapt to the needs of the economy

When broaching the subject of the crisis, Prebisch tones down the restrictive aims of the Central Bank as he criticized the practical application of “orthodox” measures in Argentina. His views were somehow ambiguous. After the peso devaluation in 1931⁴⁴, when expressing his views on exchange rate control, Prebisch was favourable to the return to convertibility with the stabilisation of the peso at a revaluated value to avoid inflationary pressures (Prebisch 1931c). However, in the same text, he nuanced these views, arguing that revaluation would have as a consequence “profound agrarian, social and banking troubles in the name of an orthodox principle derived from hypothesis that do not correspond to the actual reality of the country” (Prebisch, 1931c, p. 19). To be feasible, revaluation needed a balanced state budget,

⁴⁴ In 1928 (under the convertibility regime), the Exchange rate was of 2,32 paper pesos per 1 U.S. dollar; in 1931 it was of 3,40 paper pesos per 1 U.S. dollar (della Paolera and Taylor, 2001, p. 191).

a more stable international economic and financial situation, and higher prices for Argentina's export products, all conditions that were absent in Argentina at that time. But Prebisch did not provide concrete policy measures to deal with these problems. He basically seemed to be confident that the upward phase of the cycle was going to arrive by itself, without the need of changing policies, economic strategies, or the growth model.

Besides, he contended that money creation should follow the "natural increase" in the volume of transactions that would correspond to a recovery of economic activity in the ascending phase of the cycle. Credit should thus have a –controlled– pro-cyclical behavior:

"[...] as the economic volume of transactions continues to decrease, an increase in the means of payment is not needed. The day when the level of business increases or the price level rises, the function of the Central Bank would be precisely to give to the market the paper money necessary for regulating the circulation in relation to business necessities" (Prebisch, 1931c, p. 17).

Prebisch's policy proposals were therefore within the classical tradition, but they did not result from a rigid version of conventional thinking. For instance, we previously saw that he did not deny that investment could be financed by credit money created "ex- nihilo", but he considered that, beyond some threshold, such practices were damageable as they produce "monetary disruptions". Similarly, he did not deny the possible impact of monetary creation on real transactions. In other terms, considering Fisher's formulation of the quantity theory $MV=PT$, a change in M (quantity of money) can impact on T (volume of transactions), not only on P (general level of prices). However, he advised that the monetary policy should be adapted to business necessities, i.e. that M should follow T .

We will now see how Prebisch incorporated more systematically into his analysis the specificities of Argentina's economic and social structure, which became crucial to him by

1934. This mind-set will allow him to apprehend the external vulnerabilities and to change his perception of the nature of the crisis.

II. Facts *versus* theory: the necessary reconsideration of policies led to a reconsideration of theory

As the depression persisted (it lasted until 1935), Prebisch started, since 1931, to reconsider his views about the recovery mechanisms. He had growing social concerns because of increasing unemployment, low wages, worsening of work conditions, poverty and strikes. Indeed, in 1930 there were 333 997 open unemployed according to 1932's census, mostly from the primary sector, from an estimated total of 12 million inhabitants in 1930, i.e. 2,8% of the total population⁴⁵ (Míguez, 2011). The misery was striking, as slums appeared such as the “Villa Desocupación” (“Unemployment Slum”) in Buenos Aires. In the countryside, vagrancy became a common sight (Rapoport, 2000). Later in his life, Prebisch recalled:

It shocked me a lot that for the first time young people went to ask for food at the houses. [...] The primary prices were falling enormously. It was not possible to sell wheat, and maize was facing difficulties. Meat export was minimum because Great Britain kept contracting its imports. I remember that the Banco de la Nación received telegrams from the countryside:

⁴⁵ We do not have the data on active population to calculate an unemployment rate. Pablo Gerchunoff and Lucas Llach (2018, p.140) mention that “some [analysts] have evaluated that [unemployment] had reached 28% of the labor force”, but they do not provide precise sources. We should also take into consideration that these numbers underestimate the loss of employment. Indeed, during times of crisis, part of the unemployed people tended to emigrate or to return to the countryside, generating a “hidden unemployment”.

people didn't want to harvest wheat because the price was too low. It was November 1933. The situation could not be more critical in Argentina. (Quoted by Fernández López, 1991, p. 147)

He realised that the mechanisms of the Argentine economy differed from the ones described in the classical theory and reconsidered the effectiveness of the policies advised in the past.

This led Prebisch to advise from his positions in the government⁴⁶ the use of monetary instruments for accelerating the recovery from the crisis as he reconsiders the effects of money expansion and of the devaluation of the peso. In particular, he proposed new policies of intervention in the monetary market in order to avoid or reduce running liquidations and bankruptcies of banks and enterprises, and to keep the level of real goods transactions closer to what it was before the crisis. He also suggested changing the goals of the future Central Bank, which should embrace counter-cyclical policies (Prebisch 1932), and abandoned the idea of going back to gold standard he supported only some months earlier, because it could lead to a social and economic disaster⁴⁷. During these years, it will become evident to Prebisch that money and labour markets cannot recover on their own, but need State intervention through planned strategies that take into consideration the Argentine economic structure.

⁴⁶ In these positions, Prebisch cooperated with Federico Pinedo. They both had been students of Alejandro Bunge, an Argentinian economist in favor of industrialism and influenced by Friedrich List's thought.

⁴⁷ He even wrote a recovery plan, which is presented in chapter 3, as the New Deal and Keynes's articles of the early 1930's convinced him to abandon austerity and restrictive policies.

A) Policies brought by emergency: rediscount and exchange control

Prebisch's monetary policy stances, based on the Quantitative Theory of Money, were predominantly contractionary in the beginning of the 1930s. Yet, through his policy measures and/or advises he showed his willingness to break the rules and to provide an answer to the extreme situations created by the crisis. He took concrete actions – such as rediscount and exchange control – that showed he now believed the economy was not able to recover from the crisis automatically.

Rediscount

In October 1931, Prebisch wrote a decree-law for rediscount⁴⁸ because of the lasting depression in Argentina. The country was exporting metals to avoid currency depreciation, and was at the same time paying its external debt. As a consequence, precious metal reserves were decreasing, and so did the quantity of paper money in circulation.

Consequently, because of the bank reserves requirements, credit was restrained to all economic activities, raising the interest rates (Prebisch, 1931a, p. 1). Besides, he mentions that the previous harvest had been bad, and it “obstructed the return of money from the countryside [...] immobilising in a greater or lesser degree the commercial and banking loans. The immoderate restriction of credit in these conditions would cause the forced liquidation of a

⁴⁸ The decree has the signature of Enrique Uriburu who was the Finance Minister since April 1931 and who was also a cousin of Prebisch. As mentioned earlier in this article, Prebisch was Undersecretary of Finance in 1931. According to Fernández López (1991) Prebisch is the author of this decree. His authorship is commonly accepted in the literature (See for instance Sember 2010, p. 153; 2012, p. 137; Perez Caldentey and Vernengo 2012, p.16) and I adhere to it.

significant part of rural products [and would impact related fields, such as] the countryside business [and] the import business, resulting in an enormous economic and social loss” (ibid).

Prebisch seemed to consider that banking institutions should be discretionary and adapt to the problems encountered in the real sphere, since a strict banking law that doesn’t adapt to actual problems could lead to socioeconomic disasters. He also thought that it was crucial that the farmers and the businesses had access to the amount of credit necessary for keeping the same level of transactions than before the crisis– neither more nor less.

Hence, the decree-law authorised the BNA to rediscount financial assets presented by financial institutions up to 200 million pesos, which represented 68% of 1930’s total credit (see table 4), but under strict control. That rediscount should not be used for something else than maintaining the previous level of credit: there should not be new credits for new activities or for long term investments. Here again Prebisch denounced the artificial expansion of credit as non-desirable. For this rediscount to be well controlled, Prebisch wanted to establish an autonomous bureau of bank supervisors that would have all the information about the operations and organization of the financial institutions participating in rediscounts.

Table 4: Monetary indicators in Argentina, 1928-1935 (nominal quantities, in millions of paper pesos)

Year	Monetary Base	Domestic Credit	Bank's Discount Rate (%)	Exchange Rate*
1930	1 261	293	6.9	2.70
1931	1 245	652	7.2	3.40
1932	1 339	755	7.1	3.83
1933	1 214	653	6.1	3.18
1934	1 172	610	5.5	3.89

**Exchange rate is paper pesos per U.S. dollar*

Source: della Paolera and Taylor (2001).

This exceptional rediscount would decrease the metallic backing of paper-money but stay within the limits established by the banking law, as it went from 75% to 64,1%, the minimum being 40%. Thus, this decree broke only to some extent the classic monetary policies. Although it represented a sort of quantitative easing, which involved State intervention, it remained within a very controlled frame. We believe that this decree is amongst the first signs after the crisis that showed Prebisch's disposition to change his traditional theoretical stances in order to adapt them to reality and societal needs.

In "The emergency action amid the monetary problem" of January 1932, he talked about the effects of his previous rediscount decree. He first insisted that rediscount was not a measure inspired by ideology, but it was "an inexorable necessity imposed by facts" (Prebisch, 1932, p. 51), which delivered satisfactory results:

The rediscount did not diverge from the initial goals. [...] It allowed banks to reconstitute their stocks without having to proceed to a disastrous liquidation of their portfolio[...]. (ibid, p. 52)

However, later he adds that liquidation could not be completely avoided, mostly concerning the banking portfolios, but rediscount still helped absorbing the shock and decreasing liquidation of businesses.

Exchange control

On October 13th 1931, another short decree written by Prebisch created a Currency Exchange Control Commission. Foreign currency was scarce, so this Commission had to regulate its access and set its official price. The Commission was given the authority to establish which banks, located in the capital, were enabled to buy and sell foreign currency. Any other exchange operation was prohibited. Furthermore, it could closely monitor “banks, exporters, importers, and other institutions or individuals that exchanged currency, as well as the Customs [and other public institutions]” since it could ask “all the data, accounting books [...] and information considered necessary for better accomplishing its objectives” (Prebisch, 1931b, p. 5). Finally, any exchange operation would have a fee of 0.01% from the authorized banks for exchange.

To justify this decree, Prebisch explained that the United Kingdom had abandoned the gold standard, that cereal exports were paralysed and speculation was too high. Furthermore, he put forward that “currency exchange control has been used by several other countries in similar circumstances” (Prebisch, 1931b, p. 4)⁴⁹. Thus, Argentina could learn from the policies

⁴⁹ Prebisch does not give a concrete example of which country used exchange control nor why they were successful.

that proved successful in order to stop the gold export and the emptying of the country's gold reserve.

Once again, this policy went against the principle of the self-regulating mechanism of the gold standard exposed by the quantity theory of money as elaborated by Hume. According to this principle, when a country sees its gold reserves decrease it should also see its prices decrease, thus the international demand for its products would increase. The next step would thus be the replenishment of the country's gold reserves, until its prices rise and the international demand decreases again. However, after 1929's crisis, the prices of Argentina's exports had decreased immensely because of a decrease in world demand due to the World Depression (table 2)⁵⁰. Declining domestic prices in Argentina could not reverse this trend. The self-regulating mechanism was not working, and it showed no sign of validity. Thus, leaving Argentina's gold and foreign currencies reserves clear out was not only going to be meaningless, but it would be extremely costly economically, socially and politically. Instead, exchange control policy would allow Argentina to reduce gold exports and capital flight.

Although an exchange control policy was not something new, its encouragement by Prebisch shows that he put economic and social necessities as a priority before his personal theoretical beliefs. Rather, he showed an open-mindedness to try to find solutions to real problems, even though it meant to go through less conventional paths.

⁵⁰ In 1928, Argentine exports amounted to 1001 million of gold pesos. In 1929, they amounted to 661 million.

Also, in 1924, a ton of wheat cost 143,3 pesos, and in 1929 it only cost 87,9 (Cortés Conde, 2000)

B) Facts are more important than theories

The quantity theory of money weakens in Prebisch's mind, and the importance of structures arises

The first change in Prebisch's adherence to the quantity theory of money was realizing that Argentina's main problem regarding artificial credit expansion was not internal inflation, but rather an increase of imports. The problem of an increase of imports arose because, as we saw earlier in this article, Argentina had a relatively small industrial production and was very dependent on foreign trade:

The bigger amount of circulating means of payment [...] immediately translates into a bigger general demand of goods. And [this] [...] leads to an increase of imports [...]. In countries that are not as connected to foreign trade, or that have a very developed internal production, instead of immediately [witnessing] an increase of imports, an increase in prices will mainly be felt (Prebisch, 1934b, p. 318).

Furthermore, even if the demand for domestic production rose, the increase in industrial output in the 1920's led to an increase of imports because the machinery and some intermediary inputs were not locally produced. Thus, manufacturing and urban employment still depended on the price and volume of exports, since the quantity of imports depended on the revenue and currencies brought by exports (Rock, 1986). This added to the hardships in times of crisis since the payment of imports led to an export of gold at a time when gold and currency reserves were low and shrinking, and banks would freeze their loans. Prebisch highlighted the importance of a Central Bank in this kind of situation, as it could limit credit growth in expansionary times and mitigate credit shrink in bad times, to avoid further hardships.

As to price instability, it was directly linked to international price fluctuation rather than domestic monetary supply, which could only play an indirect role:

Prices depend so closely on the international market that the most direct consequence of [money emission] is to be found on imports (Prebisch, 1934b, p. 318).

We see that Prebisch considered that monetary mechanisms depended on the economic structure. Thus, monetary expansion did not have the same effects in Argentina than in an industrialized European country. The effect on prices and transactions of an increase in the quantity of money was more complicated in an open economy, as well as more harmful since economic stability depended on external factors such as the world market and agricultural prices. This idea of a difference between Argentina and European countries was already present in the 1920s (Prebisch, 1921a), and it was an influence of John Williams' analysis of Argentina, which Prebisch had translated to Spanish soon after it was published in 1920 (Sember 2010, p. 17 and pp. 98-112).

This importance of the structure is also put forward in the Project for a Central Bank of 1934. Indeed, Prebisch considers that the Argentine monetary system must adapt to the country's structure, hence to its vulnerabilities:

Any plan for reorganizing our monetary and banking system must consider the fundamental characteristics of the Argentine economy, determined by our condition of a mostly agrarian country and of a new and developing country [...]. As an agrarian country we are subject to sudden fluctuation of exports (Prebisch, 1934c, p. 357-358).

Rejecting "liquidation" as a necessary step in the path to recovery

In his 1932 paper "The emergency situation amid the monetary problem", Prebisch showed signs of mixed adherence to mainstream theories, such as the theory of liquidation.

According to this theory, the solution to sales paralysis is limiting credits and forcing a liquidation of unsold stocks and non-performing debts by lowering the prices of overabundant goods. By doing so, banks recover part of their money and despite the bankruptcies and losses, this constitutes a selective process where the stronger remain. Furthermore, with lower prices demand is supposed to recover and restart growth. Although Prebisch did not seem to disagree with this theory that he qualified as “orthodox”, he thought it “corresponds to [a reality] very different to the Argentine reality” and considered that “the primordial factors of credit immobilization are finance disequilibrium and the difficulties in the agrarian production” (Prebisch 1932, p. 47).

Indeed, the problem was not that Argentina’s supply was too high in quantities and prices relatively to the demand. The problem was that world prices had declined due to world depression. Thus, an agricultural liquidation with a further decrease in the agriculture prices would not solve the problem of insufficient demand, low prices and depressed exports, it would only deepen the economic depression.

The depreciation of the peso can be a good thing despite monetary instability (in the short term)

Depreciation of the money was generally seen as negative for monetary stability, thus adding more obstacles for the market to reach equilibrium again: depreciation led to inflation, perturbing the natural process of price formation and giving "extraordinary profits" to a category of the population. We have seen earlier that this was also Prebisch’s thinking in 1931. However, only one year later in his 1932 paper he argued that peso depreciation had proven beneficial for easing the depression in Argentina.

Prebisch contended that depreciation following the depression was not due to internal causes but resulted from the world crisis that lowered the prices of Argentine exports while the relative prices of its imports increased (Prebisch 1932, p. 58).

He argued that currency depreciation softened the effects of the decrease in the international prices of primary goods. The imported inflation that accompanies currency depreciation translated into bigger quantities of pesos per sales, making it easier to repay fixed services in pesos, thus decreasing the burden for the producers⁵¹:

By paying with depreciated money [...] those more or less fixed [financial] burdens that cannot be reduced, the producer lowers them in reality, [making them correspond to] the actual decline in the value of production, measured in gold (ibid, p. 60).

We see that Prebisch was concerned about how the producers were affected by the decrease of their exports prices, and in this article he anticipated an idea that will be known after the “*ECLAC Manifesto*” (Prebisch, 1949) as the Prebisch-Singer theory of the tendency to deterioration of the terms of trade between primary products and manufactured goods:

As for the goods that the producer consumes, if they are imported, their prices have decreased less than the prices of his products, because of the known international disparity between primary prices and industrial prices in the current crisis (Prebisch, 1932, p. 59).

This element will be key in Prebisch’s development theory, and he will use it to sustain the necessity to diversify the production of an agrarian country, and to develop its industry. However, it is not clear in this 1932 paper whether Prebisch considered this disparity between

⁵¹ This analysis is consistent with authors such as Thornton, Marshall and Fisher, for whom inflation reduces the real value of nominal interest rates (de Boyer, 2000).

the evolution of primary and industrial prices as temporary and specific to “the current crisis” or as a long-term tendency.

Prebisch was aware that some agents whose debt was denominated in foreign currency may have been negatively affected by devaluation, but he noted that they were mostly foreign companies that usually had to pay fixed services in foreign currency. On the other hand, real wages were not negatively affected because “the internal cost of life has not experienced almost any disturbance” (ibid, p. 60). However, even if in the short run depreciation did not negatively affect the economy, Prebisch thought that the cost of living would be affected if the depreciation persisted in the long run.

Yet, depreciation and inflation were for him a more desirable combination than deflation. In this way, he expressed another deviation from orthodox theory, most notably from the Pigou Effect. Indeed, Prebisch specified that a decrease in prices, be it that of industrial goods or land, would have a catastrophic social effect. Indeed, in urban areas, deflation could bring an industrial crisis and an important decrease in employment. He explained:

The prices of the goods would be, in reality, lower, but the population would have a lesser quantity of means to consume them (ibid, p. 61).

The issues of deflation and depreciation had been greatly discussed in the 1920's and reappeared in the 1930's because of the crisis. Among the most known authors who wrote about it were Keynes, Fisher and Hawtrey. For instance, we can see that Prebisch's concerns about deflation are close to Keynes's in his *Tract on Monetary Reform* (1923), and according to Pérez-Caldentey and Vernengo (2015), Prebisch was indeed influenced by that book. For Keynes, currency appreciation and prices deflation would not favour internal consumption nor make imports cheaper: "if francs are worth more they will buy more labour as well as more

goods, – that is to say, wages will fall; and the French exports, which pay for the imports, will, measured in francs, fall in value just as much as the imports" (Keynes, 1923, p. 151). Thus, deflation presented no advantage for the economy and only favoured the rentiers, presenting serious equity problems as "a great injustice would be done to a great majority of debtors" (ibid, p. 148). Reciprocally, depreciation of the currency favoured the rest of the population, and particularly businesses, as they mainly operated through borrowing. On these issues about income distribution and justice, Keynes mentioned that Fisher developed similar ideas in his article "Devaluation versus Deflation" (1922). Since Prebisch had read Fisher's earlier works, it is also possible that he read the mentioned article. Hawtrey also showed the same concerns and developed similar arguments in his book *Monetary Reconstruction* (1923). Prebisch was certainly aware of these debates, but showed his concern belatedly.

We can thus observe that Prebisch 1932's stance on depreciation was very far from his claims of 1931 that devaluation and inflation had to be avoided as a priority. Here, deflation is shown as being most harmful economically and socially. However, he maintained that depreciation was not a deliberate policy of the Government, but resulted from the decrease of the international prices of primary goods and the subsequent trade deficit.

C) The new goals for the Central Bank

The counter-cyclical role of the Central Bank to be established

In “the emergency action in the monetary problem” (1932) Prebisch considers that the Central Bank should have an active role in the economy, reacting to cycles and crisis⁵². We notice here a considerable evolution since his first project for a Central Bank of 1931.

In particular, he intended to give it more tools to intervene in the economy and to have an influence on the cycles, the most important being open market operations. They were essential for the counter-cyclical action of the Bank: during the upward phase of the cycle, when there was an abundance of capital and decreasing interest rates, the Central Bank could sell short-term bonds in order to remove money from the circulation. During the downward phase of the cycle, the Bank could reverse this operation and buy those bonds, thus injecting the money again in the circulation (Prebisch, 1932). In the project for a Central Bank of 1934, he continues arguing that the future Bank should implement counter-cyclical policies (Prebisch, 1934c, p. 355).

Finally, another relevant function of the Central Bank was assuming the role of capital and exchange control by classifying the demands for currency by degree of importance. According to our author, this policy had proven its efficiency as it established trust in the currency market in periods of crisis. Indeed, for Prebisch, trust was very important for monetary stability and for monetary institutions not to collapse, as crises of confidence triggered panics (Prebisch, 1932). In order to keep trust and stability, he continued to advocate for a solid

⁵² As far as we know, it is the first time (or one of the first) that Prebisch considers this counter- cyclical role for the Central Bank

monetary institution like the Central Bank, that would be ready to face emergency situations, and that would apply a prudent counter-cyclical monetary policy.

Getting distance from the gold standard

In the project for a Central Bank of 1934, Prebisch explains that because of the specificities of the Argentine structure that we previously mentioned, there should not be a strict tie with the gold standard. Indeed, events such as bad harvests could trigger a massive gold outflow, followed by a massive gold inflow when the economic or financial situation (in Argentina or in the international economy) recover. It is not desirable that the paper money and credits automatically follow gold movements.

Prebisch doesn't suggest totally abandoning the gold standard. Invoking Niemeyer's arguments, he contends that gold outflow should not be followed by an equivalent reduction of credit and paper money. A strict link between these is detrimental for Argentina, but there could be a moderate link. Hence, Prebisch proposes to constitute an important gold reserve during periods of prosperity in order to better face gold outflows and always maintain the quantity of paper money and credit necessary for the needs of transaction. Furthermore, in case of necessity the Central Bank can drop the metallic back of paper money to a minimum of 25%, as opposed to 40% in previous plans, but shouldn't abuse of this capacity (Prebisch, 1934c, p. 358-359).

Yet, the exchange control policies –suggested and implemented by Prebisch– and the counter-cyclical action devoted to the future Central Bank show in practice a growing incompatibility with the gold standard.

III. Conclusion

Today, the First World War is seen as the first substantial warning for Latin America about the instability of the primary export-led growth model, the Great Depression being the confirmation of that warning. However, in the early 1930s, the crisis could easily be considered as the result of normal (although particularly severe) cycles⁵³. Thus, at the beginning of the Depression, Prebisch relied on Argentine past experience and contended that economic growth would recover by itself after the 1929 crisis, a stance that he later qualified as “orthodox”.

Prebisch was initially supporting pro-cyclical policies that aimed at monetary and financial consolidation in which bad credit would be purged. In his plans for a Central Bank, he foresaw the role of that institution as restricting credits and preparing for the return to the gold standard. Indeed, he viewed artificial credit expansion as one of the main elements of monetary instability that ultimately led to an unnecessary increase of imports and outflow of gold.

However, from the beginning, Prebisch’s “orthodoxy” was not entirely in accordance with Argentina’s mainstream economic beliefs. For instance, he did not blindly adhere to the quantity theory of money, as he soon disagreed that money emission was the only cause of monetary instability and cycles in Argentina. For Prebisch, it was mainly the problems in the balance of payment that explained the cycles (Rapoport, 2014) because of the specificities of the Argentine economic structure. This explains in our opinion why he proposed a rediscount

⁵³ In the words of Victor Bulmer-Thomas: “No one expected the depression to be as severe as it turned out to be: The last world depression (1920–1) had passed quickly, without permanently disrupting the international financial system” (Bulmer-Thomas 2003, 198).

policy during the depression of 1929, even though he had extensively explained why artificial paper emission was harmful.

We have seen that as the Depression persisted, Prebisch reviewed his beliefs on market efficiency and proposed State intervention. He adapted his theory and his policy advice to the necessities of the economy and the society. He wrote decrees for rediscount and exchange control, allowing the internal activity to maintain a certain level. He also left the idea of the gold standard aside and started considering that a depreciated currency and inflation could actually be beneficial, in the short term, for economic activity. His plans for a Central Bank also changed, as the institution was acquiring more active tools for a counter-cyclical action on the market.

We believe that this turn in his monetary stances is greatly linked with his growing understanding of the Argentine economic and social structure. This allowed him to consider new solutions for ending the crisis. He realised how Argentina was dependent on foreign trade, yet since it could not control export or import prices it could only wish for world recovery. In *La producción rural y el mercado de cambios* (1934) Prebisch, influenced by Keynes's articles of 1933, elaborated a recovery plan which associated active monetary policies with fiscal policies and conferred a leading role to the State. He proposed to spur internal recovery by helping Argentine industries, by using public- private cooperation, and launching important public works. As we will see in chapter 3, Keynes's views on fiscal policy had an importance influence on Prebisch, probably bigger than his earlier works on monetary policy.

Prebisch's evolving thinking following the 1929 crisis shows a tension between his previous theoretical views and the concrete problems he had to deal with as an influential policymaker. This led to apparent inconsistencies between Prebisch's previous theoretical framework, which was not abandoned at once, and his pragmatic policy advice. These

contradictions are proof of an intellectual evolution, in which he gradually acknowledged that the traditional economic policies, and therefore the classic theory, were not adapted to Argentina's reality.

This new mind-set allowed him to go beyond the problem of the Great Depression and to identify the specificities of underdeveloped countries in order to propose an original development theory that led to the ECLAC theory (the "Latin-American structuralism"). In particular, he proposed changing the Argentine and Latin American economic and social structures – not only their macroeconomic policies – in order to achieve sustainable development. This development through industrialization would lessen the foreign dependency of the countries and reduce the effects of economic cycles and crises.

Chapter 2. The Central Bank as a tool for independence

In this part, we will make a comparison between the founding principles behind the Central Banks of Argentina and Chile. This exercise will allow us to compare the different visions of Central Banking they represented. It shows how Prebisch's vision of monetary policy was already linked with his quest for intellectual and economic independence in Argentina, because the Central Bank he designed was a flexible tool that could be adapted to some extent to the needs of the government. This part will also give more elements to understand how the monetary thought of Prebisch could become compatible with his development thought centred on industrialisation later on.

The Central Bank of Chile was founded in 1925, and the U.S. "money doctor" Edwin Walter Kemmerer was largely responsible for its creation (Carrasco, 2009; Gomez Betancourt, 2008; Drake, 1989). The Argentine Central Bank was created in 1935 and is often referenced as an innovative, non-orthodox Bank. Although the British "money doctor" Sir Otto Niemeyer had been invited to give financial advice, his real influence on the final project of the Central Bank is weak. Indeed, the influence of Raúl Prebisch in the creation of the Argentine Central Bank appears to be the main element that explains the different conception of Central Banking (Sember 2010, 2012, 2018).

We will first show how the Central Bank of Chile was created following Kemmerer's orthodox principles. We will emphasize how this type of Central Bank was stuck in a passive position, with the inability to intervene in the economy to prevent crises. We will then analyse how the Argentine Central Bank came to be an active Bank with counter-cyclical action.

I. The Central Bank of Chile: the inadequacy of orthodox principles.

A) The international context encourages the creation of orthodox Central Banks

The First World War had caused the abandonment of the gold standard, and the 1920s were dominated by monetary debates revolving around monetary stabilisation and the desirability of returning to the gold standard. Countries participating in the International Financial Conferences of Brussels and Genoa of 1920 and 1922 discussed how to achieve monetary stabilization internationally, and concluded proposing the adoption of a new monetary system, the gold exchange standard⁵⁴. The pound sterling and the U.S. dollar, convertible to gold, became the reserve currencies that could substitute pure gold reserves (Aglietta and Coudert, 2014). In this system, the exchange rates, and therefore the value of national currencies, had to be stabilised by the Central Banks. Hence, during the twenties, Central Banks were created in several countries that did not have one, with the aim of reorganizing their financial and foreign exchange systems and making them adhere to the gold standard again.⁵⁵ This trend was not exclusive to Europe and involved Latin America too. During the same period, the famous money doctor Kemmerer went on missions to Colombia, Chile, Peru, Ecuador and Bolivia. We will focus on the case of Chile.

Before the arrival of the Kemmerer mission in Chile in 1925, there was a political debate on what were the monetary problems of Chile and on the creation of a Central Bank

⁵⁴ The gold standard was a system where the currencies were convertible to gold and they would have a fixed gold value. The gold exchange standard established that some major currencies – such as the pound sterling and the dollar – would be convertible to gold, and the other currencies would be convertible to pounds or dollars.

⁵⁵ Among the Resolutions unanimously approved by the Brussels International Financial Conference, one reads: “In countries where there is no Central Bank of Issue, one should be established” (Resolution Proposed by the Commission on Currency and Exchange n° XIV). See League of Nations (1922), Annex I, page 225.

(Carrasco, 2009). Those who considered that there was too much circulating means of payment wanted a Central Bank with strict rules determined by the gold standard, and those who thought there was not enough circulating money feared that rigidity. The Chilean debate was influenced by the wave of creations of Central Banks in the world after the abovementioned conferences⁵⁶.

However, in 1924 Arturo Alessandri's government was ousted by a military coup. The new de facto government wanted to concretise the financial reforms without continuing the parliamentary debates, and this decision did not seem to be unpopular. The previous monetary instability and inflation had caused many protests, and Kemmerer's mission was apparently welcomed by different social categories, including the working class (Carrasco, 2009; Gomez Betancourt, 2008; Drake, 1989; Kemmerer, 1927)⁵⁷. Indeed, labour unions considered that a Central Bank could stop inflation and improve their real wages. According to Paul Drake:

Kemmerer did not clash with nationalists and leftists. Instead, he appeared as the champion of labor against nefarious aristocratic elites, who were allegedly debasing the currency and hoisting the cost of living to siphon income to themselves (Drake, 1989, p.76).

The reasons why Kemmerer was chosen were varied. Camilo Carrasco and Rebeca Gomez Betancourt consider that the money doctor had already some prestige: he had already given his advice in several countries in the past and was well advanced in his career. Besides, following the advice of a renowned economist could help the country obtain foreign

⁵⁶According to Camilo Carrasco, President Arturo Alessandri was actively trying to create a Central Bank, and had invited a first time Kemmerer in 1922: "I was personally convinced that this Bank would normalise the financial development of the Republic and stabilize our currency, which would bring a higher trust in our trade and industries, boosting the activities of the country." (Carrasco, 2009, p.76)

⁵⁷ It is interesting to note that Kemmerer had led this mission without involving the US government, which could have damaged the "neutral" image of his financial advice.

investments and loans. However, the country receiving the money doctor would not be the only one benefitting. Despite Kemmerer claiming that the United States were neutral and were not trying to expand its influence in Latin America (Kemmerer, 1927), some of the secondary literature have concluded otherwise through an analysis of Kemmerer's financial advice, as we will see later.

The Central Bank of Chile as created by Kemmerer is an example of orthodox Central Bank. Its main goal was currency stabilization by adopting a gold exchange standard and following its automatic mechanisms. The Bank was the owner and administrator of international reserves, and had the monopoly of paper currency emission. It had to redeem all previously issued treasury notes, which would be replaced by its own convertible notes⁵⁸. The Bank had to be independent, and its ownership was mixed (public-private), as the Government, the associated banks and the private stockholders had to contribute to its capital. The board of directors had to be representative of the economy, with representatives from the industrial sector, the agrarian sector, the government, and foreign banks. The Central Bank could conduct short-term rediscount operations for limited quantities, had to host the government accounts and take the role of a clearing house (Carrasco 2009). The Bank seemed to have some tools in case of need, since it endorsed the role of lender of last resort, could grant emergency loans, stabilize the international exchange rate of the peso and manage the gold and convertible currency reserves.

⁵⁸ In compensation, the Bank would receive the financial assets that backed those treasury notes and most of the gold from the Fondo de Conversión (currency board). The government would continue to issue coins but under the supervision of the Central Bank, by fear that "with excessive emissions the government could endanger the gold standard" (Carrasco 2009).

The Kemmerer mission did not only create a Central Bank, it also implemented a new monetary law, that stipulated the adoption of a gold exchange standard, establishing the peso at 6 pennies, which was the average market exchange rate of the previous four years (ibid). Kemmerer preferred the adoption of a gold exchange standard instead of the traditional gold standard: it had the same automatic mechanisms as the gold standard, but it did not encourage the hoarding of metallic reserves. The gold exchange standard was thus adapted to economies that "did not have enough material resources to guarantee gold circulation and reserves or could not guarantee gold bullion convertibility" (Gomez Betancourt 2008, p.231)

The mission also created other institutions such as the Superintendencia de Bancos that was in charge of the supervision of commercial banks and of the Central Bank. The Central Bank did not establish the exchange rate of the peso, since it was set by the monetary law. However, the Bank had to maintain the value of the peso by buying or selling gold and foreign currencies at the given exchange rate, which increased or decreased the circulating money. Besides, the gold and currency reserves of the Central Bank should cover at least 50% of the circulating money, and if the reserves were below that percentage, the Central Bank would have to pay fines and the discount and rediscount rates would have to increase.

B) A pro-cyclical Bank that served foreign interests and caused indebtedness

This monetary law and this conception of the Central Bank meant that the Bank should mostly follow the automatic mechanisms and discretionary action was not encouraged. If external fluctuations caused a decrease in the gold reserves, the Chilean economy would feel the consequences with a reduction of money in circulation, less liquidity for commercial banks and a higher interest rate. Besides, banking supervision was not in the hands of the Central

Bank, but was the role of the Superintendence of Banks. Hence, the Central Bank did not have a direct information on the commercial banks and might not act quickly enough in case of need. Hence, it is essentially a pro-cyclical scheme in which the Central Bank has mainly a passive role.

The creation of the Central Bank had other consequences for Chile. Robert Seidel stressed the political implications of the Kemmerer missions: they were an "international extension of North American institutions, trade and finance" (Seidel 1973, p.521). For instance, there had been an increase in foreign investments and loans (in particular from the United States), and this was a common phenomenon for the Latin American countries where Kemmerer had been. Indeed, "having the approval of British or American experts facilitated borrowing from these countries. In some cases important conflicts of interest appeared; for instance, Edwin Kemmerer [...] worked as an investor advisor for the bank Dillon & Read, a relationship that was kept a secret [...]. In general, *money doctors* advisories were complementary to capital flows" (Sember 2018, p. 71).

In Chile, Drake estimated that U.S. total investments had risen from 181 million in 1914 to 701 million in 1930 (Drake 1989, p.13). As a result, the British influence rapidly declined in Latin America: from 1913 to 1929 "British investments had increased by 13.6 percent while American investments had increased by 1241 percent, to exceed the British figure by \$360 million" (Seidel 1973, p.526). According to Gomez Betancourt, the Kemmerer missions in Latin America benefitted the interests of U.S. bankers, and lobbies would use the money doctors as intermediaries:

These missions had driven the Latin American countries to borrow on the one hand to finance their imports, and on the other hand to service their debts, which led them to perpetual indebtedness (Gomez Betancourt 2008, p.100).

This vision is also found in Drake, according to whom "Chile nearly tripled its foreign indebtedness following Kemmerer's 1925 mission" (Drake, 1989, p.17). Furthermore, trade with the US increased: from 1921-22 to 1926-27, US exports to Chile increased by 147 percent, while its imports from Chile increased 64 percent (ibid, p.32). Specifically, from 1913 to 1929, Chile's imports from the United States increased from 20 to 63 million dollars, while its exports to the US increased from 30 to 71 million. At the same period, imports from the United Kingdom slightly declined from 36 million dollars to 35 million, while exports greatly decreased from 56 to 37 million (ibid, p.12). Hence, we see how the British influence in Chile (and more generally in Latin America) dramatically decreased in favour of the United States, and the implementation of Central Banks by the Kemmerer missions seems to have contributed significantly to this shift:

[...] United States investment in the five Andean countries increased more rapidly between World War I and the Great Depression than in any area in Latin America with the exception of Cuba and Venezuela (Seidel 1973, p.543).

However, the role played by these missions should not be overstated: they probably facilitated and amplified a process that had other, deeper, causes. Those missions took place at a moment of remarkable dynamism and international expansion of the United States, with its rapidly growing trade and capital flows to Latin America (and particularly to Chile), whereas Great Britain had a declining influence. It was already during the First World War that the US became the first trading partner to Chile, replacing its European partners, in particular the United Kingdom and Germany (Blackemore 1986). In the 1920s, huge US investments in Chilean copper mining challenged the British-controlled nitrate activity as the main exporting industry. Moreover, international US banks' lending boomed in the second half of the 1920s:

In New York, 400 million dollars in Latin American government bonds were issued in the first half of the [1920] decade. Between 1925 and 1930 those issues climbed to \$1,1 billion. [...] Latin American loans rose from 16,6% of government loans in the first half of the decade to 48,8% in the second half (Stallings 1987, p.74).

The Central Banks created by Kemmerer were not flexible enough to adapt to events such as the Great Depression, and their gold and currency reserves decreased dramatically, which led Chile to abandon the gold exchange standard in April 1932, some months after England did. In Robert Triffin's view:

As lenders of last resort, the central banks created by Kemmerer proved helpful in the avoidance of the bankruptcies which used to accompany a financial panic. Their role, however, and certainly their effectiveness, did not extend much further. Monetary management, in particular, remained outside their sphere of action. The money was tied to a rigid gold or gold exchange standard, the only way in which the bank could influence it being the manipulation of the discount rate. [...]

In fact, the Kemmerer banks constituted only a minor advance beyond the exchange-office system. (Triffin 1944, p.97)

The 1930s saw the rise of another type of Central Banks that were based on more flexibility, which the Argentine case best illustrates.

II. The Central Bank of Argentina: an active institution adapted to the country's structure

A) The context of its creation

The Central Bank of Argentina has been praised by its novelty, in particular during the forties and fifties, but it showed its originality since its creation in 1935. Prebisch's role as the general manager had also been applauded, in particular his use of counter-cyclical policies. Triffin considered that Argentina's Central Bank was one of "the most modern and powerful central banks of Latin America" (Triffin 1944, p.99):

In the short period since 1935 the Central Bank of Argentina has developed into an outstanding institution among central banks not only in Latin America but in older countries as well. Credit for this achievement is due largely to the brilliant leadership of Raoul Prebisch, general manager of the bank during most of this period, and to an extremely able staff of executives and research workers (ibid, pp.100-101).

Until 1935, Argentina did not have a Central Bank. The most important bank of the country, the Banco de la Nación Argentina (BNA) and the Caja de Conversión (currency board) fulfilled together most of the functions of a Central Bank. The Caja de Conversión was a financial institution created in 1890, and was responsible for maintaining the gold conversion of the peso and issuing the paper money⁵⁹. The BNA, created in 1891, was supposed to be in charge only of the credit operations (Pontón 2013). However, the BNA was ultimately serving

⁵⁹ It was only active from 1900 to 1929, since before 1900 there were no gold reserves (Pontón 2013).

as a Central Bank⁶⁰ although it was primarily not its role. With the outbreak of the Great Depression and the inconvertibility of the peso in 1929, the Exchange Control Bureau was created to stop the drainage of the reserves. Hence, three different institutions were fulfilling the roles of a Central Bank (Sember 2018). This system could not be maintained, and a Central Bank was needed.

According to Florencia Sember, Great Britain was not pleased when Argentina abandoned the gold standard in 1929 (as this could hamper dividend remittances from British firms) and started looking for solutions, in which a "money doctor" would be involved:

Functionaries of the Bank of England started discussing the necessity for Argentina to establish an orthodox Central Bank and adopt a gold exchange standard based on the pound sterling (Sember 2018, p.76).

From 1930, the Bank of England started to plan for a British mission to be invited by Argentina (ibid, p.78).

Sember argues that the Argentine government started planning for a Central Bank because of the British pressure. Hence, from 1931, the government started organising commissions for the creation of a Central Bank, and the young economist Raúl Prebisch was one of its important members. Prebisch agreed on the necessity of a Central Bank, arguing that the BNA was being overwhelmed, and the new institution could efficiently manage the

⁶⁰ The BNA was in charge of rediscounting, it was lender of the State, had the Government deposits, was the clearinghouse, and was considered as being the main bank in relation to the other provincial banks (Prebisch 1934b, p.355)

Depression. In the Memorandum on the Central Bank Project⁶¹, Prebisch expressed his concerns about the crisis and the situation of the commercial banks. He insisted on “the necessity of successfully facing every banking hardship, the urgency of amortising the floating debt, the interest of following a program of fiscal and monetary adjustment”, and a Central Bank seemed to be necessary to accomplish these goals (Prebisch 1931c, p.18).

In 1932, Finance Minister Alberto Hueyo invited Sir Otto Niemeyer, a British money doctor, to Argentina. The Niemeyer mission arrived in 1933, and after two months it delivered a project for the Central Bank's charter, and a project for a Banking Law (Sember, 2018). However, Niemeyer's projects were not really accepted by the committee and were instead greatly modified, especially by Prebisch⁶². Even though Niemeyer had come with the authority of a money doctor, his plans were not adapted to the necessities of the country. Besides, Niemeyer's influence in the plans of the Bank decreased greatly when the Minister Hueyo – who had invited him – quitted in 1933 (Sember 2018). Instead, Prebisch had a cyclical vision of the economy since the twenties, and with the Great Depression he identified a series of vulnerabilities of the Argentine economy that could not be properly addressed with an "orthodox" Central Bank.

The projects for a Central Bank evolved greatly from 1931 to 1935. At the beginning, the projects were more "orthodox" and the Bank's role was mostly a passive one, with the main objective of monetary stability and return to the gold standard. By 1935, the Bank had an active

⁶¹ Published in the *Revista Económica* of the BNA in 1934 but written by the end of 1931 according to the editor M. Fernández López.

⁶² Triffin considered that Niemeyer's project for an Argentine Central Bank only had "relatively few modifications" (Triffin, 1944, p.99), but we do not agree with that vision based on Sember (2010, 2018) detailed analysis of the differences, that we will shortly study.

counter-cyclical role, the monetary tools at its disposal were innovative and the gold standard was not an objective anymore. These changes could be explained by a stronger influence of the British money doctor through Alberto Hueyo before 1933, and a stronger influence of Raúl Prebisch after 1933 with the arrival of the new Finance Minister Federico Pinedo. They could also be explained by the evolution of Prebisch's thought from 1930 to 1935, that went from believing that maintaining monetary stability was enough to recover from the Great Depression, to advocating for State intervention and an active Central Bank to exit from the Depression and to soften the impacts of economic cycles.

B) Niemeyer's project and Prebisch's modifications.

Sember (2010, 2018) made an interesting comparison between Niemeyer's Central Bank project, and the project that was finally adopted in 1935, which was greatly influenced by Prebisch⁶³. Both projects differed in a number of key issues. In Niemeyer's project, the Bank was a joint stock company owned by national and foreign banks whose capital exceeded one million pesos; the national Government could not hold any share of the Bank. It was important to maintain the independence of the Central Bank. In the final project, the Central Bank was a mixed entity, the Government owning initially 50% of its capital. In Niemeyer's project, the Bank had to be managed by a president, a vice-president and 7 directors nominated by the General Meeting of Shareholders⁶⁴, 5 of them working in banks (two of which were foreign), one representing the livestock sector, and one the agriculture. In the final project,

⁶³ For this work, we selected the elements that seemed most important. For a more thorough analysis and for more information on the creation of the Argentine Central Bank and Prebisch's influence in it, see Sember (2010, 2012, 2018).

⁶⁴ The national government had to approve the nomination of the Bank's president and vice-president.

there were 12 directors, one nominated by the Government, 2 from public banks, 3 from national private banks and 2 from foreign banks; the production sector was represented by 4 directors: one from the livestock sector, one from agriculture, one from commerce and one from industry (Banco Central de la República Argentina, 1970; Sember, 2010).

The mission of the Bank, in Niemeyer's view, was to “regulate the volume of credit and demand for money in order to maintain the external value of the peso stated by the law” (Art. 3). Instead, the mission of the Central Bank in the Government’s project was to “concentrate enough reserves to moderate the consequences of fluctuations in exports and foreign capital investments, on the currency, credit and commercial activities, in order to maintain the value of the currency”, and to “adapt the quantity of credit and means of payment, to make them fit to the real volume of business” (BCRA 1970, p.681)⁶⁵. In other words, in the final project the Argentine Central Bank had to lead a counter-cyclical action by restricting credit and accumulating reserves during the ascending phase of the cycle, so that these gold and currency reserves could be used during the downward phase of the cycle⁶⁶. This would allow the country to adapt to the external fluctuations and to soften the impact of the cycles on the economy. This importance for monetary counter-cyclical policies is, however, different than the later goals of maintaining employment⁶⁷ and increasing the standard of living that were added in the reform to the Central Bank Charter in 1946 (Rougier 2018, p. 143). The goal in 1935 was still monetary stability, but the methods were innovative and adapted to Argentina’s structure. These

⁶⁵ Both projects are published in Banco Central de la República Argentina (1970).

⁶⁶ In general, Prebisch considered that investment should be made by savings, so "artificial credit" should be avoided, and the credit and quantity of money in circulation should be adapted to the needs of commerce and economic activity (Sember 2018, p.83)

⁶⁷ This goal was common to other Central Banks after the Second World War.

structural considerations were absent from Niemeyer's project, even though this problem of external vulnerability was of great importance in the Argentine economy.

In the same vein, Prebisch amended Niemeyer's project in its Art. 39, which established that, if the Central Bank reserves fell below 33% of the value of the circulating notes, the Bank had to raise its rediscount rate; in addition, the Bank would not be able to distribute dividends to its shareholders. The project that was sent to the Congress delated the provision related to the discount rate. As Prebisch explained later, "such a restrictive measure would have had serious repercussions on the general economic situation, when applied in a downward cyclical phase with gold exports" (BCRA 1972, p. 268).

Another important element was that Banking supervision was the prerogative of the Central Bank and not that of a distinct institution like in Chile. Sember points out that Niemeyer's project did not assign this function to the Central Bank, but was closer to Kemmerer's views. As we mentioned previously, if the Central Bank has this supervision function, it has the information needed to act quickly in case of liquidity shortages or any early sign of banking crisis⁶⁸. This conception of an active Central Bank with counter-cyclical objectives meant that the return to the gold standard was not part of the institution's objectives. In the project for a Central Bank of 1934, Prebisch argues that the Argentine structure was not compatible with a strict tie with the gold standard and its automatic mechanisms. External fluctuations or bad harvests could trigger massive gold outflow or inflow, destabilising the whole economy (Prebisch, 1934b).

⁶⁸ Furthermore, the Instituto Movilizador de Inversiones Bancarias was created along with the Bank and "its role was to buy frozen assets of banks and trying to pay them off gradually [...]" (Sember, 2018, p.84)

At first sight, it could seem that both Niemeyer's and the Government's projects aimed at the reestablishment of some kind of gold standard sometime in the future. Indeed, both projects stated that the Central Bank would be obliged to change its notes for gold or foreign currencies; although both texts also included a transitory provision that delayed the application of that article until the end of exchange controls (Niemeyer's project) or the adoption of a "special law" (Government's project) (Banco Central de la República Argentina, 1970). However, in Niemeyer's project, conversion would be made at the fixed gold parity established by the monetary law, whereas in the final project the conversion would follow the market's rates. Hence, in the final project, gold reserves had a central importance, but the principle of the gold standard was not respected. Based on archival evidence from the Bank of England, Sember argues that Niemeyer's project aimed at the adoption of the gold exchange standard based on the pound, although no specific currency was explicitly named in his project. This contrasts with Prebisch's project, in which foreign currencies included in the Bank's reserves could not exceed 10% of gold reserves, in order to reduce the cost of a possible devaluation of foreign currencies (Sember 2018, pp.87-88).

Regarding the monetary tools at the disposal of the Central Bank, Prebisch and Niemeyer once more differed. As previously mentioned, the Central Bank had an active role, and some of the most important tools at its disposal were open-market operations, rediscount and exchange control. Open-market operations were an essential counter-cyclical tool that allowed to "mitigate external fluctuations and regulate the liquidity of the market" (Sember 2018, p.85). Rediscount was not a new policy, as it was used by the BNA in October 1931⁶⁹ in order to avoid bankruptcies and maintain economic activity in the midst of the Great Depression. Exchange control had also proven to be an essential tool during the Depression

⁶⁹ Rediscounts were allowed since 1913 but were never used before.

because it allowed mitigating the deterioration of the balance of payments of the country. However, Niemeyer was against open-market operations and exchange control (ibid).

It is worth noting that both in Prebisch and Niemeyer's project, the agrarian and livestock sector could benefit for longer rediscounts than the industrial or commercial sectors. In article 32, both projects stipulated that the Central Bank could rediscount or acquire "bills of exchange or promissory notes arising from commercial operations that represent a real movement of merchandise" and "that expire, at the latest, 90 days after their rediscount". Both projects also give a longer expiry date for bills of exchange or promissory notes "arising from agricultural or livestock products", Niemeyer's suggested 150 days while the official project extended it to 180 days (BCRA 1970, p.674 and 687). A difference is that Niemeyer's project stipulated that the Central Bank could only rediscount these titles to shareholder banks, while Prebisch's project also included non-shareholder banks. We see that there was a preferential treatment for agricultural and livestock production. However, the Congress gave industrial production the same rediscount conditions than agricultural and livestock production:

Rediscount to shareholder and non-shareholder banks documents from operations related to the production, elaboration or negotiation of agricultural or industrial products [...] which expire at the latest within 180 days from the date of their rediscount [...] (Banco de la Nación Argentina 1935, p.157)

This remains, however, short-term commercial credit. The availability of long-term banking credit to finance investment only came with the reform to the Central Bank Charter in 1946. This shows that Prebisch was still not thinking about changing the agrarian export model, and that the Congress was perhaps more industrialist than him. We will study this aspect of Prebisch's thought more in depth in the next chapter.

We can see that Niemeyer and Prebisch did not share the same vision of a Central Bank. Niemeyer's project was essentially one of a passive Central Bank that should aim for monetary stability and maintain it thanks to the gold standard. Indirectly, it also tried to increase Argentina's dependency to Great Britain by pegging the peso to the pound sterling through a gold exchange standard based on the pound. Prebisch's conception of the institution gave more importance to flexibility and discretionary action. After working in the Research Bureau of the BNA, in the Finance Ministry and in the Agriculture Ministry, he had a first-hand experience of the economic structure of Argentina, and was increasingly aware of the problems caused by its external vulnerability and dependency. The Bank was an essential asset to maintain the internal stability and the economic activity, its role extended beyond the monetary sphere.

III. Conclusion

The Central Bank of Argentina was more adapted to the country's needs than the Central Bank of Chile because of Prebisch's influence. We saw that Kemmerer's Central Bank did not take into consideration the needs of a peripheral country such as Chile, but was consistent with the U.S. strategy of international expansion. Its orthodox conception based on monetary stability and the gold exchange standard failed to adapt to extraordinary events such as the Great Depression. Niemeyer's project was not radically different: it also aimed to the return to the gold exchange standard, did not give the function of banking supervision to the Central Bank, and the Bank's role was mostly passive. It was also an orthodox Central Bank that reflected the vision and interests of another major international power, Great Britain. The main difference between the Chilean and Argentine Central Banks was that in the last case, the

authorities understood that such kind of Central Bank was inappropriate for the interests of the country. In that aspect, the influence of Raúl Prebisch was determinant.

The global economic and financial crisis plus the fact that developed and developing countries alike had to abandon the gold standard had not been enough for changing the views of many monetary authorities and experts. Indeed, even though Niemeyer went to give financial advice well after the Great Depression, the Bank he proposed was not sufficiently equipped to face cycles and crises. The crisis by itself did not radically change his conception of Central Banking, and Kemmerer, for example, continued defending the gold standard during and after the crisis (Gomez Betancourt, 2008). By contrast, Prebisch was concerned by concrete problems faced by Argentina and took into consideration the peculiar situation of a peripheral country. That is why he gave such a great importance to counter-cyclical monetary policies and designed an active Central Bank. Hence, from 1935 to 1938, the Bank focused on counter-cyclical policies, creating reserves during the periods of bonanza to use them during the periods of need. With the Second World War and the disruption of international trade, the Bank adapted its action. It advised for import-substituting strategies and helped promoting the national industries with exchange control and facilitated credit (see chapter 3). This shift was possible thanks to the flexibility and discretionary action that was given to the Argentine Central Bank in its creation, which lacked in the Central Bank of Chile.

It is important to note that this flexibility is relative to its own time and to the other Central Banks of the region. The BCRA was more flexible than Chile's Central Bank designed by Kemmerer and than the one proposed by Niemeyer. Not only it gave an agrarian country tools for softening its cycles (i.e., palliating to their external vulnerabilities), it was also more adaptable to change if the government wished to start an industrialization-based growth as it happened in the beginning of the 1940s. However, the limits of the Bank – in particular regarding long-term credit – were evidenced in the second half of the 1940s, when the Peronist

government wanted to further Argentina's industrialization effort (Rougier 2018, pp. 140-143). Hence, in 1946, the BCRA was nationalized and its Charter modified to follow the government's development program through industrialization:

The new orientation indicated to the Central Bank manifested itself fundamentally in the extension of its functions to the field of the general economic policy of the country, defined and expanded by the new Organic Charter. [...]

[...] in addition to extending the functions of the Central Bank in the economic field, it was also endowed with the necessary means to intensify the action that it had already been carrying out as a regulatory body for currency, credit and the stock market. Likewise, the Institution was responsible for drawing up and applying the exchange policy. [...]

[...] by means of exchange control, it will be able to [...] give rational use to foreign currency, applying them preferentially to the payment of the most useful imports for the economic development of the country and for preserving industrial employment (BCRA 1947, pp. 17-18).

Still, at his time, Prebisch designed the Central Bank with national independency in mind. He had seen the importance of flexibility with the Great Depression, as we saw in chapter one. Even though he still had not elaborated his development theory centred around industrialisation, the monetary tool was key to maintaining the economic activity of the country. This would allow Argentina to be more economically independent, as the country would be less vulnerable to international cycles. Besides, Prebisch tried to maintain independency from Great Britain by trying to lessen the importance that British pound (or any other foreign currency) could have on the institution. Overall, the Central Bank was for Prebisch an important asset for the sovereignty of Argentina. This is particularly clear when we compare it with the limitations of the Central Bank of Chile. It is another milestone in his development thinking, that he will develop further notably during the 1940s when he endorsed

the role of “money doctor” in Latin America, notably counselling Paraguay (1945) and the Dominican Republic (1946) for the creation of their Central Banks. We will elaborate this point with more detail in next chapter.

Chapter 3. How industrialization became the core of Raúl Prebisch's thought

In this chapter, I aim to contribute to the understanding of the evolution of Prebisch's thought through the study of the period spanning from 1933 to 1949. I focus on the nuances in his thought that led him to advocate for development through industrialization. The hypothesis I want to verify is that it was natural for him to abandon the agrarian export-led growth and embrace industrialization as the main driver for development during that period, because he was a pragmatic economist and policy-maker that put the improvement of the living conditions of the population above the defense of dogmas. I show that even if the process that led him to advocate for industrialization was complex and non-linear, the evolution of his thought was coherent. Studying these nuances is crucial to understand how Prebisch the policymaker and Prebisch the theoretician constitute an intricate identity that creates an internal struggle perceptible in his writings.

The literature surrounding this period in Prebisch's thinking is rich and diverse. Florencia Sember (2010, 2012, 2013, 2018) has studied the evolution of and influences on Prebisch's monetary thought as well as his role in the creation of the Central Bank of Argentina. Adolfo Gurrieri (2001) described the evolution of Prebisch's thought by comparing his pre-Depression ideas with the ones he had in the 30s and in his iconic work of 1949, *The economic development of Latin America and its principal problems*. Norberto González and David Pollock (1991) gave a nuanced view on how Prebisch's thought changed from 1919 to 1943 yet maintaining some continuity. Esteban Pérez Caldentey and Matías Vernengo have studied, among other things, the influence of John Maynard Keynes's thought on Prebisch (2015), his

cycle theory (2011, 2016), as well as the evolution of his thought before the 1950s (2012). Joseph Love (1980, 1996a) has studied some aspects of the formation of Prebisch's thought and focused on the theoretical influences on it. There is a consensus in the work of the abovementioned authors that Prebisch's ideas on industrialization emerged with the Second World War, but none provide an in-depth analysis of the transition process, which began several years earlier.

In this chapter, I show that he proposed applying some industrial policies in the early 1930s, while still supporting agrarian export-led growth until 1939. In fact, the evolution of his thought followed a path that was not simple. He could change his policy recommendations without immediately reflecting this change in his theory. The study of the period 1933-1949 allows us to see how Prebisch's stance on industrialization goes from a circumstantial measure to a structural one. Indeed, the international context of the Second World War was decisive in his adoption of industrialization as a structural policy, and the reasons behind it are linked to the Argentine experience, Prebisch's disillusion regarding international trade, his growing concerns surrounding economic and political independence, and his perception of Latin American countries as a periphery sharing similarities. During the period 1933-1949, there was also an evolution in his vision of the cycle, of the monetary policy and the role of credit, and of the international integration of the periphery. Abandoning the agrarian export-led growth strategy in favor of industrialization was a key step that allowed for all these aspects of his thought to come together coherently. This chapter intends to contribute to the literature by showing how and why Prebisch finally decided to change the growth strategy and elaborated his development theory.

This chapter will be structured in two parts. The first part focuses on the period going from 1933 to 1939 in which Prebisch mainly addressed short-term economic problems in

Argentina from his policymaking positions, the most important being General Manager of the Central Bank (1935-1943). For instance, he designed a recovery plan to end the depression in 1934, and from 1935 on, he applied counter-cyclical policies. Although he did show his concern for supporting national industries, his goal was to increase employment and recover from the Great Depression. During this period, Prebisch was not questioning the agrarian export-led growth model but rather designing policies to compensate its flaws.

The second part covers the period from 1939-1940 to 1948, in which Prebisch experienced the economic and international consequences of the Second World War from within the Central Bank and after he was dismissed from his functions. The War changed the international scene and made the agrarian export-led growth model no longer viable in Prebisch's eyes. His first-hand experience with the Argentinean economic situation made him identify the dependency on primary commodities as the country's main source of vulnerability. Even though there were possible theoretical influences, they do not seem central in this change. After being dismissed from the Central Bank in 1943, Prebisch focused on deepening his intellectual work, placing it into a larger (regional) framework and a long-term vision of economic development. He contended that the only way for Latin America to maintain a stable economic growth and develop was to adopt industrialization as the new growth strategy.

I. Growth strategy based on exporting agrarian products should be adjusted, but maintained

A) The Great Depression gives impulse to the domestic industry in a short-term perspective

Looking for a new recovery strategy

It is generally accepted in the literature that the Great Depression was a milestone in Prebisch's thinking (González and Pollock 1991; Gurrieri 2001; Dosman 2010; Pérez Caldentey and Vernengo 2012). Indeed, when the crisis started, Prebisch still adhered to the Quantity Theory of Money and relied on market self-regulation to exit from the crisis. He believed that there should not be interferences in the monetary market such as money emission or credit directed to investments, even if they were productive, because it would cause "serious monetary disruptions" (Prebisch 1934b, p.369).

However, the crisis lasted longer than he had expected, and the restrictive policies he advised were not having the desired effect. Argentina's main source of growth was the production and the export of agrarian products, whose prices greatly fell with the Great Depression. Furthermore, Argentina's economic partners were applying protectionist measures, which made it more difficult to increase exports and affected the economic activity.

Prebisch was aware of this fragile situation and realized that Argentina should not rely on an international recovery to exit from the Depression. He thus started looking for other recovery strategies, and in this context he was greatly influenced by Keynes. During his stay in England for the Roca-Runciman negotiations of 1933⁷⁰, Prebisch had read Keynes's articles

⁷⁰ The Roca-Runciman Treaty (1933) was a bilateral trade agreement between Argentina and Great Britain.

published in *The Times* in March 1933, well before his *General Theory*, as he confirmed in an interview later in his life:

They were tremendously heretic from an economic point of view. They had an enormous influence on me: [Keynes] was supporting an expansive policy to overcome the world depression. [The articles] conquered me and landed on fertile ground because I had remorse for having advised and succeeded [in applying], from 1931 until mid 1932, the most orthodox policy, when I was undersecretary at the Ministry of Finance: a policy of contraction, according with the accepted theory that the crisis had to be dealt with austerity measures, cutting public works, cutting the budget, lowering wages, etc. And [...] facing the prolonged world depression, that we all thought was transitory, [...] I began having many doubts about my orthodox theory. And I started to think of an expansive policy. That's why Keynes's series of articles attracted me so much, and converted me in a supporter of an expansive policy (Quoted by Fernández López 1991, p.146).

The economic recovery plan that Prebisch wrote in 1934 as an advisor at the Ministries of Finance and Agriculture, *El plan de acción económica nacional*, is the result of his search for a new recovery strategy and of Keynes's influence. This plan is particularly interesting as it is the first time that Prebisch puts forward the national industries and their importance for growth. He considered that Argentina's economic recovery should rely on internal factors and not on an increase in exports, since an upturn in the world economy could take a long period of time:

The illusion of a near improvement in the international economy should not keep us in waiting. [...] The stimulus that the Argentine economy imperiously requires can hardly come from outside. Solutions must be found within the country itself. (Prebisch 1934a, p.149)

Consequently, the State had a predominant role in spurring the economic recovery: it had to create employment by using "extraordinary measures" (ibid) in the fields of monetary, fiscal and industrial policies. These policy measures complemented each other, as we will show.

Devaluation and exchange controls to increase internal prices and limit imports

One of these "extraordinary measures" consisted in a voluntary devaluation of the national currency, the peso. At the beginning of the Depression, Prebisch considered that the main priority was to maintain monetary stability and avoid the devaluation of the peso. Indeed, after a 20% devaluation in 1929, the official exchange rate of the peso stayed at the same nominal level until the end of 1933. Only in November 1933 the peso was devalued a further 20% (Cortés Conde, 2009). However, Prebisch now considered that the peso remained "overvalued" and was harming indebted rural producers. He contended that a further devaluation of the peso and an inflation of agrarian prices would help improve the rural producers' situation, and that of the rest of the economy:

[...] the internal rise of primary prices would soothe the situation of producers. Agriculture and livestock prices have decreased by 43% compared to 1929 [...]. However, a considerable part of expenses and debts that gravitate around the producer are still almost the same as before (Prebisch 1934a, p.151)

Overvaluation indirectly subsidized imports in Prebisch's eyes. With higher prices, rural income would increase⁷¹, and there would be more internal spending and production, as imports would be limited by devaluation.

Prebisch also recommended strengthening the exchange controls, which were in place since October 1931⁷², by implementing a "permit" system:

To have access to the exchange market, the requestors need the corresponding permits. These permits will continue being necessary for a while to avoid a speculative demand of exchange, capital flight and disproportionate imports (ibid, p.154).

In 1934, he proposed to establish an Exchange Control Bureau, to which importers, enterprises and other agents would communicate daily the quantity of foreign currency they would like to acquire and at what prices. Exporters would provide the quantity of foreign currency. By the end of the day, the highest bidders would receive foreign currency. This measure would limit imports when foreign currencies are scarce. In addition, exporters would be obliged to sell their currencies to the banks at a price that they would negotiate in different periods. If the Bureau had profit after selling the currencies to the importers, part of that profit would fund the Junta Reguladora de Granos, a new institution created in 1933 to help the agrarian producers by buying their production and selling it in the international market. This

⁷¹ “[...] people did not want to harvest wheat because the price was too low. It was November 1933. The situation could not be more critical in Argentina” (Prebisch quoted by Manuel Fernández López 1991, p.148).

⁷² Prebisch had participated in the establishment of exchange controls in 1931 (Prebisch 1931b). As the General Manager of the Central Bank from 1935 to 1943, he will use exchange controls as a normal instrument, complementing the monetary policies aimed at sustaining the economic activity.

would grant a better revenue for the producers when international prices are low (Prebisch, 1934a, pp.152-154).

However, these monetary measures alone would not be enough to recover from the crisis and create employment, which had become Prebisch's major preoccupation. Fiscal stimulus was needed.

The State should create jobs and increase employment by stimulating industries

In order to create employment, Prebisch suggested a large program of public works in 1934. Although he did not specify the nature of these works, he suggested a public-private cooperation in which an external stimulus coming from State expenditure would encourage firms to hire more workers⁷³:

Private industry cannot absorb the unemployed [...]. It is clear that if all the industries managed to do it simultaneously, the additional production would be consumed thanks to the extra purchasing power coming from the newly employed. But this simultaneous movement can only happen by stimulus coming from outside the industry. And the most effective stimulus [...] are the works carried out by the State. (Prebisch 1934a, p.155).

This would mean that public works would not only directly create jobs but would indirectly stimulate a general increase in employment. This idea is similar to Kahn's multiplier, which Keynes used in his 1933 articles (Keynes 1933, pp.10-11).

Argentina already had an industrial base, mainly consisting of textiles and other consumption goods, which could be stimulated by import substitution. Indeed, since the 1920s,

⁷³ However, Prebisch does not encourage public indebtedness. These public works should be financed with the available resources of the State that would be increased by the spur of the national industry.

there had been growing investment in the textile industry that substituted imports, not only of finished products, but also of machinery and raw material (cotton) (Cortés Conde 2000). This industry became more competitive following the devaluations. In the 1930s, the light metallurgical industry was also a dynamic sector that used local inputs, contributing to import substitution. However, the production of machines was not sufficient for the entire domestic industry, and the increase of domestic manufacturing production caused an increase in the imports of inputs and machinery (Rapoport 2010). Hence, Prebisch specified that industries should apply methods that were labor intensive and use nationally produced inputs:

It is necessary to opt for those works that use in a greater degree the workforce and elements of the country, since our exports do not allow us to increase imports of foreign goods. (Prebisch 1934a, pp. 155-156)

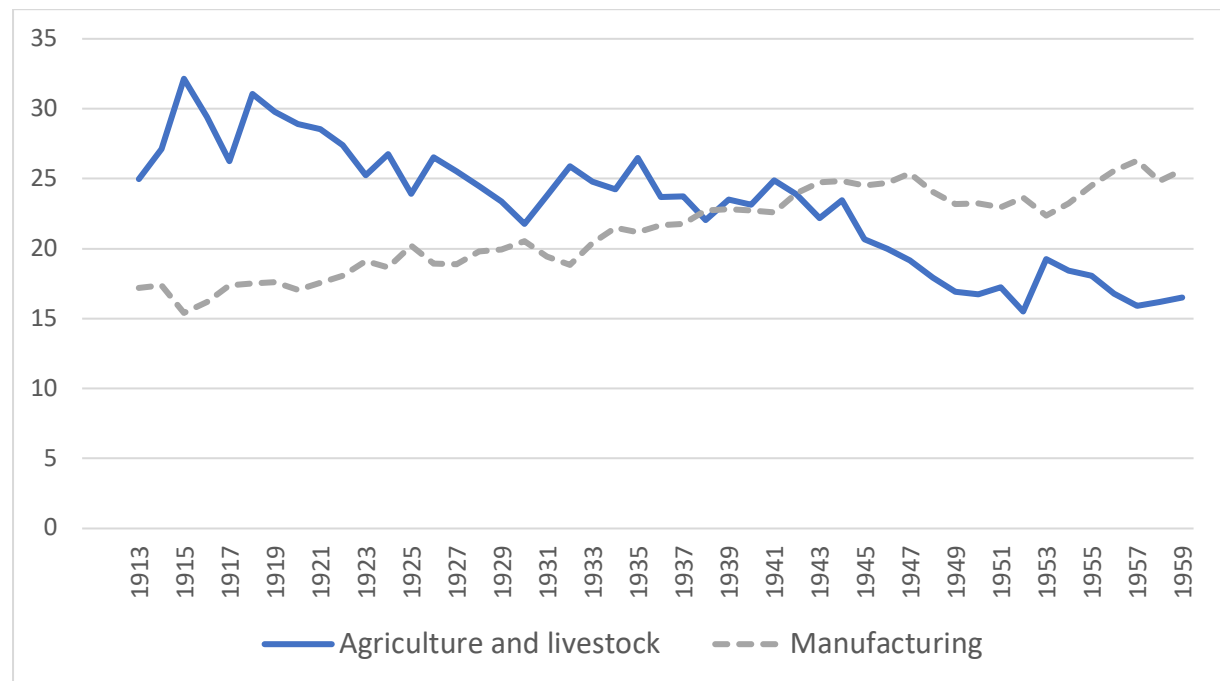
This recovery plan went even further in prioritizing national production, including through import substitution:

[...] The execution of a vast public works program will translate into an immediate increase in demand for a large quantity and variety of merchandise that Argentina produces or can produce. And here we come to a point that must be pointed out: the preventive control of imports will allow this demand not to stimulate imports and be used to promote internal economic activities. (ibid, p.157)

In this plan, Prebisch gives the State an even bigger role than Keynes does. Indeed, this control of imports and promotion of domestic industries would not simply help with economic recovery but could spur an import substitution industrialization that would affect the economic structure. The magnitude of this import substitution is not specified, and there is no clear sign that Prebisch's goal was to modify the economic structure. His main goal seems to be ending

the Depression and increasing employment. Still, deliberately or not, his plan contributed to the on-going rise of manufacturing vis-à-vis primary productions (figure 2).

Figure 2. Argentina: Value added in Agriculture and livestock and in Manufacturing as a percentage of GDP at cost prices, 1913-1959



Source: CEPAL (1978). Statistical series are measured at constant 1970 prices.

A short-term set of measures?

In 1934, Prebisch had explicitly noted that the plan stimulating the industries emerged from the urgency imposed by the Great Depression and insisted on the need to spur demand:

The country needs a plan. [...] The Government does this with the awareness of its grave responsibility and persuaded that a long and intense crisis like this, which can affect the entire structure of the Nation, must not be addressed with the traditional rules of administrative action. (Prebisch 1934a, p.157)

Each unemployed person spreads its evil to those who are employed because they [consume less] of what others produce. An unemployed person automatically creates other unemployed. (ibid, p.148).

But this was not part of a planned strategy of industrialization. As soon as the economy recovered, Prebisch stopped talking about the industry and focused on stabilizing the agrarian export-led economy. In fact, the political elite of the country still believed that the agrarian export-led growth model had to be restored (BCRA 1940) (Rapoport 2010; Dorfman 1983). Even the Argentine Socialist Party believed in comparative advantages and was against industrial protectionism in the 1920s, because it increased the price of consumption goods (Love 1980, p.48).

Javier Lindenboim (1976) shows that even among business associations in the industrial sector, there was no consensus on the type and intensity of industrialization. The most important of them, the Confederación Argentina del Comercio, la Industria y la Producción (CACIP), warned against an “over industrialization” in the early 1940s. Along with the Asociación del Trabajo, they favored the status quo. At the same time, the Unión Industrial Argentina (UIA) – which represented both big and small Argentine enterprises – claimed for a deeper industrialization process and more policies favoring the industrial sector. It is important to note that the CACIP included services and manufacturing firms; its capital was almost completely foreign (95%) and also represented agro export interests. On the other hand, although the majority of the UIA’s capital was foreign (54%), half of its members were leading national enterprises. Yet, the UIA’s interests were not always consistent (Lindenboim 1976, p.195). Therefore, there was not a unified voice in favor of industrialization.

According to Adolfo Dorfman (1983), the measures applied in Argentina in the 1930s to promote the industry were not sufficient for triggering a sustained industrialization process,

and it was uncertain that the industrial impulse would continue after the Depression. Besides, credit was not adapted for industrialization since long-term credits were almost inexistent and short-term commercial credits were the norm.

Indeed, for a long time – as policy advisor in the BNA and later as General Manager of the Central Bank – Prebisch opposed issuing long-term credit for investment, since he considered that investment should result from savings and not from credit. In his views, short-term credits should be used to maintain the level of business, while long-term credits for investment “are incompatible with the principle of liquidity of the banking asset” (Prebisch 1932, p.43).

Investment operations, even if they are extremely productive, must only be financed with the population’s savings, that is transformed into capital. Savings are not supplied by credit, especially not with [the Central Bank’s] credit, because [savings and credit] fulfil distinct functions (Prebisch 1934b, p.369).

Only in 1940 he will be more flexible regarding the long-term use of credit, but he will not change his mind about how investments should be financed until (to some extent) 1944, and (more clearly) 1948, as we will see in the second part of this chapter. Argentina’s credit system was mostly designed to maintain the level of business stable but not to create new productive activities. The recovery plan of 1934 mostly spurred light industries and mild import-substitution with the objective of increasing employment. Even after the Depression, the industry was still not a general priority for the policy makers. This remained Prebisch’s stance while acting from within the Central Bank before the Second World War.

B) Monetary counter-cyclical policies replace industrial policies

A focus on the Argentine economic cycle

As seen in chapter 2, Prebisch played a decisive role in the creation of the Central Bank in 1935, from the writing of its Charter to the Banking Law adopted the same year (Sember 2010, 2012, 2018)⁷⁴. He was its first General Manager, until 1943. Hence, we can understand much of Prebisch's monetary thought and his approach to monetary policy through the charter of the Bank. We can also find his policy recommendations as the General Manager of the Central Bank (a position he held until 1943) in the Annual Reports of the Central Bank of Argentina⁷⁵. It is commonly accepted that these reports illustrate Prebisch's ideas, even if the authorship is not explicitly specified⁷⁶ (Fernández López 1991, p. 511; Dosman 2010, p.131; Love 1996b, pp. 125-126).

By 1935, Argentina had practically recovered from the crisis. Therefore, Prebisch's policy recommendations were not focusing on resolving an emergency anymore, but rather on longer-term monetary and economic stability. In this task, his views on the economic cycle are

⁷⁴ As stated in chapter 2, Prebisch re-drafted critical parts of the project prepared by the British money doctor Sir Otto Niemeyer in 1933 which, in Prebisch views, did not address the vulnerabilities of the Argentine economy. Prebisch gave more importance to flexibility and discretionary action, in accordance with his cyclical vision of the Argentine economy. He thus created an active Central Bank that was an essential asset to maintain the internal stability and the economic activity, and whose role extended beyond the monetary sphere.

⁷⁵ One of Prebisch's tasks as the General Manager was to act as Director of the Annual Reports of the Central Bank (Memoria Anual del Banco Central). These reports gave a summary of the economic and monetary situation of the country during the previous year, provided policy advice, reported on the general banking situation and gave some technical details about the Central Bank.

⁷⁶ Fernández López is categorical when he claims that these reports "were at all times under Prebisch's immediate control, when it did not emerge simply from his own handwriting" (Fernández López 1991, p. 511).

of paramount importance⁷⁷. They remained practically unchanged in the 1940s, as it can be seen in his 1944 lessons on economic cycle delivered at the Buenos Aires University.

After the Great Depression, Prebisch confirmed his early ideas of the 1920s that because of Argentina's socio-economic structure, the country's cycles and their consequences were different from those in Europe and the United States⁷⁸. An agrarian country like Argentina could not control the flow of foreign capital, the volume of agrarian production, the level of prices or the volume of exports. Furthermore, the prices of its production were often subject to fluctuations in international markets. Industrialized countries had a stronger position in those markets, suffered less from price fluctuations and tended to be advantaged by the terms of trade (BCRA, 1939, pp.5-8). In those countries, cycles were endogenous.

Therefore, the Argentine cycle "was tightly linked to external cycles" that the country could not control (BCRA 1939, p.5). Prebisch will later be more assertive on the external nature of the Argentine cycle:

I have never observed, neither in the cycles that I have seen closely nor in those that I studied in our history, the existence of internal elements with enough force to promote our cyclical movement by themselves. (Prebisch 1944f, p.371)

This is not the same thing as considering that cycles result from external shocks, because for Prebisch the economy is cyclical by nature. This simply means that, in Argentina,

⁷⁷ Prebisch assessed that he exposed his first interpretation of the cycle in the 1938 Annual Report of the Central Bank, written in 1939 (Fernández López 1991, p.647).

⁷⁸ As stated in chapter 1, Prebisch had been influenced by Williams's analysis of the Argentine economy. The latter had identified a "strong economic dependence on its foreign transactions, be it trade or borrowing" (Sember 2010, p. 90).

the origin of the cycles is not to be found in internal factors, but in its relationship with the central countries through the balance of payments channel.

Prebisch identified a proportionality between the upward and the downward phase of the cycle: if no counter-cyclical policies were implemented, the amount of capital outflow during the downward phase would be as great, if not greater, than the inflow during the upward phase, causing a dramatic contraction of economic activity:

The fundamental problem of the cycle is as follows: a given increase in exports or investments of foreign capital causes a broader expansion in domestic economic activity and in the volume of income; just as a decrease in the former brings with it a contraction, also of greater magnitude. (Prebisch 1944e, p. 350)

The upward phase of the cycle was exacerbated by the banks' tendency to expand credit when their reserves increase. This led to an increase of both their commercial and investment credits. The latter could bring "monetary disruptions" (BCRA 1939, pp.8-9) because they created "artificial means of payment" (ibid, p.8; Prebisch 1934c) that was "not justified by a real increase in the volume of commerce" (Prebisch 1934c, p. 316). During the upward phase of the cycle, both the natural and the artificial increase in the means of payment would expand demand⁷⁹. Since Argentina did not produce enough machinery or industrial products, an increase in demand would ultimately result in an increase in imports.

The downward phase of the cycle was characterized by an outflow of foreign capital as well as a decrease in exports, but there remained a high demand for imports because of the lag

⁷⁹ At this point Prebisch had abandoned the causality between means of payments and prices argued by the Quantity Theory of Money, but he still considered that an increase in the means of payments (credit) would increase demand and not the other way round.

in demand adjustment. That is why Prebisch deplored the "artificial" credit expansion; it would worsen the deficit in the balance of payments, and the downward phase of the cycle would be more intense. Consequently, countries would see a depletion of their gold and currency reserves and would be obliged to greatly devalue their currencies (BCRA 1939, pp.5-9). Banks' liquidity shortage would be even worse if they had granted credits for long-term investments. Prebisch's analysis of the Argentine cycle thus adapts Khan's and Keynes's multiplier to a country that is very import-dependent⁸⁰.

Main counter-cyclical policies: controlling credit and capital inflows, and building up reserves

In the Annual Reports for the years 1935 to 1938, Prebisch's concerns revolved around monetary stability and the necessary counter-cyclical role of the Central Bank, which is part of its mandate. As we have seen in chapter 2, an important tool was reserves management. Accordingly, Prebisch made the arrangements to accumulate part of capital and gold inflows in times of bonanza and use them during times of need.

In addition, Prebisch focused on adapting the quantity of money to the necessities of the businesses, aiming at monetary and credit stability (BCRA 1936, p.1). He considered that the banks should be cautious and should not systematically grant credit even if their reserves were well above minimum requirements; in fact, the gold and currency reserves corresponded in 1935 to 138% of the circulating money (ibid, p.21). In his view, banks should accumulate

⁸⁰ "This expansion coefficient that I wish to explain in relation to the economic cycle has an apparent similarity with another coefficient that Lord Keynes has calculated in one of his books and that has been popularized with the name of the 'multiplier'. [...] They are both based on a substantially different theory. It is possible that my ideas in this matter have some part of originality, resulting from my observation of the Argentine reality and the systematic reflection that I have been doing about it" (Prebisch 1944e, p.350).

reserves in the upward phase and use them during the downward phase of the cycle (BCRA, 1937, pp.2-4).

Prebisch was aware of the destabilizing effects caused by short-term capital movements, which are called “floating funds”:

Floating funds do not go where they are needed, but precisely where they are not, and migrate as soon as the unfavorable evolution of the economy would have made them useful to stay. [...] We are continuously exposed to the inflow and outflow of foreign funds, which move nervously from one country to another. They escape other places and arrive to Argentina, brought by an excessive optimism, which is as baseless and damageable to us as the dark pessimism that suddenly replaces it (BCRA 1938 p. 10-11).

In the absence of countervailing policies by the Central Bank, these movements would affect the exchange market and the credit supply by the banking sector. Therefore, in addition to the measures aimed to delink bank credits from their foreign reserves, the Central Bank adopted two supplementary measures: first, it discouraged short-term capital inflows by forbidding the remuneration of bank deposits originated in foreign funds; and second, it created a “free exchange market” where those funds would be traded, separately from foreign trade transactions, channeled through the official market. Since domestic prices were only affected by the exchange rate set in the official market, the fact of excluding “floating funds” from it sterilized much of their impact. If it was difficult to avoid such capital movements, at least it would be possible to reduce their negative effects.

Investments can cause instability if they are not financed by savings

Prebisch considered that investments could worsen the cycles if they were not carried out carefully, and in particular if they were financed by bank credit. He contended that the

Central Bank had to absorb circulating money to prevent banks from “expanding their loans and investments and issuing new quantities of circulating money not required for the development of transactions” (BCRA, 1938, p. 17). Moreover, he argued that banks should restrain their long-term loans to maintain their liquidity (BCRA 1939, p.10).

Likewise, public works and other investments should be financed by savings, not by credit⁸¹:

It is not possible, without serious consequences for monetary stability, to substitute or increase through banks’ discretion the real amount of savings that people effectively want to invest each year in public funds (BCRA 1938, p.21).

Indeed, Prebisch considered that “savings are [...] the only way to constitute capital” since credit cannot substitute savings. However, it was possible for the banks to prudently use savings deposits to finance investment, since this would not create additional purchasing power (BCRA 1939, pp.13-14). Furthermore, the State should not use credit in order to spend because it would increase the means of payment without following the needs of transactions, and it would thus create new purchasing power that could increase imports (BCRA 1938, p.21). Contrary to credit, savings were already present in the economy, so mobilizing them for investments would not create artificial means of payment, would not bring "monetary disruptions" and would not increase the demand for imports beyond the capacity of the country. If banks followed these precautions and if counter-cyclical policies were applied, it was enough for the country to solidly face normal cycles:

⁸¹ The distinction between savings and credit in Prebisch’s writings will be further developed in section II- B).

Having consolidated the [country's] finances, money and banking system, and with important monetary reserves, [the country] can peacefully confront these disruptions (BCRA 1938, p.2).

We see that Prebisch was still concerned with achieving monetary stability and "healthy" finances, but instead of applying deflationary policies (which he proposed in the early thirties), the Central Bank had to actively control credit and monetary reserves through counter-cyclical policies.

Counter-cyclical policies do not aim to change the productive structure

The counter-cyclical policies advised by Prebisch were a significant step-forward in Argentina regarding the intervention in the monetary market and in reconsidering the *laissez-faire* in economics. It showed that economic phenomena could and should be controlled by the State and public institutions. The cycle did not have to be passively endured.

Even though Prebisch understood that cycles in Argentina resulted from its agrarian status, he did not question the Argentine economic structure and its integration in the international division of labor. The counter-cyclical measures were a way to maintain Argentina's agrarian status with a relatively small industrial production and better withstand the cycles within that position. They were not aiming at a change in the country's structure and thus a change in the type of cycles the country would experience. As already mentioned, Prebisch strongly opposed the use of credit to invest in new projects "no matter how good they are" (BCRA 1939, p.14). We believe that this mind-set obstructed the development of an industrial policy, because it considered that only savings could finance investments, and savings tended to be insufficient (ibid, p.13). In fact, restraining the use of credit to commercial operations in already existing activities was a way to maintain the *status quo* and the country's agrarian condition.

Prebisch had previously emphasized the importance of the industrial sector as a way to make the country exit the Depression, but after 1935 he does not seem to give this sector an important role. This could be because he was now immersed in monetary considerations as the General Manager of the Central Bank. But it also shows that he considered the industry as a short-term solution to spur the economic activity and not as a long-term plan to change the productive structure of the country and the strategy of growth. In addition, his opposition to the use of long-term credits for investment was a supplementary obstacle for a structural change.

Summing up, until the start of the Second World War, Prebisch had not abandoned the old development scheme. He championed State's economic intervention, which included supporting the industrial sector, but with a counter-cyclical and short-term perspective. During the period between the Great Crisis and the Second World War, Prebisch focused on the counter-cyclical role of the Central Bank and did not suggest active policies favoring an important development of the industry. He still considered that the agrarian export-led growth model was the best strategy for Argentina after international trade recovered from the Great Depression. We will now show how his point of view changed with the beginning of the Second World War.

II. Industrialization as a new growth strategy for Argentina and Latin America

When the Second World War broke out, Argentina's exports towards Europe shrank significantly, and imports were difficult to find as supplying countries shifted towards war economy. The terms of trade also deteriorated: in 1939, Argentina's imports were 36% more expensive than before the war (33% in 1940) whereas its exports were only 18% more

expensive (and in 1940 they were 4% cheaper than before the war) (BCRA 1940, pp. 1-2; BCRA 1941, p. 2). Furthermore, the State had to buy the unsold surplus in order to maintain the purchasing power of the population (Prebisch 1940; BCRA 1941).

From within the Central Bank, Prebisch greatly worried about Argentina's trade situation in general, not only about monetary problems. This change of priorities – mainly due to the emergency derived from the War – seems to have triggered a change in his vision of economic growth and the role of the Central Bank as a support to the economic activity. Prebisch's growing involvement in the political debate shows how he started considering that monetary policies, fiscal policies, international economics and politics were tightly linked. Even though he needed to provide short-term solutions to Argentina's immediate problems, he had a global view of the Argentine economy and a new strategic goal: industrialization.

A) The Second World War reveals the importance of the industry

The problem of bilateral trade agreements

Since the Great Depression, bilateral trade agreements were becoming more common and replacing multilateral trade. For example, Argentina had signed bilateral compensatory trade agreements with England in 1933 (the Roca-Runciman pact), with Belgium, Holland, Switzerland, Germany and Spain in 1934, and with Italy in 1937, among other countries. As a consequence, by 1937, these countries provided 55% of Argentina's imports (O'Connell and Seibert 1984, p.30). Prebisch was very critical towards bilateralism, which was intensifying because of the War. He contended that the “generalization [of these bilateral agreements] severely harms the international trade”, because it “segregates [trade] between hermetic

compartments and forces the transactions within each of them in search for bilateral equilibrium” (BCRA 1940, p. 13).

Besides, he considered that these bilateral compensatory trade agreements were mostly benefitting the stronger countries that used them to exert their domination in the international market (BCRA 1942, p.11). He thought that “some countries” were “using their status of large importers from other countries to ensure their own exports there, be it for commercial reasons, for currency or – in the case of some European countries – for international politics” (BCRA 1940, p.13). In this system, most of Argentina’s imports “stopped being chosen based on their prices, quality, or consumer preferences” but were bought to the countries from which Argentina had accumulated currency reserves (BCRA 1942, p.11). Prebisch implicitly criticized the United States for protecting its markets with high tariffs that blocked Argentine exports, and identified this protectionism as “one of the most important causes of the propagation of bilateral compensatory trade agreements” (BCRA 1940, p.13).

Another important problem of these bilateral treaties was the international transfer of foreign currency. Indeed, with the War, the conversion between currencies was obstructed and the commercial surplus had to be kept in the currency it was issued. For instance, Argentina accumulated important reserves in pounds because of trade surplus with Great Britain. These reserves, which were trapped in the Bank of England, presented two problems: if the pound depreciated, Argentina would lose money; and more importantly, the country could not use these reserves to import products from other countries, at a moment when Great Britain could not satisfy most of Argentina’s import needs⁸² (BCRA 1940, pp.9-10). This hardship is precisely what Prebisch intended to avoid when he conceived the Central Bank in 1935. Indeed,

⁸² Argentina had the same problems with France, but in a smaller scale.

its Chart (art. 40) stated that the share of reserves held in foreign currencies (instead of gold) should not exceed 20% of total reserves. However, of that 20% allowed, only up to 10% could effectively be counted as reserves (BCRA 1970, p.690)⁸³. Hence, not only the Central Bank was forced to accumulate pounds, but it was not allowed to compute most of them as Central Bank reserves.

Prebisch contended that if the international trade regained its past fluency, Argentina would continue to follow the agrarian export-led growth model. However, he warned that if the bilateral trade agreements would prevail after the War, and “if the international exchange continued being oppressed with decisions that further deteriorate it”, Argentina would have to consider more inward-looking growth strategies:

We will have to look within our own strengths [...] how to maintain economic growth and to develop our monetary tools to better respond to the interests of the national activity. (BCRA 1940, p.14)

Substituting imports: a leading role for industry

The idea of changing the structure of the Argentine economy became recurrent in Prebisch's texts after the War started. A bigger and diversified industry would help access to new markets and would satisfy domestic demand. But more importantly, Prebisch was losing hope for a restoration of international trade as it was before the Depression, so he was also losing hope on the export-led growth model as a viable growth strategy.

⁸³ See Sember (2018) for more information. After 1943, when Prebisch gave monetary advice in Latin America, he did not give this much importance to gold reserves because the context was different: The United States concentrated most of the world's gold, and the new International Financial System gave a central role to the US dollar.

Along these lines, in 1940, Prebisch wrote with Federico Pinedo and a team⁸⁴ the Program to Reactivate the National Economy (Programa de Reactivación de la Economía Nacional), better known as the Plan Pinedo. Even though the Plan was never applied due to political opposition and contradicting interests (Llach 1984), it is a strong program in favor of the national industry that sheds light into Prebisch's industrial thoughts. Besides, it was the first State document that aimed at changing the growth and development strategy of the country.

This program was presented as an emergency short-term plan, but it clearly proposed an industrialization program that would change the productive structure of the country by increasing the importance of the industrial sector. What differentiates the Plan Pinedo from the 1934 Plan is that not only it really placed the industry at the center of the economic plan, but it opened the possibility for long-term credit to finance investments in the industry.

Nevertheless, the Plan Pinedo was still mainly directed towards light industry; it probably considered that Argentina did not have yet the necessary competences for heavier industries. For instance, the country could produce manufactured goods instead of importing them, in particular clothing and food products. Likewise, the construction industry could be used to spur internal activity and could use nationally produced inputs to substitute what was previously imported.

⁸⁴ Federico Pinedo has been Ministry of Finance from 1933 to 1935 and from 1940 to 1941. The rest of the team is not as clear, but might have been composed by Guillermo W. Klein, Ernesto Malaccorto, Ocantos Acosta and Mr. Liaudat (Llach 1984; Dosman 2010). According to Fernández López, this plan was completely or mainly written by Prebisch (footnote in Prebisch 1940, p.677).

Because of the War and the bilateral trade agreements, both imports and exports had diminished. It became necessary to select the imports according to their importance for national production and their incidence on the level and the cost of life (BCRA 1941, p.10). For instance, farming machinery and cars were not facing many restrictions since they were considered necessary and difficult to produce. Therefore, this plan suggested that Argentina should “substitute with the country’s own resources [...] what can’t be imported”: this would increase employment, and the resulting demand would be satisfied by internal production creating a virtuous cycle (Prebisch 1940, p.678). Thus, Prebisch gave the industry a leading role in an import-substituting strategy.

The necessity of finding new markets

Yet, reducing and substituting imports did not mean that the country should stop importing and exporting. On the contrary, Prebisch considered that Argentina should continue exchanging in the international market and “import as long as it’s possible to export” (Prebisch 1940, p.686). However, since the country could not continue trading as before with its traditional partners, Prebisch advised that it should diversify its production and expand its horizons. For instance, he considered that Argentina “could and should substitute” some products previously produced in Europe and that could be exported to the United States and other Latin American countries (BCRA 1941, pp.9-11).

The United States had become the most important market at that time and its production was essential for Argentina. Already in 1925, the US was Argentina’s largest supplier, with 23% of its total imports (O’Connell 2001, p.60). However, in 1939 and 1940 Argentina did not have sufficient dollars and the US protectionist policies were blocking Argentine products.

Prebisch got involved in obtaining loans from the United States and negotiating trade agreements that would allow Argentina to export there. He started communicating with the US embassy in mid-1940 and even went to Washington in search for trade and credit agreements. He obtained credits for 110 million dollars from the Export-Import Bank and the Stabilization Fund of the United States (BCRA 1941, p.11; Dosman 2010 pp.149-162). There was even an institution created in April 1941, the Exchange Promotion Corporation, whose goals were to encourage trade with the United States (but also with other American countries) and to diversify exports. Eventually, Argentina managed to enter the US market, and increase its exports from 264 million pesos in 1940 to 562 million pesos in 1941 (BCRA 1942, pp.3-10). By 1942, Argentina did not have a currency problem anymore, but still faced problems to import because the US had shifted to a war economy.

Prebisch also considered that Argentina should increase trade exchange with other Latin American countries and adopt “a clear and firm policy of economic rapprochement that would allow us to establish a vast zone of free trade” (Prebisch 1940, p.686). For instance, there were negotiations between Argentina and Brazil aiming for each country to specialize in some new productions that could be traded “as if it were the same economic territory”. This free trade zone would allow the industries of both countries to benefit from a very large consumer base and to produce in big scales with smaller production costs (ibid, p.687). This prefigured the project for a Latin American regional market, which Prebisch later championed as ECLAC's Executive Secretary (Prebisch 1963). These ideas were similar to those of Prebisch's former University teacher Alejandro Bunge⁸⁵, with whom he had been close in the 1920s. Indeed,

⁸⁵ Bunge was an Argentine economist and an industrialist. He studied engineering in Germany at the beginning of the 20th century, where he became acquainted with List's ideas and the German Historical School (Caravaca and Plotkin 2007).

Bunge considered that Argentina should diversify and intensify its production of primary goods and manufactures, get closer to the United States and have a deeper economic integration with other Latin American countries (Chile, Bolivia, Paraguay and Uruguay) by establishing a customs union, the "Unión Aduanera del Sud" (Bunge 1921, 1926, 1930) (Llach 1985, p.20).

Through Prebisch's actions, the Central Bank got involved in various spheres of Argentine economic policy (like trade) that directly affected the country's economic growth and stability. This caused Prebisch to be greatly criticized by the political opposition, which argued that he was acting like the Foreign Affairs Minister rather than the General Manager of the Central Bank (Dosman 2010, p. 167).

Industrialization strategy led by the State and the Central Bank

In the 1940s, Prebisch considered that the national industry should be able to obtain credit to develop its activities. In the Plan Pinedo, Prebisch proposed a cooperation between the Central Bank, commercial banks and the financial market in order to offer solvent industries credits "up to 15 years in exceptional cases and with an interest rate as low as possible" (Prebisch 1940, p.685). From the Central Bank, Prebisch advised the commercial banks to continue supplying credits so that the internal activity would not be affected by the War (BCRA 1941, p.5). This was possible because the counter-cyclical policies applied in the past had constituted important banking reserves.

Prebisch also considered that some degree of State intervention was "indispensable" because it "creates the favorable conditions and offers the necessary incentive" for the economic activity of the private sphere. The State had to maintain the purchasing power of the population and support internal activity (Prebisch 1940, pp.679-680). Indeed, the decrease of exports meant that some agrarian surpluses remained unsold, and this could create serious

problems in the countryside that would also affect the domestic industry. Hence, the State should buy the agrarian surpluses using the banking reserves until the exports increased again (Prebisch 1940, p.681; BCRA 1942, p.1). Another emergency measure proposed by Prebisch was for the State to intervene in both the Stock market and the banking sector to re-establish trust. These ideas were also close to Bunge's, who considered that the State had to promote and protect the industries, but should not substitute them⁸⁶ (Llach 1985, p.22).

These ideas emerged mostly from the changing context, rather than theoretical influences

Industrialist ideas had already been introduced in Argentina and Latin America by previous authors and politicians, and Prebisch was certainly familiar with them. Alejandro Bunge was one of the directors and founders of the *Revista de Economía Argentina*, in which he published articles with other industrialists since 1918 (Llach 1985). Prebisch had also written in that review in 1920, 1921, 1924 and in 1925. Furthermore, as Pedro C. Dutra Fonseca has pointed out, industrialism was a prominent theory in Brazil and had been in the center of the political debate since the 1890s. Getúlio Vargas, Brazil's president from 1930 to 1945 and from 1951 to 1954, was also a notorious industrialist (Dutra Fonseca 2000, pp.341-344).

Prebisch's renewed interest in the industry does not seem to come from a rediscovery of theories he was acquainted with many years ago. In accordance with Love (1980), we think that the role of the historical context was more important in Prebisch's change of mind than theoretical influences. If he started embracing the industrialist ideas in 1940 and not before, it is primarily because the changing international context convinced him that primary export-led growth was not a satisfying growth model. The fact that his intellectual evolution was based

⁸⁶ Alejandro Bunge also advocated for State intervention in order to achieve a high productivity agriculture coupled with a process of industrialization (Llach 1985, p.20).

on concrete events shows that he was not dogmatic, but pragmatic. This is shown in his nuanced thought: while he worried for the domestic market and suggested import-substituting industrialization, he also emphasized the importance of international trade and vouched for export diversification. Similarly, his views in favor of industrialization did not mean an abandonment of the primary sector.

B) A long-term perspective of the common structural problem in Latin America

In 1943, for political reasons⁸⁷, the new government of Pedro Pablo Ramírez dismissed Prebisch from his functions in the Central Bank. As a professor of economics in the University of Buenos Aires, he could process his experiences, reflect on what he had learnt and state his ideas more clearly. He was not facing urgent situations anymore so he could focus on the theory and on the long term. Prebisch was also invited to several Latin American countries to provide monetary policy advice and give seminars about his experience as a Central Banker⁸⁸. This period constituted Prebisch's "discovery" of Latin America and of the common problems related to external dependency (Dosman 2010, pp. 215-237). He was now mostly thinking

⁸⁷ The reasons why Prebisch was dismissed are complex. According to Dosman, the main reason was that the new government considered that the Central Bank and Prebisch had accumulated too much power. At that time, "the army and the Central Bank formed the two institutional strongholds of the State: the military controlled the political scene and the Central Bank regulated the economy" (Dosman 2010, p. 203). The opposition to Prebisch remaining as the Director of the Central Bank had more to do with the accumulation of power than with divergences regarding economic objectives, since both Prebisch and the new military government were in favor of industrialization (ibid, pp. 197-203).

⁸⁸ For instance, he counselled Paraguay in 1945, Guatemala and the Dominican Republic in 1946 and gave multiple seminars in Mexico (Dosman 2010).

about the economic development of Argentina and Latin America. As we will see, his attention shifted towards the issue of external vulnerability and political domination, and he concluded that national sovereignty and economic independency were essential for economic development.

Underdevelopment is a common structural problem

Prebisch's trips around the continent made him realize that even if Argentina had a relatively advanced economy in Latin America, it was not a developed country and shared similar problems with the region's countries, which were structural and not simply temporary. For instance, they all experienced similar problems stemming from their primary export-led growth model.

Prebisch started to talk about the "periphery" as a whole in 1944 – even though he mainly meant Latin America (Prebisch 1944d, p.320). There is an idea of unity between the different Latin-American countries because he considered that their common problems could be solved together, as he had previously encouraged economic integration between these countries. Consequently, Prebisch started giving recommendations for the whole continent and not only for Argentina, even though he was mostly extrapolating the Argentine experience to Latin America. It is only through his experience at ECLAC that he will have a more precise vision of the different problems of the continent.

For instance, he considered that there was one cyclical movement that originated from the center (the United States) and affected the periphery afterwards; there was not a singular cycle per country, but rather a common cycle to all in the periphery. Yet, each country experienced the cycles differently according to its socioeconomic structure (Prebisch 1946a). The intensity of the crises that Argentina and the other Latin American countries experienced

was the result of the external vulnerability of export-led growth models based on primary commodities.

During his counsel to the Dominican Republic on money and banking, he recommended the adoption of a national currency instead of the US dollar and, most importantly, the creation of a Central Bank. These conditions were essential to fight the external vulnerability of the country: he insisted that, as a peripheral country, the Dominican Republic was subject to the cycles coming from the center. Counter-cyclical policies were needed to stabilize the economy, and a Central Bank was the pillar for conducting them (Prebisch 1946c).

Hence, even though the periphery did not have the possibility to influence the cycle, it still could act against its effects on national territories by wisely using monetary and economic policies (Prebisch 1946a; 1946b; 1946c). It was also possible to lessen the external vulnerability and dependency by changing the productive structure. This is why Prebisch advised for Latin America in general to begin an industrialization process within a development plan.

The industry as a strategy for national sovereignty

As we have seen, Prebisch's ideas on industrialization were roughly present in 1934 and resurfaced in 1940 when he recommended import-substitution and export diversification. After 1943, the industry became in Prebisch's thought an important element to attain economic independence and even to reinforce a national identity that went beyond the goal of economic growth:

The more these industries develop and the higher is the proportion of national inputs used to produce, the less vulnerable we will be to external influences (Prebisch 1944c, p.240);

The most serious problem of the economy and the culture of our countries is to find the method that will allow us to preserve and vigorously develop our national personality in an international field. The solution to this problem has to be found within ourselves (ibid, p.242).

Prebisch's support of industrialization revealed that he had a global vision of the economy, as it was intertwined with politics, culture and national identity. Indeed, Prebisch had witnessed bilateral negotiations such as the Roca-Runciman pact in 1933 and had directly negotiated with the United States administration in 1940. He deplored the economic dependency of the country that forced it to enter unequitable trade negotiations. Economic dependency and vulnerability inevitably meant being politically dominated by the stronger countries. Latin American countries would have more influence in the international market if they sold industrial products because these products did not suffer from the tendency of deterioration in the terms of trade. Moreover, they would be less dependent on the industrial production of other countries.

Furthermore, Prebisch gave more importance to the heavier industries. Argentina mostly had light industries and needed to import machinery, which was not a sustainable situation because the volume of exports had not increased since the Great Depression. Hence, it was necessary to develop the industry and he contended that the country should produce “the expensive inputs, machinery and expensive durable goods” that were normally imported (Prebisch 1944c, p.241). An industrialization plan was thus necessary with the government taking deliberate action to mobilize the whole country and direct economic policy towards industrialization.

In this vein, Prebisch discussed in 1944 the incidence that the new system proposed in Bretton Woods could have on the economic growth of Argentina and Latin America. Prebisch criticized both Keynes's and Harry D. White's plans for the international monetary system,

because they set restrictions to national monetary policies. Indeed, if a country wanted to limit its imports using monetary policy tools, it should ask for permission to the international monetary authorities, in particular before adjusting exchange rates. This was a problem for Prebisch: it constituted “a great violence on our monetary sovereignty” and, mostly, it meant that there was a possibility of not obtaining the authorization (Prebisch 1944c, p.243). Furthermore, the Central Banks could be hindered in their functions and lose “prestige and authority” (Prebisch 1944b, p.201). When the IMF was created, one of the main goals was “to assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade” (IMF articles of agreement, Art. 1(IV)). This would exclude the recourse to exchange controls which Prebisch used in the Central Bank of Argentina regarding current transactions. However, these were allowed when applying capital controls (Art. VI) (Department of State, 1944). Prebisch considered that the most important goals of the countries should be “protecting the internal economy from fluctuations and external contingencies to ensure maximum stability” and have “intense economic and demographic development with full employment of available resources” (Prebisch 1944c, p.228). It became of paramount importance for him to maintain as much independence as possible from the center:

It is not possible to attenuate the cycle and maintain a high level of internal economic activity without a certain degree of monetary flexibility or a certain degree of control on imports [...] Whichever way the large industrial and creditor countries solve their monetary and economic problems, we do not conceive for our country a system that makes us highly dependent on the decisions, good or bad, right or wrong, made at the center of the system as has happened in the gold standard regime [...]. For that we need a defined national monetary policy. (Prebisch 1944d, p. 324)

We can see how Prebisch considered that monetary policy was an essential tool for achieving economic development. It was important for maintaining a stable economic growth and could protect the national industry by changing the exchange rates or establishing exchange control (1944b pp. 189-190). This also shows how Prebisch did not separate the "monetary sphere" from the "real sphere". Having an independent national monetary policy was essential to transform the structure of the country by industrializing it and to implement a development plan. This sets him further away from his pre-1934 ideas that mainly focused on monetary stability.

Prebisch's new consideration of credit as tool for investment and economic growth

Until the beginning of World War II, Prebisch considered that only savings should be directed to investments, as mentioned earlier. This idea started weakening with the war, and in the Plan Pinedo of 1940 he suggested that the banks and the financial sector should cooperate to offer credit to the new activities. Since then, he deepened and theorized this idea. In 1944, in his conferences in the Bank of Mexico, he presented credit as the way to finance the long-term investments needed to expand the industrial sector (Prebisch 1944a, p.122). In 1948 he goes further: he identified the entrepreneurs as economic leaders responsible for investment and credit as their main tool, in a way that reminds Joseph Schumpeter's view of economic development. In opposition to his previous positions, he now contended that credit was essential for investing whereas savings had almost no influence:

[...] the entrepreneurs use money increase instead of savings to cover part of the cost of investments (Prebisch 1948c, p. 331)

It's not so much the classic mechanism of savings [...] but mainly the monetary tool that has allowed historically the accumulation of capital (Prebisch 1948c, p.333).

Prebisch did not directly use the word “credit”, instead he talked about the “monetary increase” that resulted from the activities of the entrepreneurs. However, his explanation of the process shows clearly that he referred to bank credit as a key driver of production and economic growth in general:

The increments of money that leave the hands of entrepreneurs and return to them in form of profits, allow them to carry out this continuous process of accumulation of savings and capital during the upward phase of the cycle (ibid, p.339).

Prebisch contended that the use of credit for investment was the source of profit for entrepreneurs and allowed capital accumulation. Credit spurs investment and production; at the same time, monetary expansion supports demand, which increases prices or prevents their fall following costs reduction. Consequently, profits rise. This increases the total savings and allows for capital accumulation. We notice as well some Kaleckian elements⁸⁹, notably the idea that entrepreneurs gain what they spend, and we also see that now Prebisch accepts the Keynesian causality between savings and investments, i.e. that investments create savings.

We also note that for Prebisch, savings are forced on the population and transferred to the entrepreneurs through the increase in prices and profits. That is why he distinguished between “spontaneous savings” and “compulsive savings” (ibid, p.339). The former would stand for the classical (non-Keynesian) notion that individuals save after considering the rate of interest. The latter can be understood as “forced savings”, because the consumer is forced to transfer part of its income to the entrepreneurs because of the increase in prices. Hence:

⁸⁹ I have not found evidence that Prebisch was familiar with Kalecki’s work, this could be a convergence of ideas elaborated separately by the authors.

Believing that within the free trade system the members of the community have the liberty and the preference to save is a serious mistake (ibid, p.340).

Prebisch did not give a moral judgement on this mechanism. He simply described what he called “the reality”, which he claimed neither the classical monetary theories nor the Keynesian framework were fit to describe (ibid, pp.329-330).

Despite this notable change regarding the use of credit, Prebisch will scarcely talk about the use of credit for long-term investments in the following years. When he became the Executive Secretary of ECLAC in 1950, he stopped explicitly talking about the use of bank credit for industrial investments, and instead put the emphasis on the role of savings in capital accumulation and appealed to external capital. Taking into account his 1948 analysis, we can wonder if these savings are meant to be preexistent or if they could be the result of investments financed by credit. In his “Manifesto” of 1949, we can see this ambiguity:

One indisputable fact stands out: the stimulus of monetary expansion has led to a high level of employment and thereby to a real increase in income. It appears, however, that a large part of that effect had already been achieved during a phase of moderate credit⁹⁰ expansion which preceded the acute inflationary process. [...]

The positive lesson is [...] the growth of employment brought about an increase in the potential margin of savings. The negative lesson is [that t]he exaggeration of the stimulus necessary for the achievement of maximum employment led internally to excessive inflationary pressure, which, with the rise in imports consequent upon the resumption of foreign trade after war-time

⁹⁰ We have used the official UN translation for this quote. In the original Spanish version Prebisch says “expansión del medio circulante” (i.e. “currency expansion”), the word “credit” does not appear.

restrictions, absorbed a large part of the gold and dollars which had been accumulated. (Prebisch 1950, pp. 38-39)

We understand that Prebisch saw in the use of credit the possibility to increase economic activity, employment and savings, but advised for its moderate use in order to avoid a balance of payments' deficit.

While we cannot be sure why Prebisch was so cautious regarding credit in the 1950s, we can propose different interpretations. Firstly, Prebisch puts forward the role of credit for investment in 1948 in the context of his lessons in the University of Buenos Aires, with theoretical freedom and no policy implication. His more cautious stance as the Executive Secretary of ECLAC could be because he was not confident on the capacity of Latin American countries and their banking institutions to properly control the use of credit, or because he thought it could give the incorrect impression that inflation was a good tool for development. However, we think that he did not radically change his vision on investment, but he considered that savings, credit and foreign capital were all possible tools for investment. The emphasis on which tool to use could change depending on the position he held at each moment, maintaining a pragmatic attitude. As the head of ECLAC, Prebisch could use his position to the benefit of Latin America by advocating for international cooperation in the form of foreign capital. Indeed, his rhetoric was to share the responsibility for Latin America's development with central countries: ECLAC argued that Latin America had suffered in the long-term from the deterioration in the terms of trade and by the fact that the center had captured most of the benefits from technological progress.

III. Conclusion

In this chapter, I have shown that although Prebisch first advised pursuing industrial policies in 1934, it was with the Second World War that he really started placing industrialization as the main development strategy. Before the War, he did not consider industrialization as a strategic goal for Argentina. The policies that he recommended during the Great Depression remained emergency measures intended to spur the light industry and increase employment but did not constitute a long-term plan. From 1935 to 1939, Prebisch focused on understanding and handling the Argentine cycle. The counter-cyclical monetary policies he applied from the Central Bank did not question the *status quo*. They aimed to achieve a stable economic growth by softening the external-originated cycles. These policies were not coupled with an active industrial strategy, they tried to compensate Argentina's external vulnerability without tackling its source. This is because Prebisch still believed that the agrarian export-led growth model, if correctly managed, could allow for long-term sustained growth.

With the Second World War, international trade was further disrupted, in particular with the generalization of bilateral trade agreements. Prebisch realized that these practices revealed political dominance of industrial countries over commodity-producing countries. In these conditions, Argentina and Latin America were likely to continue under economic and political dependency in the long run. Hence, the growth model had to be redefined: it could not allow for long-term stability and growth, no matter how wise counter-cyclical policies could be. Industrialization could help the countries become more independent, less vulnerable and achieve the sustained economic growth required for economic development. It would reinforce national sovereignty and identity.

This evolving vision of industrialization went hand in hand with the evolution of other aspects of his thought, like his vision of the cycle, monetary policy and international integration. At first, Prebisch's cyclical analysis of the Argentine economy concluded that the mostly agrarian country was subject to the cycles coming from the central countries, so counter-cyclical monetary policies had to be implemented to soften the cycle. With the Second World War, Prebisch maintained this cyclical analysis but concluded that Argentina and Latin America had to change the nature of their cycles through a large industrialization plan that would change the structure of the economy. The monetary policy had to go beyond counter-cyclical action and support industrialization through medium and long-term credits, the management of exchange-rates, and exchange controls. This also meant that Argentina and Latin America needed to change their place in the international market from being exporters of primary commodities to exporters of industrial goods. The new place of industrialization in Prebisch's thought allowed for all these changes to constitute a coherent theoretical view that found its first complete formulation in ECLAC's manifesto of 1949.

Until 1943, Prebisch was above all a policy-maker, and his theory seemed to lag behind his policy recommendations. He first proposed a set of measures that aimed to solve an immediate problem, and then he adopted a theory that, most of the time, already existed. Therefore, the study of this period enlightens us on his approach to economic policy and theory. We can see that from 1933 to 1949 his preoccupations always revolved around maintaining economic growth and the changing international context forced him to look for the best way to achieve it. This reveals Prebisch's methodology: his departure point was the context, not economic theories. It also reveals his goal, which was to have an impact on the Argentine and Latin American economies. He was pragmatic, as he was ready to change his economic policy recommendations when they proved ineffective and, ultimately, his economic theory. After 1943, he had the opportunity to process his rich experience and extract theoretical conclusions

from it, especially in the frame of his lessons in the University of Buenos Aires and in presentations in other Latin American countries.

These ideas of industrialization, independence and sovereignty were prospering in Latin America. In this context was created the Economic Commission for Latin America and the Caribbean in 1948. From his new position as ECLAC's Executive Secretary in 1950, Prebisch developed an original development theory, in which industrialization played a central role.

Second Part. Prebisch and ECLAC: the constitution and the influence of an institutional thought (1947-1963)

Introduction: the intellectual context

At the time of ECLAC's foundation in 1948⁹¹, the intellectual debate in economics was dominated by schools of thinking referenced to the post-war developed economies. The kind of problems addressed and the analytical approach adopted were more related to the ongoing recovery and growth process than to issues concerning development. In the following years, however, more and more former colonies from Asia and Africa reached independence. These “new” countries (some of them actually had a millenary history) required policy orientations adapted to their specific situation. This enlarged the field to a new economic discipline, development economics, in which Prebisch and ECLAC were pioneers, but not the sole authors.

In explicit or implicit ways, ECLAC took positions vis-à-vis these diverse schools of thought.

After the Second World War, and particularly through the 1950s and the 1960s, growth theories and models were gaining importance and became the new “mainstream” (Dockès 2019). Indeed, Europe and the United States were entering an era of seemingly stable and long-term growth. Reconstruction and economic recovery after the war significantly improved

⁹¹ The member countries of ECLAC at that time were all the independent countries of Latin America and the Caribbean, as well as Canada, France, the Netherlands, the United Kingdom and the United States (Bracarense 2013, p. 119).

demand and production, in a period known as the Trente Glorieuses in France. These were years in which supply and demand conditions evolved in a coordinated way. On the demand side, “social-democratic” agreements linked closely wages to productivity gains, while States established or reinforced social security systems. In addition, active macroeconomic policies aimed at avoiding unemployment. On the supply side, investment was spurred by financial reforms, public support and the perspective of a sustained demand expansion. This, in turn, improved labour productivity and wages, and generated a virtuous circle.

In this context, economists were trying to explain this growth process. Sir Henry Roy F. Harrod (1939, 1948) and Evsey Domar (1946, 1947) independently elaborated models of economic growth that were later referred to as one, the “Harrod-Domar” model⁹². Those models had a “knife edge” type of growth, which means that the conditions for the stability of growth are not easy to achieve. Hence, that model could not explain the stable growth process that was being observed for more than a decade.

Paul Samuelson was an important figure in “mainstream” economics (both micro and macroeconomics) at the time, particularly after his 1947 book *Foundations of Economic Analysis*. He greatly contributed to the theories of general equilibrium with his mathematization of Walras. He contributed to the microeconomic foundations of macroeconomics, as well as the mathematization of economic theory (Guerrien 2002, p.467). This mathematization of

⁹² According to Harald Hagemann, “despite some important differences in their analyses and because of a formal identity in their results for growth equilibrium, the Harrod-Domar model of economic growth emerged as a standard textbook model” (Hagemann 2009, p.68). For instance, Solow referred to “the Harrod-Domar model of economic growth” from the beginning of his paper (Solow 1956, p. 65).

economics was an important trend after the Second World War⁹³ (Debreu 1991, p. 1). However, I will give more importance to Solow's model because growth theories could hypothetically share a more direct link with development theories. In 1956, Robert Solow elaborated a model that focused on long-term stable growth (Solow, 1956). This model had a massive influence in macroeconomics, and because of its reach and importance at the time and the following decades, I believe we can consider it as the "mainstream" or economic orthodoxy.

Solow's model is arguably "the first neoclassic macroeconomic growth model" (Guerrien 2002, p. 479; Bénicourt and Guerrien, 2008, p. 227). In fact, it left aside important Keynesian hypotheses and it was later tweaked to evacuate the remaining Keynesian tradition. Indeed, in his model, there is a single agent (the "community") and only one commodity, the output as a whole, which is at the same time the community's real income. Savings is a constant proportion of that income⁹⁴, and is automatically invested: with a single agent, no coordination problem can exist (as in the Harrod-Domar scheme) between those who decide to save (households) and to invest (firms). It is assumed that all resources (labour and capital) are fully employed. Technical progress is exogenous, and it determines labor productivity along with the increase of the capital per worker. Finally, the model has the hypothesis of substitutability between capital and labour, which gives the needed flexibility to the model for balanced growth. Solow's model did not explain growth though, because the main drivers of growth, technical progress and demographic growth, were exogenous. However, the model posited that there was a convergence between the natural growth rate and the capital growth rate because

⁹³ For instance, according to Roy Weintraub, at the Cowles Commission "[t]he reorientation of research away from empirical work and toward mathematical theory had already begun under Koopmans by 1949, but it lacked clear direction" (Weintraub 2002, p. 118).

⁹⁴ It could be stressed that savings are here a sociological data, an aspect that may indicate some Keynesian bases.

of the flexibility of the productive system, and this was the reason why there was stable long-term growth (Dockès 2019, pp.105-106).

In contrast, British Cambridge proposed a different approach to growth models, was interested by cycles as well as the social dynamics that explained savings and investment. Indeed, in 1957 Kaldor wanted to propose a model of economic growth that endogenized the propensity to save, technical progress and the increase in population:

[...] neither the proportion of income saved nor the growth of productivity per man (nor, of course, the rate of increase in population) are independent variables with respect to the rate of increase in production [...] (Kaldor 1957, p. 591).

Kaldor was also concerned with the functioning of cycles. We can most notably see it in his 1940 article “A Model of the Trade Cycle”, in which periods of growth or depression are determined by the evolution of *ex-ante* savings and investment (Kaldor, 1940). Finally, Kalecki’s understanding of the social dynamics behind investment were that “capitalists as a class gain exactly as much as they invest or consume” (Kalecki 1990, p.79), that Joan Robinson later summed up as “the workers spend what they get, and capitalists get what they spend” (Robinson 1964, p. 60).

ECLAC’s differences and affinities with its contemporaries

To start with, ECLAC is perhaps the most disconnected with Samuelson’s works and the general equilibrium models that intended to find in economics the same type of laws than in physics. In regard to the use of mathematics, ECLAC had more affinities with econometricists like Lawrence Klein or Ragnar Frisch that applied econometrics to the goal of economic policy and planning (Dupont-Kieffer 2019, p. 520; Dupont-Kieffer 2003). Indeed, ECLAC did not leave mathematics out of their analysis, but it was translated in the use of statistics and policy-

oriented modelling as a tool at the service of planning. The Commission was not interested in constructing mathematical models based on unrealistic hypotheses like representative agents or a non-monetary economy. They used mathematics as a tool in a social science.

We can also highlight major contrasts between Solow's model and ECLAC's development theory and policy recommendations. The first of them is the importance given to technical progress. While in Solow's model technical progress was exogenous, ECLAC economists gave a major importance to it. Indeed, Latin American countries were lagging behind in terms of productivity and technology regarding European countries and the United States. For ECLAC, technical progress was at the same time external to the developing countries and endogenous to their conceptual model. Indeed, it was endogenous within the centre-periphery system: 1) it was generated in the central countries and 2) peripheral countries needed to capture it and adapt it to their economies. Hence, integrating technical progress depended on the actions of the State, on its industrial, educational and scientific policies. However, ECLAC was not interested in knowing how technical progress was generated in central countries, nor in entering theoretical discussion on whether technical progress should be endogenous or exogenous in Solow's model. The main concern of ECLAC was how to incorporate already existing technical progress, and which economic and social policies had to be adopted in the developing country. One could argue that ECLAC should have given more importance to understanding how technical progress was generated in central countries, as it could help developing countries to generate their own technical progress. But in the 1950s it seems that ECLAC gave priority to more pressing issues within the range of its abilities, and Latin American countries might not have had the economic and scientific potential of developing new technologies. It will be a subject of ECLAC's research in the 1980s and beyond (Fajnzyblber, 1988; CEPAL 1990, 1992), when Latin American countries had a higher potential and ECLAC had more staff.

One important aspect in ECLAC's vision of technical progress was related to the degree of capital intensity in the new technologies, which brings us to the second point of dissension with Solow's model: its hypothesis of substitutability between capital and labour. Indeed, for Solow, this substitutability is automatic, and this flexibility allows him to explain a stable growth without unemployment. However, for ECLAC it is problematic: with new technologies the quantity of labor needed could diminish, yet the supply of labor was too important and replacing labor by capital would increase unemployment and block the social transition towards an urbanized and industrialized country (see chapter 4). Substituting labor with capital was not an easy choice to make (Prebisch 1951, pp.156-163; 1952a pp. 195-198). Hence, ECLAC was interested in how Latin American countries could adopt new these new capital-intensive technologies. Secondly, the issue of training the workforce appears: there might not be skilled workers to use the new technologies, and one step towards development was precisely training the workforce (ibid, p.168). This precise point shows how ECLAC's economists did not have the same concerns than economists from Europe or the United States. The reality for Latin America was not so much how to explain sustained, stable growth; it was how to change its production pattern, how to attain this sustained and stable growth and how to turn it into socioeconomic development.

A third major contrast with Solow's model is related to its following hypotheses: an economy with a single agent and a single good, and therefore with only one sector and no relative prices. Even if it's highly questionable that this type of model could be used for developed countries, it is greatly incompatible with ECLAC's analysis. The latter focused on the different sectors of the economy, and proposed a series of policies to change their functioning and relative weight in the economic structure. The change in the economic structure depended on different social groups, but also would greatly impact the social structure of the countries. The question of income distribution was hence frequently raised, and

reasoning in terms of a single agent would be absurd. Lastly, relative prices were essential in ECLAC's of the effects on prices that derive from import substitution industrialisation (see chapter 6) and, of course, in its theory of the deterioration in the terms of trade for primary commodities exporters. Figure 3 shows that this question, known as the "Prebisch-Singer hypothesis" on the long-term decline of the price of primary commodities relative to the price of manufactures, was totally relevant at the time, with the partial exception of Bolivia and Chile.

A last point of dissension with Solow's model regards the place of the cycle in the analysis. Indeed, Solow's model and the general focus on long-term growth put cycles aside. However, as we have seen, Prebisch gave a central importance to understanding and anticipating cycles. And we will see in chapter 6 that he kept giving importance to cycles as the head of ECLAC. In this respect, Prebisch (and ECLAC) was closer to the British Cambridge economists.

ECLAC economists considered that the cycles in Latin America were still greatly dependent on the cycles of the center. This means that cycles are neither endogenous nor completely exogenous. Indeed, the structure of these peripheral countries was still considered greatly dependent on their exports towards central countries and on their imports from the central countries. They were still dependent on capital flows and foreign investment as well. As such, their external vulnerability was significant, and any fluctuation in the international market would cause a significant impact on the national income of these countries and hence on every macroeconomic variable. Since the structure of these countries was responsible for this alignment between the cycles of the periphery and the cycles of the center, we cannot really consider these cycles as being exogenous. Besides, Prebisch and ECLAC economists regarded the cycles of developed countries as endogenous. One of the goals behind industrialization was

precisely to change the nature of the cycles and to endogenize them. Having a better control on the cycles was an important objective for Prebisch before entering ECLAC, and he continued to pursue this objective as its Secretary General (see chapter 4).

However, we do not know ECLAC's analysis of central countries' cycles. For peripheral countries, the class struggle dimension was not that much present in the dynamics of the cycle. However, the social structure and some dimensions of class struggle are present in some degree in the analysis of the external vulnerability of these countries and of the structural bottlenecks for development. Indeed, the pattern of consumption of higher income groups had as a consequence that parts of the currency reserve were used in importing consumption and luxury goods. That is why among the controls proposed by ECLAC to help industrialization, taxation on higher income groups, exchange control and import selection were suggested as ways to stop or greatly diminish these unnecessary imports and preserve foreign currencies for strategic imports (see chapters 4 and 5). In the analysis of inflation, the social struggle is an important element present, as we will see in chapter 6.

Yet, ECLAC and Cambridge necessarily had a different analysis of social dynamics and with different implications for economic development. In particular, we will show that in the structuralist theory of inflation, there are not only capitalists and workers: the landlords and the structure of land property are important dynamic elements, since they are considered in some cases as obstacles for a productive agriculture and sources of inflation. ECLAC's analysis of the social structure will be more important in the 1960s onwards, as we can see in Prebisch's book of 1963. In that work, he considered that the land tenure regime was depressing investment and the use of modern technology, because the big landlords obtained huge rents without applying it, and the small landlords simply did not have the capacity to invest (Prebisch 1963, p. 56). The particularity of the social structure in Latin America is, hence, that there are

not only capitalists and workers, but also other social groups linked to the traditional agrarian sector. Pinto developed this idea in the 1970s with his analysis of the structural heterogeneity, in which he distinguished the “modern” and the “traditional” sectors. The modern sector was mostly urban and used relatively advanced technology. It had as main social groups the entrepreneurs, the waged workers, and the independent workers. The traditional sector was mostly rural and used relatively outdated technologies. It was comprised of small landowners (“minifundistas”), large landowners (“latifundistas”), and rural workers. The waged workers of the modern sector tended to be groups and organised in unions, and hence had a stronger negotiation power than independent workers (that were generally more precarious) and rural workers (generally under worse working contracts and geographically dispersed). The large landowners had a higher social status and influence over politics and economics than small landowners (Pinto and Di Filippo 1974, pp. 362-364). The analysis of the modern sector might be similar to that of Cambridge, but the importance of the traditional sector brings ECLAC closer to Arthur Lewis’ analysis.

Another point where the similarities between Prebisch and the British Cambridge (and Keynes) are not so obvious and striking is the causality between investment and savings. As we saw in chapter 3, and will see again in the following chapters, he maintained an ambiguity between the way of financing investment. Especially as the head of ECLAC, he put forward the importance of savings in the process of development.

The most important difference between ECLAC economists and both mainstream growth theories and the British Cambridge alternative, is the research subject at stake and the aim of the research investigation. ECLAC focused on development through structural change, not only on the increase of the GDP. More similitudes could be found with development

economists like Albert O. Hirschman or Paul Rosenstein-Rodan, even if there were differences between these authors as well.

In general terms, these economists studied developing countries differently from developed countries, and did not simply transpose an existing theory to understand their problems and suggest solutions. Another major common point between development economists during the 1950s was that they were particularly optimistic regarding the possibilities of development by integrating the international market, as long as that integration was conducted in a way consistent with industrialisation policies (Hirschman and Andler 1981) (Lampa 2020). Integration would come together with temporary protection for infant industries; the objective was to change the role of these countries in the international division of labour. Providing that these conditions were observed, they believed that industrialisation and development would result on mutual benefits for developing and developed countries, and these benefits could be felt in the international market through the new possibilities of trade. This is why Hirschman considered that development economics were different from both mainstream economics and the neo-Marxist theories. By contrast, mainstream theories believed both in “monoeconomics” and the principle of reciprocal advantages while neo-Marxist theories rejected both (Hirschman and Andler 1981, pp. 726-727).

More specifically, industrialization was perhaps the main element that united most of the field of development economics, but the theories did not suggest the same strategies to attain it. For instance, Hirschman was against Rosenstein-Rodan’s theory of Big Push, but also against the theories of “take off” or “balanced growth”; on the contrary, Hirschman had elaborated the theory of “unbalanced growth” (Hirschman and Amuzegar 1982, p. 1183). However, sometimes being in favour of industrialisation is not enough to argue for an overall compatibility between authors. Indeed, Walt Whitman Rostow’s approach in his paper “The

Stages of Economic Growth” (1959) seems to highly contrast with ECLAC’s approach. Rostow considered underdevelopment as a stage that every developed country went through, and every developing country must go through, in a lineal step-by-step process towards “take off” and development. What characterized underdevelopment was backwardness, which could be overcome by social change, capital accumulation and technology progress; not the fact of being the subordinated party in the centre-periphery relationship. Rostow is “isolating” underdevelopment, he is not considering that it is defined by its relationship with the other countries, especially its commercial, financial, technological and cultural dependence (and, sometimes, political and military subordination).

Besides, Rostow’s text is intended as an anti-Marxist approach and heavily relies on methodological individualism to explain how a country develops through successive stages of growth. While the role of the State in promoting development is mentioned (Rostow 1959, p.5), individuals or groups are the driving force of the process. Besides, Europe’s experience is used as a model for these stages, and as we will see in chapter 4, Anibal Pinto argued that Europe could not be a model to follow for Latin American development. It seems, then, that there are not many common points in the way our Latin American economists and Rostow viewed development or the way to attain it. From this point of view, perhaps Rostow shares more common points with neoclassical economics.

Despite unavoidable differences between ECLAC economists, Hirschman and Rosenstein-Rodan, there are principles of these authors’ theories that are coherent between each other, or at least that are not in contradiction. Hirschman’s theorisation of backward and forward linkages is an example, as it is an important aspect to be taken into account for any growth strategy, be it for import-substitution industrialisation or export-promotion (or both). Besides, Prebisch and Hirschman shared similar ideas on the adoption (and the challenges of

adopting) capital-intensive technologies in developing countries (Hirschman 1984⁹⁵ pp. 98-99; Prebisch 1952). Rosenstein-Rodan had developed in 1943 the idea of “agrarian excess population”, that he considered was “disguised unemployment” (Rosenstein-Rodan 1943, p. 202; 1984, p. 208). This idea was notably found in Prebisch’s Havana Manifesto:

In a country that is essentially agricultural, depressions manifest themselves more in the fall of rural income than in unemployment; indeed in many Latin-American countries during the great world depression, people who had previously gone to the cities to find work returned to the land. Unemployment was, so to speak, diluted (Prebisch 1950, p.50).

Furthermore, Rosenstein-Rodan shares with ECLAC and Prebisch (and with numerous other development economists, especially in the 1950s and 1960s) an idea he had developed in 1943 (Rosenstein-Rodan 1943, pp. 204-205), that the “market mechanism alone will not lead to the creation of social overhead capital [...] [t]hat must be sponsored, planned or programmed (usually by public investment)” (Rosenstein-Rodan 1984, p. 209). It is possible that in this respect he influenced, directly or indirectly, our authors. While maybe the idea of the “Big Push” was not that much found in Prebisch and ECLAC, the role of foreign capital and international cooperation for promoting development was present. According to Rosenstein-Rodan, he was influenced by ECLAC in this aspect:

⁹⁵ The work referenced here is part of a book that gathers a series of lectures organized in 1984 by the World Bank. In these lectures, “pioneers” in development looked back on their experience, notably their first writings or the evolution of their thought. Were invited: Lord Bauer, Colin Clark, Albert O. Hirschman, Sir Arthur Lewis, Gunnar Myrdal, Raúl Prebisch, Paul Rosensetein-Rodan, Walt Whitman Rostow, Hans W. Singer and Jan Tinbergen. The references of the same year from Rosenstein-Rodan and Myrdal used in the following lines also come from this book. It is important to note that it is a retrospective exercise that logically presents some limits.

General principles of an international aid policy were first studied at the U.N. Economic Commission for Latin America (ECLA) preparatory conference for Quintandinha in the summer of 1954. These principles were used for the doctrine of aid policy in my 1961 paper and later used and applied in the Alliance for Progress (ibid, p. 212).

This idea of international cooperation had, by the way, a central role in Gunnar Myrdal's writings. Myrdal and Rosenstein-Rodan shared the preoccupation of unequal distribution of wealth internationally, and they intended in their respective words "creating more of a 'welfare world'" (Myrdal 1984, p. 152) or "a more equal distribution of income between different areas of the world by raising incomes in depressed areas at a higher rate than in the rich areas" (Rosenstein-Rodan 1943, p. 202). For Rosenstein-Rodan, it was in the general interest of developed countries to help developing countries. Myrdal "look[ed] upon their economic underdevelopment as a problem of international distributional inequality" (Myrdal, 1984 p.152). In this sense Prebisch was perhaps more radical, as he considered that developed countries had their share of responsibility in the underdevelopment of Latin America and it was natural to ask for their cooperation (see chapter 4).

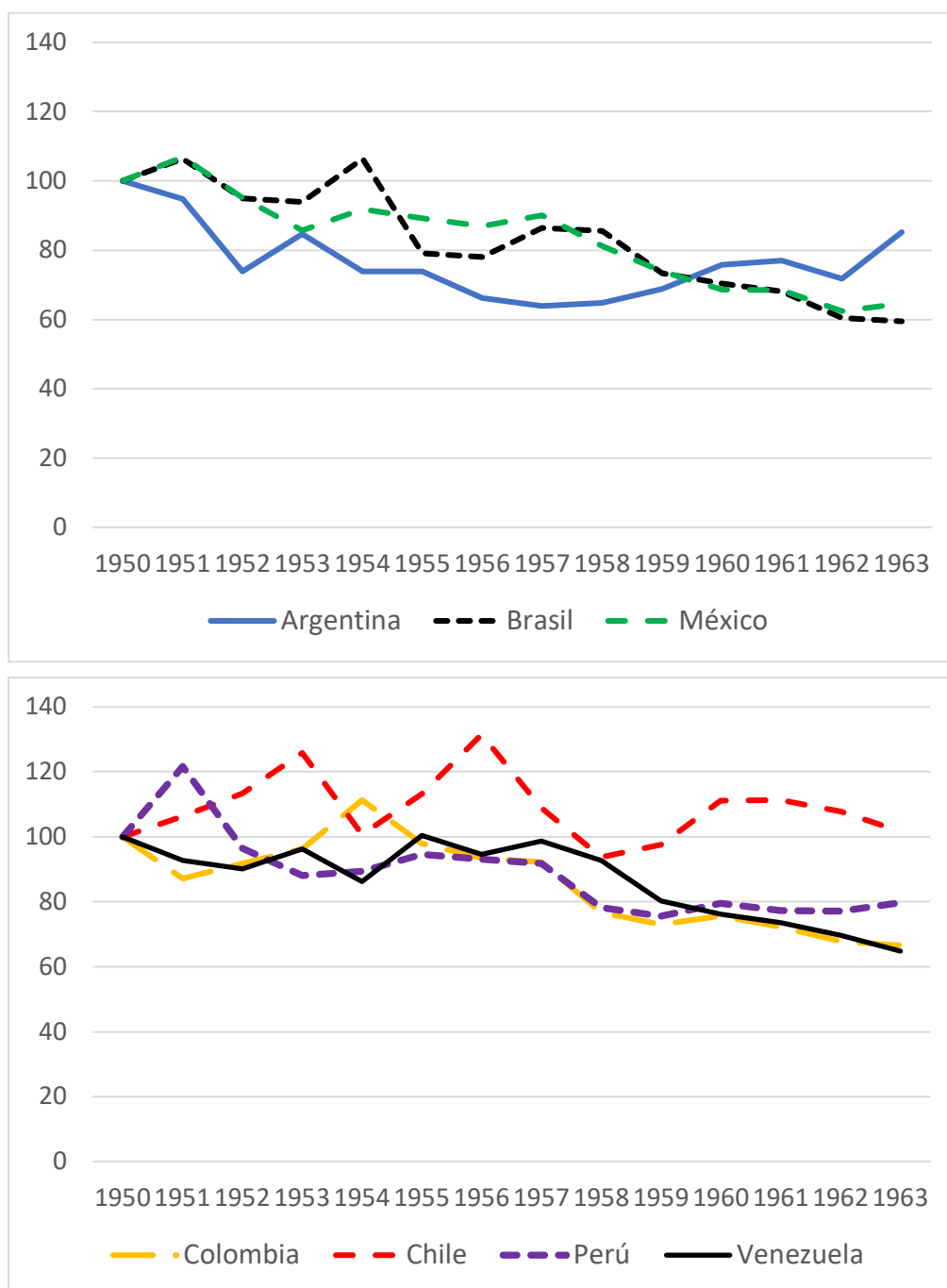
Hence, there are two issues to take into account to understand how Prebisch and ECLAC evolve in their intellectual context. The first one is the subject of analysis: development through structural change, not pure growth. The second one is the conceptual tools used to understand the subject of analysis: the research is conducted considering social classes instead of resorting to methodological individualism; the sectoral analysis of the economy is of paramount importance instead of only looking at global aggregates.

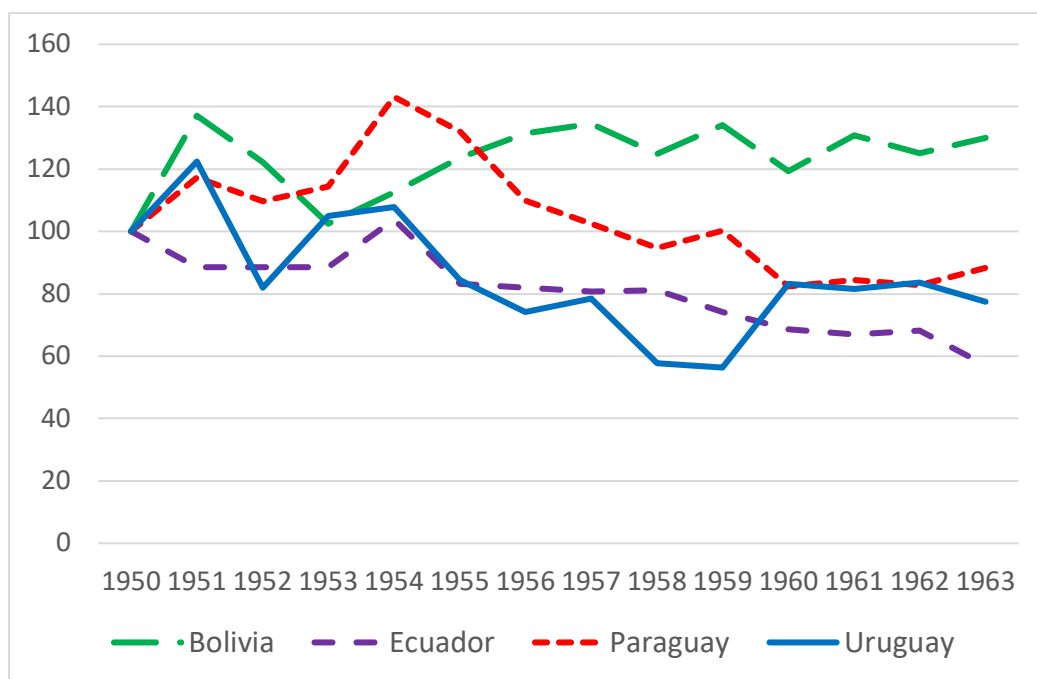
It seems, then, that Prebisch and ECLAC were in a different paradigm than the dominant growth theories. There was a deep disconnection with Solow's model, that could not incorporate any of the pressing issues of Latin America. Our economists were closer with the

British Cambridge School in some aspects such as the importance of cycles or the analysis in terms of social classes, and we will see in chapter 5 and 6 that there was a deeper link with Kaldor and Kalecki. ECLAC was perhaps closer to other development theorists such as Hirschman, Rosenstein-Rodan or Myrdal, that could share both the subject of analysis and the analytical categories.

With this context in mind, we can now delve into how ECLAC emerged (chapter 4), what were its activities in Latin America (chapters 4 and 5), and how an institutional thinking could arise from it (chapters 4, 5 and 6), as is illustrated by the structuralist theory of inflation (chapter 6).

Figure 3. Latin American selected countries: Terms of trade of goods, 1950-1963
(Index numbers, 1950 = 100)





Source: CEPAL, *El balance de pagos de América Latina 1950-1977*, Cuadernos Estadísticos de la CEPAL, Santiago de Chile, 1979.

Note: Terms of trade is the ratio between the unit value of exports of goods and the unit value of imports of goods.

Chapter 4. The emergence of an institution geared towards development planning and technical assistance

This chapter focuses on how ECLAC tried to meet different Latin America's development needs. Created in 1948, the official aims of this regional commission of the United Nations were to: 1. “address urgent economic problems arising from the war and from the imbalance of the world economy”; 2. “achieve global economic recovery and stability, as well as to raise the level of economic activity in Latin America and maintain and strengthen the economic relations of Latin American countries, both among themselves and with other countries in the world”; and 3. “[Provide] research and studies on economic and technical problems and on economic and technical development; as well as the compilation, evaluation and dissemination of economic, technical and statistical information” (CEPAL 1948). In other words, its official mission was to foment economic growth and development in the region, and to provide studies and data on the region's economy.

However, we will see that ECLAC's mission became more ambitious than that, mostly following Prebisch's incorporation of the Commission in 1950 as its new Executive Secretary. Indeed, on the intellectual side, it focused on elaborating a new economic theory that would legitimize Latin America's ongoing industrialisation process. Regarding its mission of technical assistance, it provided experts to analyse the socioeconomic problems of the countries and trained new economists and policymakers. Indeed, the region did not have enough economists and experts, and this was deplored in the writings of Prebisch and Furtado and is perceptible in the interventions of the representatives of ECLAC's member countries. It was thus important to establish a strong community legitimized by the UN that could provide

experts, training and theories. But there were numerous challenges to overcome. Practical challenges at first, those of creating the institution. Then, for elaborating an original development theory, it was important to gather economists that would share a similar vision of development and common objectives. Finally, the institution had to have enough credibility and influence to cooperate with the countries and to deliver appropriate analyses and training.

This chapter will be divided in two parts. In the first part, we will provide some elements on the evolution of the US-Latin America relations, showing that the context of creation of ECLAC was one of resumed interventionism by the US. Then we will dwell into the obstacles that ECLAC faced in the first years of its existence, in particular the United States' opposition and the pessimism of Latin American economists regarding the viability of the project. When Prebisch endorsed the Commission and became its Executive Secretary in 1950, the institution gained both strength and credibility in the region: his leadership was essential in its consolidation.

In a second part, we will analyse ECLAC's authors and the evolution of Prebisch's writings as he was designing an agenda for the new institution. We will see how Prebisch and two other prominent ECLAC's economists shared the same vision of economic development that involved industrialisation and State intervention in the economy through planning. Celso Furtado and Aníbal Pinto, respectively from Brazil and Chile, were among the first economists that joined ECLAC⁹⁶. Although young and at the beginning of their career, they became two of the most emblematic economists of the institution. Hence, studying them is particularly interesting, as they influenced and trained several other economists in ECLAC and throughout Latin America. The coherence in their ideas and with Prebisch's was a main condition for the

⁹⁶ Furtado joined ECLAC in February 1949 before Prebisch arrived as a consultant in March 1949 (Furtado 1997, p.10; Dosman 2010, pp. 263-264). Pinto joined in the mid-1950s, although the exact date is unknown.

joint elaboration of a development theory at the heart of the institution. It was also essential for the Commission to have a unified and influent voice in the continent. We will also see how ECLAC member countries adhered to the theories presented by these economists in the biannual ECLAC conferences. We will see what the member countries expected in terms of assistance and training: through technical assistance and cooperation, ECLAC could affirm its presence in the continent, establish regional connections and contribute in filling the void of experts for analysis and policymaking.

I. The difficult creation of ECLAC and Prebisch's role in consolidating it

After the Second World War, there was a surge of new international organizations with the aims of ensuring peace, reconstruction, democratization and sovereignty. Not only were there more intergovernmental organizations and international nongovernmental organizations, some of them became bigger and gained importance. For instance, the United Nations (UN) was established in 1945, while the International Labour Organization (ILO) and the World Health Organization (WHO) became specialized agencies of the UN respectively in 1946 and 1948⁹⁷. There was also the intention of deepening the efforts of increasing education and cultural exchange internationally, hence the United Nations Educational, Scientific and Cultural Organization (UNESCO) was created in 1946 as a specialized UN agency. The United Nations International Children's Emergency Fund (UNICEF) was created the same year, also as a specialized UN agency, to help children in areas heavily affected by war (Iriye, 2002, pp. 37-49). The post-war years also saw the creation of organizations "that focused on human rights,

⁹⁷ ILO existed since 1919; while the WHO inherited the staff and duties of the League of Nations' Health Organization.

the environment and development assistance” (ibid, p.56). ECLAC enters the last category, and we will see in more detail the conditions of its creation in 1948.

Aside from this background of proliferation of international organizations and growth of the United Nations, ECLAC was created amidst important changes in the relations between the United States and Latin America and a complex international context. It is useful to go back in the story of the US-Latin American relationship, to better understand the motivations behind the creation of ECLAC and the US opposition to this new institution. Indeed, this will help us understand the political aspect of ECLAC’s mission in Latin America, an aspect that went beyond its mission of technical assistance and that characterized this UN agency.

A) Changes in the US-Latin America relationship: interventionism or good neighbours?

Pan Americanism, or the idea of peace and cooperation between American States, began with the first Congress of American States in 1826 called by Simón Bolívar. Other conferences followed in 1847, 1856 and 1864. These sporadic conferences become more concrete in 1889 with the First International Conference of American States at Washington, because it “lay the foundations for a permanent international organization of the American republics”. Indeed, it was at this conference that was created the “International Union of American Republics”, and its main preoccupation was maintaining peace but the possibility of establishing a Pan American Customs Union was also discussed (Rowe, 1940, pp.195-196). It then became the Pan-American Union in 1910. The objective of this institution was to increase the commercial relationships and direct communication between the American countries (Casey 1933; the OAS website: http://www.oas.org/en/about/our_history.asp, consulted in September 2020).

However, conflicts between American States continued, as numerous wars between South American countries took place mostly in the 19th century but also in the 20th century⁹⁸. Furthermore, the United States led an active interventionist policy in Latin America, especially in Central America. Some authors contend that the US could not be qualified as imperialist (e.g., Lockey 1938), but others do qualify this foreign policy as imperialist (e.g., Livingstone 2009). Still, it is undeniable that this interventionism greatly affected the economic, political (and social) life in Latin America. It shows that while the Pan-American Union championed equality and peace among nations, these principles were not applied and the United States wished for hegemony. Indeed, in the 19th century, the U.S. was not powerful enough to face European interests in the region, but it still managed to annex Texas (in 1845), and then New Mexico and California as the result of the war against Mexico in 1846. In the 20th century, the U.S. had grown stronger and sought to control the region. It multiplied its military interventions in Central America and the Caribbean, which amounted to more than thirty between 1898 and 1934. The Monroe Doctrine (1823) under President Theodore Roosevelt (1901-1909) changed from a defensive measure to an offensive one that defended U.S. intervention in other countries (Livingstone 2009, pp.10-13). The reasons for intervention ranged from commercial interests to changing political regimes:

⁹⁸ For instance, the Argentine-Brazilian War (1825-1828) between Argentina, Brazil and Uruguay; the Gran Colombia-Peru War (1828-1829); the Ecuadorian-New Granada War (1832); the Confederation Wars (1836-1839) involving Peru, Bolivia, Chile, Argentina; the Ecuadorian-Peruvian War (1857-1860); the Paraguayan War (1864-1870) between Paraguay and the Argentine, Brazilian and Uruguayan Alliance; the War of the Pacific (1879-1883) that opposed Chile to Bolivia and Peru; The Acre War (1899-1903) between Bolivia and a separatist region in Bolivia aided by Brazil; the Chaco War (1932-1935) between Paraguay and Bolivia; the Colombia-Peru War (1932-1933); and three last wars between Ecuador and Peru (in 1941, 1981 and 1995).

Until now Central America has always understood that governments which we recognize and support stay in power, while those we do not recognize and support fail. (Robert Olds, US Under-Secretary of State, 1927. Quoted by Livingstone 2009 p. 16)

Table 5: US Military interventions in Central America and the Caribbean, 1898-1934

Costa Rica	1921*
Cuba	1898-02, 1906-09, 1912, 1917-22
Dominican Republic	1903, 1904, 1914, 1916-24
Guatemala	1920
Haiti	1915-34
Honduras	1903, 1907, 1911, 1912, 1919, 1924, 1925
Mexico	1913, 1914, 1916-17, 1918-19
Nicaragua	1898, 1899, 1909-10, 1912-25, 1926-33
Panama	1903-14, 1921, 1925

*A US naval warship stood by during a boundary dispute with Panama; troops did not land

Source: Livingstone 2009, p.13

The most striking examples are the interventions in Cuba, Panama and Nicaragua. The Platt Amendment (1901) “gave the US the right to intervene militarily and it forbade Cuba from entering into treaties with foreign powers or seeking loans without US approval. It also required Cuba to provide the US armed forces with naval and coaling stations on the island to ‘enable the United States to maintain the independence of Cuba’” (ibid, p.11). Furthermore, the U.S. sent its marines to Cuba in 1906 to annul the results of the elections. Theodore Roosevelt also supported the secessionists of the Panama Province in Colombia, and once Panama was an independent state, the U.S. obtained the exclusive rights to the Panama Canal,

which remained under its control until 1999 (ibid, p.13). In Nicaragua in 1910, the William H. Taft administration helped deposing the president José Santos Zelaya, a nationalist, and occupied the country afterwards to subdue revolts.

Apart from these direct military interventions, there was economic domination. Central America heavily depended on the United States: in 1918, 83% of Central American exports were sold to the US and 78% of the region's imports came from there (ibid, p.19). Besides, US companies – in particular the United Fruit – gained tremendous power in Central America's trade and agricultural production. In the 1930s the United Fruit owned 3,5 million acres of land in the region and was the largest landowner in Guatemala (ibid, p.17).

Franklin D. Roosevelt's administration (1933-1945) represented a change in Pan Americanism, as the U.S displayed a non-interventionist and more developmentalist stance. There was an effort of improving the US-Latin America relationship thanks to the Good Neighbour policy. According to Livingstone (2009) and Helleiner (2014), this change mostly happened because the U.S. did not need to resort to direct intervention to protect its interests anymore, the financial and commercial channels sufficed. Livingstone emphasises that the United States' attitude was still not commendable, as Roosevelt continued supporting pro-U.S. dictatorships in Central America. Yet, in the 1936 inter-American conference in Buenos Aires, Roosevelt put the emphasis on increasing the living standards in Latin America (i.e., development) (Helleiner 2014, p.35).

Lack of social or political justice within the borders of any Nation is always cause for concern. Through democratic processes we can strive to achieve for the Americas the highest possible standard of living conditions for all our people. Men and women blessed with political freedom, willing to work and able to find work, rich enough to maintain their families and to educate their children, contented with their lot in life and on terms of friendship with their neighbors,

will defend themselves to the utmost, but will never consent to take up arms for a war of conquest (Roosevelt's address before the Inter-American Conference for the Maintenance of Peace, Buenos Aires, Argentina, 1936. Online by Gerhard Peters and John T. Woolley, The American Presidency Project <https://www.presidency.ucsb.edu/node/208508>).

The initiatives for the promotion of economic development in Latin America were multiple and, even though not all of them were successfully carried out, it is important to note that financial partnerships were established, and an ambitious plan for an Inter-American Bank was designed (but was not implemented)⁹⁹ (Gellman 1979; Helleiner 2014; Dwyer 1998). According to Eric Helleiner, the Good Neighbour financial partnership started in order to counter the Nazi influence and economic partnerships in Latin America. Aside from seeking a political alliance, the goal was also to deepen the economic exchanges with Latin America: the US needed some of the region's commodities, it was an important export market and was a profitable region for the US investments (Helleiner 2014, pp.31-32). Behind this idea of development aid and financial partnership in the Good Neighbour policy laid what Helleiner calls "New Deal values". Government intervention in the economy was in accordance with these values, so government financing of industrialisation was seen favourably. US financial assistance consisted in "short-term loans to support currency stabilization and longer-term loans to assist specific Latin American state-sponsored development projects" (Helleiner 2014, p.40). In particular, the Export-Import Bank had been created in 1934, and by the end of the

⁹⁹ According to Helleiner, the Inter-American Bank (IAB) would have been an intergovernmental institution. The promotion of Latin American development was explicitly included in the charter of the IAB (Helleiner p.25). It was an ambitious program that was supported by some Latin American countries (Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, Mexico, Nicaragua and Paraguay had signed the bank's convention in 1940), while others were wary of its final plans. In the end, the United States did not ratify the IAB convention, as it had sparked a controversy internally. The Inter-American Development Bank was only created in 1960 (ibid, p.271).

1930s and beginning of the 1940s it granted loans to Latin American governments (ibid, p.44) as was the case for Argentina like we saw on chapter 3. The 1940s also saw the emergence of a new idea of international development, that then evolved in the Bretton Woods agreements, with intellectuals and public officials like Hans Morgenthau, Harry D. White and Robert Triffin. As Helleiner shows, the independent developing countries were present and active in the Bretton Woods discussions, in particular Brazil, China, Chile, Cuba, India, Mexico, Peru and Poland, that had sent large delegations (ibid, p.14). At that time developing countries mostly considered that industrialisation (mostly state-led) was crucial to reach development (ibid, p.20).

However, the relationship between the United States and Latin America changed once more with the Truman administration that began in 1945. It was the beginning of the Cold War and the end of the Good Neighbour policy. In particular, the US would stop providing public development loans to Latin America and were against “state-led development policies, arguing that Latin American governments should be doing more to create a market-friendly business climate that was attractive to private international investors” (Helleiner 2014, p.262). From the onset, the new administration was hostile to Latin American nationalism. It was mostly by the end of the 1940s and in the 1950s that the US resumed its interventionism in Latin America, now under the covert of anti-communism (Livingstone 2009). Therefore, by the time of the creation of ECLAC in 1948, the changes in the US administration clearly indicated that Latin American countries could not continue to count with the help of the US for their development strategies geared towards industrialisation.

B) The necessity of having a UN Economic Commission for development and the obstacles to create it

For Prebisch, a group of economists with a strong training in economics, capable of both designing and applying economic policies, could have a fundamental role in the development of Latin American countries. His personal experience is indicative of how he firmly believed that if trained professionals (like him) designed and conducted economic policies, they could make a difference independently of the political orientation of the government in place. Hence, he believed in a competent technocracy that could play an important role in economic development. Prebisch himself had been a civil servant under the democratic governments of Marcelo Torcuato de Alvear (1922-1928) and Hipólito Yrigoyen (1928-1930), as well as after the *coup* of 1930 under José Félix Uriburu (1930-1932), and wanted to stay as the General Manager of the Central Bank even after the *coup* of 1943 led by Arturo Rawson (Dosman 2010). The fact that Prebisch had not resigned after the 1930 *coup* and stayed a civil servant for the successive undemocratic governments of the 1930s (a period known as the Infamous Decade) led to a fight with his close friend Augusto Bunge¹⁰⁰ around 1934. In the 1930s, Prebisch considered himself as a technocrat and was convinced that he could contribute to Argentina's development through well-designed and well-led policies¹⁰¹. Again in 1955, even though he was the Executive Secretary of ECLAC, Prebisch advised the *de facto* government that overthrew Juan Domingo Perón, which caused controversy within

¹⁰⁰ Augusto Bunge, brother of Alejandro Bunge, was the founder of the empirical sociology school in Argentina, a sociology teacher at the University of Buenos Aires and a member of the socialist party. He was a long-term friend of Prebisch: Augusto Bunge integrated Prebisch in an intellectual and political circle in Buenos Aires and Prebisch even was the godfather of his son, Mario Bunge (Dosman 2010, pp- 61-62 and pp. 93-94).

¹⁰¹ After his fight with Augusto Bunge, Prebisch said to his godson Mario Bunge: "I am not a politician, Marucho. I am a technocrat and I believe in technocracy, and technicians are neutral in politics" (Dosman 2010, p.125).

the Commission. However, we can argue that Prebisch was in reality much more than a technocrat: as we saw in chapter 3, his activities of General Manager of the Central Bank went beyond monetary policy; as the Executive Secretary of ECLAC, his theories and policy advice had a long reach throughout Latin America. These activities were not limited to technical aspects. For instance, as we will see in the following sections and chapters, his development theory and policy advice conveyed a development strategy, which was necessarily political in its core. Still, Prebisch gave a central importance to training, and the creation of ECLAC would allow him to go forward with his views at the regional level.

In Prebisch's eyes: the need for a strong community to provide theories

Prebisch had for a long time insisted that Latin America needed more economists that were better trained both in economic theory and policymaking. Indeed, he considered that an economist should not isolate the practice from the theory and *vice versa*. In that sense, he praised Ragnar Frisch's conception that economists should be trained with both practice and theory, and that policymakers should have, at some point, time for economic research:

Recently, Professor Ragnar Frisch noted that if economists continue to be employed as intensively as they are now without leaving time for scientific research, the quality of their work would necessarily suffer. "It is undoubtedly a cause for satisfaction - he tells us - that highly qualified economists are so in demand in applied jobs [...]". However, he adds "from another point of view the situation is alarming ... because none of the young economists has time to dedicate themselves to economic research." [...] He reminds that it is essential, both in economics and in any other discipline, "that the researcher has time and opportunity to calmly delve into all those questions that his intuition and imagination suggest; which does not mean to get lost in constructions far from reality." Professor Frisch therefore recommends training a larger number of economists through rigorous selection in well-resourced institutes. (Prebisch 1948a, pp.3-4).

That was what Prebisch had done before he joined ECLAC as a consultant in 1949: after 1943, he dwelled into theoretical explorations. For instance, based on his belief that the economy functions in a cyclical fashion, he studied the debate between static and dynamic economic theories¹⁰². He contended that all economic theories should be dynamic and challenged the idea of equilibrium and the general equilibrium theory. For him, the latter only constituted an interesting "*methodological artifice*"¹⁰³, *but nothing more*" (Prebisch 1948b, p.4). Besides, he tried to understand the role of profits in a capitalist society and how, along with bank credit, it was inherent to capital accumulation¹⁰⁴ (Prebisch 1948c). He also taught and wrote a book about Keynes's theory (Prebisch 1947).

After these theoretical explorations and his experience as a policymaker, Prebisch concluded that economic theory had a "*false sense of universality*" and both classical economic theories and Keynes's theory were inadequate for Latin American reality:

The economic phenomena of peripheral countries [...] have not yet been seriously investigated. Doing it is a task that we are responsible for (Prebisch 1948a).

This stance was not new, as he had deplored the quality of economics courses in the University of Buenos Aires when he was a student, saying that the theories taught were not adapted to the Argentine reality¹⁰⁵ (Dosman 2010, p.57 and p.69). He continued with that stance during the 1930s and 1940s, as he pleaded for and contributed to the elaboration of

¹⁰² He also gave lectures on dynamic theory at the University of Buenos Aires in 1948, and conferences on the same subject at the National School of Economics in 1949 (Fernández López 1993, p. 410).

¹⁰³ In Spanish, "artificio metodológico".

¹⁰⁴ See chapter 2 for more details on Prebisch's complex consideration of credit.

¹⁰⁵ Because of this, Prebisch dropped out of University and only obtained the diploma of public accountant (Dosman 2010, p.69).

economic theories that explained the socioeconomic situation of Argentina and Latin America (see chapters 1 and 2). It was clear for him that Latin American economists had to work on a theory adapted to their needs. On the other hand, a dedicated economic program in universities was new in Latin America: for instance, the Faculty of Economics of the University of Buenos Aires was founded in 1913¹⁰⁶; that of the National Autonomous University of Mexico in 1929; that of the University of Chile in 1934; and that of the University of São Paulo in 1946¹⁰⁷. These were the biggest universities of four of the most important countries in the region. For instance, Furtado had studied law in Brazil and had to go to France to further his economics training¹⁰⁸. This lack of formal training in economics in the region was a cause for the lack of Latin American economists in the late 1940s. In that sense, an institution such as ECLAC would appear as the ideal frame to gather them and train new economists with the objective to elaborate theories adapted to the continent. However, when ECLAC was first created, the general opinion (Prebisch included) did not see that potential in the institution:

I read in a newspaper that there was a meeting in the United Nations whereby they had created an Economic Commission for Latin America. I read that with indifference. [...] I had a call from Benjamin Cohen. [He was] a distinguished Chilean, whom I had met at student meetings in Buenos Aires. He was Under-Secretary for Public Information and he said to me, “I am sent by Trygve Lie to formally offer you the post of Executive Secretary of ECLA.” [...] “I am not tempted.” On the other hand, I had seen the League of Nations as a young consultant for the World Economic Conference of 1933 and I saw that we -members of developing countries- had

¹⁰⁶ It delivered a doctorate in economic science since 1913 (Montecinos and Markoff 2010, p. 65).

¹⁰⁷ The Fundação Getúlio Vargas, established in 1944, also provided training in economics but geared towards public and private administration.

¹⁰⁸ He went to the Faculty of Law and Economic Science and to the Institute of Political Science in the University of Paris (Sorbonne). He obtained a PhD of economics in 1948 (Furtado 1997, pp. 9-10).

nothing to do in that atmosphere. We were at the margin. (Interview of Prebisch by Pollock, Kerner and Love, 2001).

Someone came with the news that [...] they were looking for an economist to work at the new Economic Commission for Latin America [...]. Upon hearing the news, Lewinsohn¹⁰⁹ made a negative comment towards the new specialized organizations that were proliferating around the United Nations. (Furtado 1985, p.139)

This lack of trust in the new organization, in regards to its utility as well as to its longevity, was due to, but also contributed to, its rocky beginnings.

The need for an institution geared towards development

The Economic Commission for Latin America and the Caribbean (ECLAC) was founded in February 1948, after a series of discussions that started in February 1947 at the 4th period of sessions of the United Nations Economic and Social Council (ECOSOC). Hernán Santa Cruz, the delegate for Chile, was at the origin of the debate and a central figure in the creation of ECLAC¹¹⁰ (Santa Cruz 1995; Fajardo 2015).

Margarita Fajardo (2015) has shown that in the mid 1940s, Latin American policymakers had written about the post-war economic order and its incidence on the development of their countries. Some of these economists and policymakers had been delegates to the Bretton Woods agreements, like the Brazilian Eugenio Gudín, the Mexican Victor

¹⁰⁹ Richard Lewinsohn (1894-1968) was a “Viennese specialized in finance who had lived in France for many years, from where he emigrated to Brazil after the 1940 *débâcle*”. (Furtado 1985, p. 136)

¹¹⁰ For the contextualisation of the creation of ECLAC, I mainly use a paper written by Hernán Santa Cruz in 1995. I am aware of the limitations of a text written 48 years after the event. However, Santa Cruz being the main figure in the creation of this institution, his insight is invaluable.

Urquidí, the Chilean Hernán Santa Cruz, and the Peruvian Jorge Chávez. Among their main concerns was the inequality between industrialised and agrarian economies, which would be detrimental to primary producing countries. There was also an implicit division between creditor and debtor countries, increasing these inequalities (Fajardo, 2015, pp. 37-38). Besides, the change of attitude of Truman's administration towards development financing, "made it clear that there was not going to be a Latin American Marshall Plan" (Bielschowsky 1998; Thorp, 2000, p.22). This situation gave sufficient motives to push for the creation of an international organisation aimed at developing Latin America.

During the 4th period of sessions of the ECOSOC of 1947, two new organisations were created: the United Nations Economic Commission for Europe and the United Nations Economic Commission for Asia and the Far East. Their objective was to help in the reconstruction of these regions that had been affected by the Second World War and to encourage cooperation between their member States. All the attention of those meetings was centred on Europe and Asia since they had been the most directly affected by the war, and their reconstruction was urgent.

Hernán Santa Cruz considered that it was unfair that Latin America was left out on the basis that it had not been a battleground. He relied on the United Nations Charter that "engaged [the UN] to face the problem of economic development of economically weak and backward regions". Latin America suffered from poverty, and "millions of people lived in a situation of need similar to those in the regions most affected by the war". Besides, he argued that the development of Latin America could benefit Europe, since an increase in the consumption capacity of the former could stimulate economic activity in the latter. Hence, "it was a mistake to isolate the problems of reconstruction of destroyed areas from the problems of the development of extensive economically backward regions" (Santa Cruz 1995, p. 24).

The Chilean delegate presented a proposition for the creation of an Economic Commission for Latin America to help with the economic development of the region. Hernán Santa Cruz claimed that even though Latin America had not seen battles in its territory, it had been affected by the War as well. Indeed, it had contributed to the allied victory by providing essential goods such as "petrol, copper, minerals, wheat, sugar, coffee, cotton, wool, nitrates, etc. at low, frozen prices, whereas manufactures – including the capital goods which it had not been possible to acquire during the war – were now costing high prices that rose higher every day" (ibid, p.26). This greatly disturbed the industrialisation process of Latin American countries. Besides, Hernán Santa Cruz argued that the development of Latin America would also benefit the rest of the world:

It is necessary to develop the industry of the Latin American countries and employ to its best its enormous natural resources in order to improve the quality of life of its inhabitants, to solve the economic problems of other continents, to attain a better equilibrium of the world economic structure and to intensify international trade. (Official documents of ECOSOC, 5th period of Sessions, quoted by Santa Cruz 1995).

Other Latin American delegates - from Cuba, Peru and Venezuela - promptly supported the request, adding that the region was economically dependent, that it was necessary to diversify its production and to guarantee stable and fair prices for its exports¹¹¹ (Santa Cruz 1995) (Fajardo 2015, p.51). Most delegates from independent developing countries showed their support as well. European delegates, most notably Pierre Mendès France, supported ECLAC's creation after Santa Cruz guaranteed that some European countries would be member States of the institution to ensure cooperation between the continents (Santa Cruz 1995).

¹¹¹ This was highlighted by the Venezuelan delegate Carlos D'Ascoli (Santa Cruz 1995, p.26).

The obstacles to its creation

However, it was not easy to convince all the delegates on the necessity of creating this organisation in Latin America, especially those of the United States, Canada and the USSR. Indeed, since the region was not destroyed by the War, they did not consider it urgent to create an Economic Commission like it was in Europe and Asia. Besides, there was already the Pan-American Union that organized and promoted commerce between the American countries since 1910¹¹², so another institution did not seem necessary in their eyes.¹¹³ Besides, there were concerns that “adding more regional commissions would end up undermining the commitment to global approaches embodied by the UN and stimulating the formation of regional blocs” (Fajardo 2015, p.51).

A report prepared by the UN Secretariat in 1948 corroborated the claims of Santa Cruz and the other Latin American delegates. It showed the economic dependence of Latin American countries on the international market and how the war had obstructed their development process. Therefore, it was legitimate to create an institution to promote development like it had been done for Europe and Asia (Fajardo 2015, pp. 53-54). Hence, despite the opposition that delayed the project for a year, ECLAC was finally created in February 1948. However, the institution still had to face challenges: the United States had established a test period of three years during which ECLAC had to prove that its contribution was original and useful. At the

¹¹² Report of the Delegates of the United States to the Fourth International Conference of American States, Held at Buenos Aires, July 12 to August 30, 1910 (U.S. Government Printing Office 1911), p. 156; Senate document 744, 61st Congress, 3rd session.

¹¹³ Luckily, the Secretary General of the Pan-American Union, the Colombian Alberto Lleras Camargo, showed his support to the creation of ECLAC. This invalidated a major argument against the creation of the institution (Santa Cruz 1995, p.30).

same time, the United States had transformed the Pan-American Union into the Organisation of American States (OAS) and greatly increased its budget (Dosman 2010, p.265). Celso Furtado also highlights the tensions around the creation of ECLAC, showing that there was not much hope among Latin Americans that such experiment would last:

[José de Campos Mello¹¹⁴] made me understand that the project was not viable, because the Commission was born under strong opposition. The North American government had resisted its creation. The mandate was temporary and no one expected it to survive. I noted that the new organization could find a place in the field of technical assistance, which was becoming fashionable as a palliative in international aid schemes to poor countries. Campos Mello quickly interrupted me: “The Americans will concentrate that in the field of bilateral relations, with Truman’s Point Four.” (Furtado 1985, p.141)

Indeed, the USA would not benefit from the thriving of ECLAC: even though they would be a founding member of the institution, their importance would not be as big as in the OAS. Besides, the institution was born in a particularly tense context marked by the Cold War and the fear in the United States of communism spreading¹¹⁵. The main reason for ECLAC's creation was to have an organisation led by Latin-Americans as independently as possible. The main figures had to be Latin Americans, and the institution's headquarters should not be in the United States: establishing ECLAC in Chile was a deliberate choice of the Latin American delegates. The proposal had come from the Chilean delegate and the Commission had to be situated in a Latin American country for the sake of proximity to the problems studied.

¹¹⁴ José de Campos Mello was an economist who worked in the United Nations in New York (Furtado 1985, p.141)

¹¹⁵ For an analysis of ECLAC’s creation in the Cold War context, see Bracarence (2013).

C) The 1949 Havana Conference: an ultimatum

The three-year test period proved to be a major challenge for the new institution. The Havana Conference of 1949 was an ideal occasion to prove its worth and impress the delegates. It had to produce an original knowledge by then, and in order to do so it had to recruit outstanding Latin American economists (Dosman 2010, pp. 265-267). ECLAC's aim was clearly the industrialisation and the economic development of the continent, but it still lacked both a strong leadership and the proof it could fulfil its *raison d'être*.

The information circulated that [the Commission] would be short-lived, or the fact that there were not many available Latin-American economists of renowned competence, contributed to the position [of Executive Secretary] remaining vacant during the decisive months of its installation (Furtado 1985, p.145)

Indeed, Prebisch had been offered the position of Executive Secretary of ECLAC in 1948, but he had refused it since the new institution had not sparked his interest as we saw earlier (Furtado 1985, p.145) (Dosman 2010, p. 256; Pollock, Kerner and Love 2001). Another renowned Latin-American economist, Víctor Urquidí, had also refused the position (Furtado, 1985, p.145). As a result, the Mexican Gustavo Martínez Cabañas was nominated ECLAC's first Executive Secretary. Instead, Prebisch had accepted the offer of integrating the International Monetary Fund (IMF), but the project failed because of diplomatic reasons between the USA and Argentina: Prebisch being opposed to Perón, Washington decided not to accept the former in the IMF¹¹⁶. In 1949, Martínez Cabañas sought again after Prebisch. He

¹¹⁶ Diplomatic and economic relations between Argentina and the US had been difficult between 1942 and 1947, following Argentina's reluctance to engage in the II World War after Pearl Harbour. US trade restrictions against

offered him to write a document for the Havana Conference in the context of a three-month contract, and Prebisch finally accepted (Dosman 2010). He appeared as the ideal candidate to help ECLAC. His past position as the first General Manager of the Central Bank of Argentina had earned him renown and respect throughout the continent:

At the end of February 1949, arrived to Santiago Raúl Prebisch, creator of the Central Bank of Argentina, whose performance in the stabilisation policy, after the crisis of 1938, was praised from the most varied international circles. Raúl Prebisch was, without a doubt, the only Latin-American economist of international renown (Furtado 1985, p. 151).

Not only had he been a key figure in the creation of Argentina's Central Bank, but during the forties he also advised several Latin American countries on monetary policy and on the creation of Central Banks. For instance, in 1945 he had given counsel to Paraguay along with Robert Triffin, and in 1946 he counselled the Dominican Republic. He had broadened his perspective to the whole continent and had already started writing about the necessary industrialisation of Latin America as a means to reach socioeconomic development (Prebisch 1944c, 1946c).

The document that Prebisch produced – *The economic development of Latin America and its principal problems* (1949) – was greatly acclaimed at the Conference, and Albert O. Hirschman dubbed it the "Havana Manifesto". It had convinced the delegates on ECLAC's mission in Latin America, on its originality and on its viability. It proved the competence of Latin American economists to produce high-quality independent content (Dosman 2010, pp.275-276; Fajardo 2015, p.77). The new institution had still to be confirmed in 1951, but its

Argentina were eliminated in 1947. US veto against Prebisch may have been related to the improvement in their diplomatic relations.

raison d'être had been greatly strengthened. After this Conference, Prebisch was once again offered the position of Executive Secretary, which he finally accepted. This solved again the issue of leadership, providing the institution with a respected charismatic leader.

II. On industrialisation, development and planning: the shaping of an institution's thinking

The evolution of Prebisch's focus in his writings deserves our attention, as it shows how he was giving a *raison d'être* to the new institution and designing an agenda that would be followed throughout the 1950s. This aspect of Prebisch's thought is the most well known internationally, in particular the famous ECLAC's "Manifesto" of 1949 but also the *Economic Survey of Latin America of 1949* (published in January 1951) which was known as "the bible" among the Commission's staff across the years (Sunkel 2000, p. 34; Thorp 2000, p. 19). Still, it is important to highlight which elements constituted the foundation of an institution's thinking, as we will proceed by comparing Prebisch's vision of development and the obstacles to development that he highlights with the writings of Furtado, Pinto and the speech of the Latin American delegates.

A) Prebisch at ECLAC: the design of an economic agenda for Latin America.

The focus on industrialisation

Prebisch had to endorse a new type of institutional position as the new Executive Secretary of ECLAC. He was at the head of an international organisation under the scope of the United Nations, so diplomacy was going to be a significant element of his writings. Besides,

he had to focus on applied issues relative to the economic development of Latin America. This meant that some of his theoretical explorations from the forties had to be put on hold or reduced, as he switched back to being a problem solver. We also observe that subjects like monetary policy and central banking are almost absent from his first writings at ECLAC. On the other hand, he continued exploring within ECLAC his ideas on industrialisation and development that he had started elaborating since 1939. As we have seen in the previous chapter, Prebisch's writings during the forties were very diverse in their subjects, purpose and methodology, as some were University lectures, others consisted in theoretical explorations, and even some were expert advice to other Latin American countries. We will contrast some important subjects that he analysed during the forties and that we studied in the previous chapter with his first writings for the institution. In this section we will analyse three works of Prebisch: his "Manifesto" of 1949, the *Economic Survey of Latin America of 1949*¹¹⁷ and a working document of 1952. The first is a powerful text with a special rhetoric: it had to justify ECLAC's existence and propose a general agenda for it. His objective was to convince his audience on the necessity of industrialising Latin America and he had more freedom of speech because he was not the head of the institution yet. The two other texts have a different context, since he wrote them as the Executive Secretary and with an objective already set. Still, the rhetoric continues being an important element: Latin America needed ECLAC.

The inherent instability of an export-led growth of primary commodities

For Prebisch, it was essential that Latin American countries freed themselves from their status of primary commodities producing countries:

¹¹⁷ We analyse chapters 1, 3 and 4 that were written by Prebisch.

In Latin America, reality is undermining the out-dated schema of the international division of labour (Prebisch 1949, p.1).

He attacked directly the classical theory, as he contended that the international division of labour was flawed. Indeed, contrary to the theory, the benefits of technical progress were not distributed equally worldwide through a decrease in prices. Instead, since central countries tended to have a better labour protection and stronger syndicates, they captured the increase in productivity through higher wages and profits. Peripheral countries did not have such organisations and the increase in productivity was translated into lower prices (Prebisch 1949, 1951). Moreover, since labour was abundant in the periphery's primary sector, it tended to lower both wages and prices (Prebisch 1951). Hence, central countries tended to capture the worldwide benefits of technical progress, and the peripheral countries did not benefit as much as they should from the international division of labour. Because of this, in the long run, the prices of primary commodities had decreased compared to those of industrial goods (Prebisch 1949, 1951). Hence, he contended that there was a trend towards deteriorating terms of trade for developing countries.

Moreover, he considered that the worldwide demand for primary products might continue to grow at a slower rate than manufactured goods, especially if there was an increase in productivity worldwide. Indeed, technical progress tends to decrease the proportion of primary inputs in the value of final products. He added that industrialised countries were increasing the productivity of their primary sector and were using protectionist measures to counter competition from the periphery. Besides, some primary commodities started being replaced by synthetic materials, such as nitrates, textiles and plastic. However, Prebisch's strongest argument was that income-elasticity of demand tends to be low for primary products

and high for industrial products. So, as countries increase their income and their productivity, their demand for primary products would tend to decrease as a share of total demand.

We can see through these arguments how Prebisch tried to show that the continent needed to exit this international division of labour where it specialised in primary production.

Industrialization is not an end in itself, but the principal means at the disposal of those countries for obtaining a share of the benefits of technical progress and of progressively raising the standard of living of the masses (Prebisch 1950, p. 2).

Prebisch presented industrialisation as the best strategy for attaining a sustained and durable growth and economic development. We see that he challenged the classical approach to international trade, as it was not adapted to Latin America's situation and was not conducive to its economic development. He was thus reaffirming the necessity of elaborating a theory of development adapted to the continent. In the context in which he presented those works – the Havana Conference and the first Economic Survey of the institution – it was of paramount importance to convince the member countries and the international opinion on the new growth strategy that Latin America was following. By dismissing the existing economic theories as unfit for the continent and “out-dated”, this rhetoric affirmed the utility of ECLAC as a necessary entity for theoretical elaboration.

Selection of imports and import substitution as an answer to scarce foreign currency

Prebisch not only advocated for industrialisation, but he tried to tackle the obstacles that could arise in the path to development and to propose methods that the countries could follow.

One important challenge was the scarcity of foreign currencies and dollars in particular¹¹⁸. The scarcity of dollars had been a central issue for Latin American countries because of the tendency towards deterioration in the terms of trade, evidenced by Prebisch, Hans Singer (1950) but also by Víctor Urquidí in the 1940s (Fajardo 2015, p.38). Dollar shortage was “a pressing issue” by the end of the 1940s (ibid, p. 46), not only in Latin America but also in the rest of the world:

[Many countries', in particular Great Britain's,] dollar needs showed a persistent tendency to exceed dollar availabilities during the [post-war] recovery period and their dollar reserves proved either too small or too volatile [...] But, while relieving the foreign dollar needs inherent in the progress toward more effective cooperation with poorer nations, the United States was not able to still the fears abroad that within a few years [...] the supply of American dollars might decline greatly and that such a decline might worsen the prospects of economic improvement and political stability in many parts of the world. [...] The economic developments of 1949, in particular during the first three quarters of the year, seemed to confirm the apprehensions. (Mendershausen 1950, p.1)

While the prices of primary commodities increased with the Korean War thus improving the terms of trade for primary commodities, that relief for Latin America's balance of payments was short-lived: soon after, the terms of trade continued to deteriorate for two decades (Figure 3. See also Ocampo and Parra 2003, p. 12; Grilli and Yang, 1988). The scarcity of foreign currencies had been a recurrent issue in the development efforts of Latin American countries, and Prebisch had struggled with it in Argentina as we saw in the last chapter. Hence, it was a central element in Prebisch's writings at ECLAC, because currency shortage majorly

¹¹⁸ Prebisch deplored that the USA did not import enough from the rest of the world, resulting in a scarcity of dollars.

affected the productivity of the different sectors of the economy. Latin America would need to import capital goods to develop its own industries, but to do so it would need enough foreign currency. Prebisch suggested numerous solutions.

To begin with, the countries should invest in their primary sector to increase its productivity and export as much as possible. This would be necessary to obtain foreign currencies that they could use to import capital goods and develop an industrial sector. There is thus a complementarity between the primary sector and the secondary sector, and not a contradiction (Prebisch 1949).

However, with an improvement in the standards of living, there tended to be an increase in the demand for industrial goods for consumption or production. If the country could not produce them, this demand would increase imports. Prebisch considered that there was a "dynamic disparity of demand between the centre and the periphery". This meant that in the process of industrialisation, the economic growth of Latin-American countries was faster than the increase of their exports. Consequently, the demand of imported goods would grow faster than their capacity to import (Prebisch 1952a, p.179).

Since the foreign currencies obtained through external trade were relatively scarce, developing countries should import only the necessary goods to develop an industrial sector. There should be a control and selection of imports: non-necessary goods in general and luxurious goods in particular should be restricted. Exchange control would be an important tool in this selection of imports since it would make it easier to target specific groups of goods (Prebisch 1949). This way, the countries could change the composition of imports and make it correspond to the needs of industrialisation. Besides, he argued that through these limits on consumption, it would be easier to constitute savings to be reinvested in productive and essential activities.

However, this selection would not be enough, and it should be completed by a reduction of the import coefficient. Therefore, the countries should start substituting imports in order to satisfy the growing demand:

The necessity of changing the composition of imports is the result of dynamic factors inherent to the growth process. Without substitution and change there cannot be growth (Prebisch 1952a, p.182).

We see that Prebisch wanted to go beyond the spontaneous industrialisation that happened after the Great Depression and the Second World War. It was necessary to have a deliberate industrialisation process within a development plan.

Increasing the productivity and relocating the workforce

Prebisch considered that Latin American countries should increase their productivity in all sectors. Since the primary sector tended to have a relative abundance of labour, its mechanisation would increase productivity and liberate some workforce. It would be essential to provide employment not only to this working force, but also to the new working population, which was growing fast due to demographic factors. However, the primary sector would be increasingly unable to absorb workforce, and industrialisation would be the solution:

Export activities of Latin American countries are insufficient to absorb the growth of the idle working population resulting from demographic growth and technical progress. Industrialisation fulfils this dynamic role of absorbing the idle workforce and stimulating other activities (Prebisch 1952a, p.189).

Industrialisation not only would result in new industries, but also would spur other activities such as services. This would provide jobs and would further absorb this workforce (Prebisch 1951, 1952a). It would be important, however, to provide good employment and

labour training. This last concern specially arises because peripheral countries would have to upgrade to advanced industrial technology originated in more advanced countries. Catching up to advanced technological progress is not easy and it poses other challenges for the periphery. Since it usually demands specific skills, it would require training the workforce to these new techniques (Prebisch 1951). Besides, the newer technologies would be more expensive and adapted to industrial countries where capital is abundant and labour is scarce, while the periphery has abundant labour and scarce capital. Acquiring the new technology would not only be costly, but it might not help absorbing enough workforce. Despite these challenges, the periphery should improve its productivity by adopting these innovations and trying to adapt them to their specificities (Prebisch 1952a).

The major changes in Prebisch writings: moving monetary policy and the role of Central Banks to the background

As expected, Prebisch's writings within ECLAC (Prebisch 1949, 1950, 1952a) are more focused on industrialisation than during the forties. The theoretical considerations are less important as he analyses the challenges to industrialisation and provides policy guidelines to the continent. In addition, although he is still concerned by the economic cycle, we find some significant changes in his proposed counter-cyclical policies. In fact, monetary policy and Central Banks are mostly absent from his texts. He slides from a mostly counter-cyclical perspective to a development perspective which incorporates the former as a part of a bigger set of policies.

The issue of the cycle continued being an important subject for Prebisch: the periphery needed to implement counter-cyclical policies because it should not expect the centre to implement them in its stead. However, as industrialization progresses, the structure of the economy changes and so does the cycle itself. Even though external vulnerability would tend

to decrease, the consequences of the cycle would not be less severe. For instance, during a crisis, unemployment would be more visible in the cities and would not be "absorbed" in the agriculture. Hence, the nature of the counter-cyclical policies should change from what he advised from the Central Bank and throughout the forties (Prebisch 1949, pp. 126-128).

In Prebisch's writings from ECLAC, Central Banks do not seem to have an important role in the development process and monetary policies are not given much importance. Instead, fiscal policies would be the most important. Hence, the role of the governments is central, as they would be responsible for applying counter-cyclical fiscal policies. Indeed, during the upward phase of the cycle, tax revenues would increase and it would be easier to issue public bonds. This increase of public revenues should not be immediately used in higher public expenditure, but rather in reducing public debt or constituting financial buffers. The State should restrain public investment while private activity flourishes. The downward phase of the cycle would be the moment for the State to carry out public investment with the reserves thus created in order to spur economic activity (Prebisch, 1949). He also considered that international cooperation could help in implementing counter-cyclical measures. For example, he proposed the use of international credit during times of crisis and the purchase of unsold primary commodities by international entities. This would maintain the periphery's purchasing power during slumps, and thus its demand of industrial products from the centre. Indeed, Prebisch judged that the centre shared some responsibility for the development of Latin America: it contributed in part to the continent's underdevelopment because of how it captured the benefits of the increase in productivity.

The fact that monetary policy and Central Banks only rarely appear in Prebisch's ECLAC analysis is surprising, to the point that we could almost forget that Prebisch was a central banker for nine years. A few years before he contended that they played an active role

in the development process. One possible explanation might be that monetary policies would not be enough in a counter-cyclical action, in particular during the downward phase of the cycle. Following an interpretation of the Keynesian liquidity trap, a monetary expansion during a crisis might not really spur the economic activity if there is no demand for credit. Indeed, fiscal policies would be more effective during times of crisis, as public expenditure could more effectively reactivate the economy. Yet, the combination of monetary and fiscal counter-cyclical action would be even more effective. It is thus striking that Prebisch stopped giving importance to monetary counter-cyclical policies even though he had promoted them vigorously in the past.

Moreover, he emphasised the essential role of savings for capital accumulation and investments, but bank credit is not clearly put forward. This is surprising if we compare it with his writings from the previous years, where bank credit had a key role in investments. He had even written in 1948 that "it's not so much the classic mechanism of savings [...] but mainly the monetary tool that has allowed historically the accumulation of capital" (Prebisch 1948c, p.333). An explanation for this might be that he feared that unwisely managed bank credit could lead to inflation, at a moment in which inflation rates tended to increase in several Latin American countries (see Table 7, chapter 6). Indeed, he considered that "in Latin American countries, the growth process is tightly linked to inflationary phenomena" (Prebisch 1952a, p.190)

In accordance with Bianchi and Salviano (2006), I believe that the fact that Prebisch's focus drifted away from monetary policies also shows that these texts are not geared towards academic-style theory elaboration: they give more importance to the rhetoric. They are aimed at convincing a broad public and the governments on the necessary change in the growth strategy and in the way in which the State interacts with the economy. Prebisch also focuses

on immediate problems that the countries will face while changing the productive structure. Hence, it makes sense to keep these writings “simpler” and to avoid proposing policies that could easily be misused in Prebisch’s eyes. These texts aim at convincing the countries to follow ECLAC’s lead.

B) Prebisch’s convergence with Furtado, Pinto and the delegates: a unified voice

Studying Prebisch's thought alone would not be enough to grasp ECLAC's intellectual production, and studying the writings of all of its members would be impossible. Celso Furtado from Brazil and Aníbal Pinto from Chile were very influential figures who produced an original thought. Analysing their writings will allow us to comprehend how these economists cooperated in a collective research and how their views were globally coherent and convergent. In this part, we will show how they had convergent views with Prebisch on industrialisation, development and planning. This convergence was important in the context of a new institution like ECLAC: it would benefit from a unified voice and coherent message developed by economists from different Latin American countries, which would help to increase its influence in the region. We will also study the position of the member-countries on development and planning through the speech of their delegates in ECLAC’s bi-annual conference, the “período de sesiones”, which gathers the member governments of ECLAC and is organized by its Secretariat. This will help us grasp a diplomatic aspect of the Commission, these conferences being the moment in which the delegates of Latin America and other countries can discuss the theoretical production of ECLAC.

A similar analysis of industrialisation

Pinto had written about industrialisation before the creation of ECLAC in 1948. He contended that, historically, industrialisation was "*the result of a maturing process in the mode of production*" (Pinto, 1947c) and argued that the characteristics of industrialisation varied according to the historical context and the country in which it took place. He compared the process of industrialisation in Europe with the one in "*backward countries*" and found that in Europe, industrialisation sprouted from already existing germs, but in Latin America, it was different:

[...] industrialisation does not represent a progressive maturing of existing conditions, but, essentially, a RECTIFICATION of path (Pinto 1947c, the capital letters were in the original text)

In theory, the industrialisation process begins with light industries that produce consumption goods and then continues with heavier industries that produce capital goods. Pinto argued that when there is a belated industrialisation process, countries mostly develop a light industry without a heavy industry and tended to import capital goods, which leads to an imbalance in the economy. Hence, the countries would need to start developing heavier industries. Pinto's argument is consistent with Prebisch's concern about the scarcity of foreign currencies necessary to continue importing the capital goods that are needed for the industrialisation process. Although Prebisch does not mention the necessity of having heavy industries in the three referred ECLAC texts, he had given it importance in the forties, as seen in chapter three. In 1944, he contended that Argentina should produce "the expensive inputs, machinery and expensive durable goods" that were normally imported (Prebisch 1944b, p.241).

As we have previously seen, Prebisch also considered that capital accumulation was necessary for investment and for the increase in productivity. Furtado considered as well that

"economic growth is, in the end, a problem of capital accumulation" (Furtado, 1954). This was another important point for Pinto as well, because he saw capital accumulation as essential to start an industrialisation process. Indeed, land and primary factors might help in the process (in particular the presence of coal, iron, etc.), but these were not decisive. Without enough capital, it would not be possible to acquire capital goods, labour and primary inputs for production. Pinto considered that capital accumulation normally originated from the savings of the community, and an increase in productivity was essential to speed this process of accumulation. However, a contradiction emerged from the fact that without enough capital, it is not possible to invest sufficiently to increase the productivity; and without enough productivity, there would not be enough capital. Pinto considered that foreign capital constituted one solution to this difficulty (Pinto 1947c, p.6). This idea is compatible with Prebisch's propositions to use international credit for investment in Latin America.

Pinto and Prebisch shared the same concern of reallocating labour. The process of industrialisation provoked a transfer of labour from agricultural and less productive activities, such as artisanship, to the new industries. This could cause a problem if the agricultural sector is not productive enough, because it would cause a lack of foodstuff and increase its price. Hence, Prebisch insisted on the necessity of increasing the productivity of agriculture. The workforce should also be sufficiently skilled to adapt to the new techniques of higher productivity, and hence be well employed. Finally, Pinto considered that if there was not an important internal market to absorb the new products, this production should be directed towards the international market. This idea is consistent with Prebisch's plans for export diversification that we saw in his 1940s' writings (see chapter 3).

Government planning was necessary to industrialise the countries

These authors did not only coincide in the need for industrialisation; they also agreed on the method through which Latin America could attain it. Furtado, Pinto and Prebisch all considered that the role of the State was central in the development process: there was a need for planning, as the process would not happen spontaneously. This did not mean, though, that private enterprise had to be replaced, because both were essential actors. It was thus possible to have a public-private cooperation within a development plan. For instance, Furtado considered that planning was necessary for beginning a process of development:

[It consisted in] a coordination and intensification of investments in a policy geared towards rationalisation in the use of human and material resources that are available in the economy (Furtado 1954).

Furtado (1954) argued that development planning was not specific to a socialist society; it was essential in capitalist ones as well, and it did not necessarily change the share of the private or the public sector in the economy. The goal of planning was not simply to increase the GDP per capita¹¹⁹, since what mattered the most was the capital per capita. To reach a particular growth objective, it was essential to achieve a certain rate of net investments, and a determinate rate of consumption. To estimate these rate levels, the starting point had to be the state of the productive system that could be grasped through a number of elements such as the capital-output ratio, investment-output ratio, input-output matrix, propensity to consumption and composition of consumption, etc. On these bases, the planner had to evaluate the supply-side needs according to a given aggregate demand. He had to consider not only the total value

¹¹⁹ An increase in GDP per capita does not imply development, as it could only result from the transitory increase in export prices.

of imports and domestic production, but also their detailed composition in terms of capital, intermediary and consumption goods, some of which had to be imported, and other locally produced (ibid). All of these considerations could only be taken into account by the State, and it was thus fundamental to train government officials in economics to be able to design a sound development plan.

For Prebisch and Pinto, private enterprise was vital in the process of economic development. Pinto considered that in Chile in the fifties, it was the main source of activity and production (Pinto 1954, pp. 11-19). For Prebisch, private enterprise was also an important element for production and growth and, as such, had to be encouraged. However, this did not mean for Prebisch that private enterprise should have absolute freedom, and he considered that the State should implement a development plan. Indeed, private enterprises tended to be attracted to sectors with higher profits and productivity, regardless of their importance for the development of the country. For Prebisch, if countries had to specialize in their sectors with the highest productivity at a given moment, they could never industrialise:

It is possible that some productions, despite their lower productivity, are however highly advisable because they decrease the vulnerability of a country regarding fluctuations and external contingencies (Prebisch 1952a, p. 189).

Hence, the State had the major role of guiding private investment. Similarly, Pinto did not consider that the State crowded out the private enterprises, as they did not produce the same

goods and did not have the same functions. Besides, no country truly had “free enterprise”: even the United States, often used as an example, had numerous protectionist measures¹²⁰:

The North American State is not [sitting] like a Buddha with crossed hands on its stomach, contemplating the “outcome of natural forces” (Pinto 1954, p. 8).

Hence, the question for Pinto was not whether or not State intervention in the economy was good or bad, because it was an “evident and immovable fact”. Rather, the debate should be around “the DEGREE and SHAPE of this intervention, WHO IT FAVOURED and BY WHOM it was applied” (ibid, p. 9; emphasis set by the author). More specifically, Pinto recommended that:

1. The State should not increase the share of National Income that its expenditure consumes (approximately 20% in the last years), at least not until it radically improves its financing system and there is not a serious problem of unemployment of productive factors;
2. The composition of its expenditure should be changed without delay, increasing those of capitalisation to the expense of transfers;
3. The representatives of the private enterprise should know and have the opportunity to discuss a global program of public investment, so as to evaluate its objectives and appreciate its effect on their own objectives. (ibid, p.19)

Hence, Furtado’s, Pinto’s and Prebisch’s views on State intervention and private enterprise seem to be complementary. Furtado had a more precise and practical vision of industrialisation, mainly due to his role in ECLAC as the head of the Development and

¹²⁰ For instance, Pinto mentions the U.S. agrarian policy that stabilises the agrarian prices and buys unsold products; the “Buy American Act”, which limited competition of foreign products; the fiscal policy to spur the economy; and the Sherman Act against monopolies (Pinto 1954).

Planning Division. Prebisch and Pinto had a more general approach to the subject, tackling the main challenges, whereas Furtado proposed specific tools that should be used by governments to develop their industrial sector more effectively. They all considered that State intervention and planning were needed in the development process, and neither thought that private enterprises would be negatively affected. They all contradicted the simplistic views against a planned economy in a context of Cold War and fear of communism.

One element in the convergence of thought between the three economists was their similar methodology, which mixed an observation of their country's situation (without always providing data or sources), a general theoretical elaboration and policy conclusions. It was important to start with the analysis and understanding of the economic and social situation of the countries. They were all economists with a policy-oriented analysis working in an institution whose goal was to provide technical assistance (in a large sense) to Latin American countries. This meant that the Commission's staff could provide expert advice to member countries and could provide training. Indeed, for the countries to design and apply those plans, it was necessary to have competent functionaries and experts in the governments or other institutions. They had to respond to concrete issues in the countries with applicable policies instead of entering into purely academic debates; for sure, a theoretical view was also needed to provide a consistent policy orientation, but that theory should be able to address actual development problems in Latin America. Existing economic theory was not adapted to the structure of Latin American countries and failed to provide an answer for their needs and problems. Hence, policies should be based on an evaluation of the specific needs of each country, and the economists had to create a new theoretical framework adapted to Latin America. These economists had political motivations and a common objective: an autonomous, sustainable and less vulnerable economic development with social justice.

C) The convergence with Latin American delegates

ECLAC's economists were not alone in emphasising the necessity of planning economic development and on the importance of the Commission's technical assistance missions. We studied the transcription of the committee held in Bogotá between the 2nd to the 10th of September 1955 around the subject of "economic development and technical assistance". It was in the context of ECLAC's bi-annual conference, the "período de sesiones". Hence, the attendants were in general people from the executive power: presidents, ministers, secretaries or under-secretaries that were at the head of a delegation comprised by experts¹²¹. The attendants discussed and approved the work that had been done by ECLAC, and there was a discussion on the general direction for the following period.

On development planning

We found that most Latin American delegates defended a development plan led by the States with the objective of industrialising their countries through import substitution

¹²¹ For these sessions, there were representatives and observers of European countries, both members and non-members of ECLAC (The Netherlands, Great Britain, France, Czechoslovakia, Poland, Italy). There were also representatives of specialized organizations, like The International Bank for Reconstruction and Development, the International Monetary Fund, the Food and Agriculture Organization of the United Nations. There was also the OAS represented by the Inter-American Economic and Social Council. Finally, there were Non-governmental organizations such as the International Confederation of Free Trade Unions and the World Federation of Trade Unions. In those reunions ECLAC delegation included Prebisch, Gustavo Martinez-Cabañas (former Executive Secretary of ECLAC, and in 1955 he was the deputy director of technical assistance administration), Victor Urquidi (head of ECLAC's secondary office in Mexico), Alexandre Ganz and Celso Furtado, as well as Jorge Ahumada (ECOSOC 1955a, 1955b, 1955c, 1955d, 1955e, 1955f).

(ECOSOC 1955a, 1955b, 1955c, 1955d, 1955e, 1955f). Delegates used the same discourse and arguments as in ECLAC's works in almost every aspect, which indicates a great affinity between the representatives of the member countries' executive power and the institution. The delegates are thus supporting the reports presented by the Commission during these meetings.

For instance, there is a consensus for public-private cooperation in development programmes¹²². We see in several interventions that the Latin American delegates do not trust the destination of private or foreign capital and argue that it should be directed by the State following a precise development plan. The States have to do their best to guide investments to the strategic sectors, and technical assistance should help them develop their planning capabilities:

Technical assistance should be integrally related to a general program of economic development. Technical assistance is a method through which the countries develop their own resources; it is thus fundamental to plan it in a coordinated way so that the available resources can be employed at their maximum. [...] high priority should be given to the technique of the administration in the programs of economic developments because the State has the responsibility of economic development (delegate for Colombia, ECOSOC 1955b, p.9)

The delegate for Venezuela highlighted that the agrarian and industrial sectors had progressed thanks to credit, tax exemption and government's technical assistance:

¹²² For instance, the delegate for Venezuela (Mr. Alamo Blanco) insisted that economic development planning is not a synonym of rigid state control; it is a neutral intervention. This shows the ambiguity of Venezuela's government in 1955, as the President Marcos Pérez Jiménez was a nationalist military on the one side and pro-European on the other that favoured white immigration policies (Ramos 2010; Murgueitio Manrique 2014; Castro Trujillo 2019).

[...] the State has adopted a selective and protectionist policy that aims to impede the establishing of activities that lack economic interest; on the other hand, there have been incentives for internal and external capital (Delegate for Venezuela, ECOSOC 1955d, p.9).

The delegates of Dominican Republic and Venezuela concur that economic development planning shouldn't be studied only within the narrow national framework, but should also consider international collaboration through investment, credit and technical assistance that are of great help to increase productivity. Yet, there seems to be a consensus among the delegates as they emphasize the limits of foreign investment in the economic development in Latin America, which played only a secondary role. They agree that governments should control the destination of public and private investments through national development plans:

“[...] one of the main lessons of the Study is that the Latin American governments can't count too much on the volume or the destination of private capital for their economic development” (delegate for Haiti, ECOSOC 1955e, p.5).

[...] for industrial development, [the delegate for Colombia] considers that the best solution is to leave it in the hands of private investment but with the help and orientation of the State [...] the fundamentals for the integral development of all the aspects of the economy must be found in a healthy planning policy. ECLA can bring an important contribution in this respect (ibid, p.9).

This stance contrasts with the intervention of the observer from the International Chamber of Commerce (ICC), according to whom “it is urgent to abandon the idea that the State should be the purveyor and in charge of solving all the problems. On the contrary, private initiative should be given more opportunity” (ECOSOC 1955e, p.13).

On training, technical assistance and regional cooperation

In the frame of the sixth period of sessions in 1955, ECLAC presented a document that covered subjects of importance for the region: “analysis and projections of economic development” (comprised by “introduction to the technique of programming/planning”, “the economic development of Brazil” and “the economic development of Colombia”). “The economic development of Brazil” was an example of cooperation between ECLAC and a Brazilian institution (the Banco Nacional do Desenvolvimento Econômico, BNDE), which was a result of the Commission’s technical assistance in the region (ECOSOC 1955a; United Nations, 1956).

The discussions mostly revolved around giving legitimacy to ECLAC’s work and mission, and was mostly a diplomatic exercise. During the meetings, there was a consensus among the Latin American delegates as they all praised the training delivered by ECLAC and insisted on the necessity to expand it. More specifically, Jorge Ahumada, the Director of ECLAC’s Training Programme in Economic Development, presented a plan to train professionals to be able to coordinate a program of economic development but stressed that ECLAC did not have the capacity for training enough people, only 12 to 14 experts. This shows a constraint of the young institution that lacked at the time the manpower and probably the financial resources to pursue a complete training programme for Latin America (ECOSOC 1955a).

This lack of experts was a problem for Latin American countries of the time: the delegate for Mexico highlighted his country’s difficulty to send experts for intensive training programs abroad, because they were needed in Mexico. Besides, the delegate for Ecuador insisted on the urgent need for ECLAC to have more experts that provide technical assistance to Latin American countries, especially since the countries often faced financial difficulties when creating institutions for economic development, as was the case with Ecuador (ECOSOC

1955a, 1955f). Yet, the delegate for El Salvador indicated that the technical assistance of ECLAC was bearing fruits. He talked about the progress in training and national statistics in his country, with the creation of the School for Public Administration in 1955 that gave intensive courses on statistics in cooperation with the Interamerican Institute of Statistics (ECOSOC 1955f, p.9). In that sense, the delegates for Colombia, Haiti and Mexico emphasized the need for Latin American governments to coordinate between themselves in the application of economic development programs to avoid a waste of technical assistance.

The lack of experts and of financial resources to organise trainings seemed to be central problems for Latin American member countries for which the Conference – where European delegates and observers from other international organisations were present – constituted an opportunity to request for both financial aid and experts. The response from the developed countries' delegates and international organisations varied: France and The Netherlands, for instance, showed themselves ready to support the training programmes by sending experts (or highlighted that they had already sent some). Specifically, France's delegate (Mr. Viaud) showed his adherence to ECLAC's objectives by saying that "Latin American cooperation is essential", and greatly praised ECLAC's work and studies: "ECLAC offers excellent conditions for this cooperation. The magnificent studies on the programming techniques in Brazil and Colombia demonstrate the ample qualifications of ECLAC's experts" (ECOSOC 1955c, p.8). On the other hand, the delegates for Great Britain, the United States and the International Chamber of Commerce used the most common arguments against an important role of the State. Great Britain was the only country to actively criticise the continuation of ISI. This greatly contrasted with how Latin American delegates converged with several recommendations that ECLAC's economists were pushing through in those years (1955).

We see that technical assistance fulfilled an important diplomatic aspect and was something that was requested by the delegates. ECLAC was a new institution that still lacked influence and experts in the 1950s. To increase its influence and capacity of action in the region, it had to increase cooperation with Latin American countries and their national institutions. This would allow it build contacts and networks with national experts and policy makers, gather national data, and increase its credibility over the Organization of American States (OAS) in the continent.

A coherent theoretical front between the economists and with the delegates

Hence, we see that the speeches held by the delegates in the bi-annual conference were supportive of ECLAC's theoretical elaborations and actions in the region. Indeed, some Latin American delegates pinpointed the instability of primary prices, the commercial restrictions on their country's products, as well as the lack of capital to finance the necessary projects as main problems for the economic development of their countries (ECOSOC 1955d, p.9). They insisted that several problems came either from the external vulnerability that cannot be controlled, or from the lack of cooperation of developed countries. They also adopted the same stance as ECLAC regarding import-substituting industrialization and export diversification:

[For Mr. Alamo Blanco (Venezuela)] the expansion of exports and substitution of imports are of equal importance, thus, is in accordance with Mr. Prebisch (ibid, p.8).

The Latin American delegates were seeking refuge under ECLAC's technical assistance missions to continue their development policies based on State-led industrialisation, which we saw were contrary to the Truman administration. ECLAC was also theorising, and thus rationalising and legitimising, the industrialisation policies applied by Latin American countries since the 1940s (Bielschowsky 1998, pp.17-18). This theoretical elaboration under

the scope of the United Nations benefited the member countries, and it was in their interest to support and praise ECLAC's works.

This stance taken by the delegates was of great importance for ECLAC. While it cannot be argued that this was always the case and there were no frictions, it shows that at least at the beginning of its existence there seemed to be a convergence between the expectations of the member countries and the work made by ECLAC. Besides, the convergent thoughts of Pinto, Furtado, Prebisch, but also Noyola¹²³, gave more strength to the institution. By having the same perspectives, it was easier to collaborate in theoretical elaborations. The Commission not only appeared as having a unified voice, but it also could reaffirm its role in the region. It showed its original contribution and usefulness for the member countries, which were strong arguments to maintain its activities in the region.

Summing up, the theory Prebisch had been developing had not only taken a more definite shape with his ECLAC Manifesto, it also found support in the works of other ECLAC economists who corroborated it. ECLAC's *Estudio Económico de América Latina, 1949*, published in 1951 (United Nations, 1951) and considered as "the bible" was also the result of such a cooperation, since parts of it were written by Prebisch (pp. 3-5 and pp. 48-77), and the rest by other economists¹²⁴. As the Executive Secretary, Prebisch played a central role in bringing this unified voice, but was not alone in the task. Finally, the way the delegates asked ECLAC to further its activities gave legitimacy to the institution.

¹²³ This will be developed in the chapter 6 about the structuralist theory of inflation.

¹²⁴ According to Bielschowsky (1998, p. 131). The economists who drafted the rest of the study are not specified.

III. Conclusion

In this chapter, we have shown the challenges that ECLAC had to overcome at its creation. We have seen how it had to prove it was a necessary “actor” in Latin America, facing the opposition mostly of the United States. The Commission’s first purpose was to provide an independent space for Latin American theory and policy elaboration. This intellectual independence was needed in a context in which countries were changing their growth strategies and in which the structural changes that derived were creating new problems for the countries. In other words, it was needed to support the economic independence that Latin American countries strived to achieve.

We have also seen that the writings of ECLAC’s economists contained a special rhetoric. Their purpose was to convince that the existing economic theories were not adapted for Latin America, that the European experience was not replicable. Instead, the growth model based on import substitution and export diversification was necessary for the development of the region. Because of his new objective and the impact of institutionally endorsed writings, Prebisch had to leave some subjects on the side such as monetary policy, to focus on promoting both a new theory and a new development plan. These texts also aimed to legitimate State intervention in the economy, especially for development planning. This fulfilled a diplomatic purpose, because the member countries also needed the theoretical justification of the economic policies they had been applying. We can see this through the support shown by the delegates of ECLAC’s member countries regarding import substitution, State intervention and development planning.

Finally, we have shown how the potential of ECLAC started developing. It started establishing links with institutions of member countries and enabling cooperation and data creation, which were essential for the Commission’s studies on the region. The training of

experts that ECLAC maintained through the years, largely contributed to expand its influence in the region, an influence that would last for years to come. In that sense, the Commission made an investment and tried to change the intellectual and political landscape of the continent, a bet that it partially won.

As the Commission grew bigger and more influent, it attracted more intellectuals and policy-oriented individuals. ECLAC integrated qualified social scientists, many of them with high-level experience in the civil service, based on their value and commitment, without being subject to governments' pressures. This way, it took in numerous exiled intellectuals that fled from military dictatorships or even from McCarthyism (interview with Alfredo Eric Calcagno¹²⁵, 2020). It is no wonder that in the 1960s, a little more than 10 years after its creation, ECLAC held weekly meetings in which future political personalities were present. For instance, among the participants of a meeting held the 3rd of June 1964, there was Fernando Henrique Cardoso who became the president of Brazil from 1995 to 2002, as well as three future Ministers of Salvador Allende – Carlos Matus, Gonzalo Martner and Pedro Vuscovic (Furtado 1991, p.65). ECLAC was building its influence in the region, and to do so it needed to build a strong and convincing theory. All the steps that we have discussed – giving a strong leadership to the Commission, the elaboration of a coherent theory, the technical assistance – were essential in building a lasting institution that could make its intellectual and political mark on the continent.

¹²⁵ ECLAC staff member from 1964 to 1976, and from 1980 to 1984.

Chapter 5. Conditions for the emergence of the thinking of an institution

In the previous chapter, we have discussed the conditions of creation of an institution that had among its objectives elaborating theories adapted to Latin America. We will now focus on the conditions of elaboration of these theories, and most specifically the limitations of intellectual work within an international organization. This question is directly linked to understanding what constitutes the thinking of an institution, because these limitations did not stop the Commission from producing an original thought. There were also advantages to writing within ECLAC, as it was gaining influence in the region and its publications had a certain impact. The Commission's cooperation with regional agencies and member governments allowed its economists to access data more easily. It also allowed producing knowledge in an international environment with prominent intellectuals, comparing the experiences of different countries, as we will see in the next chapter. However, the need to maintain a good relationship with member governments could hinder intellectual work. Indeed, it was difficult to formulate substantial criticism in the official institutional reports made for member countries, which could block their circulation or put pressure on the Commission. This is particularly true for unsigned documents, as they represented the official position of the institution. This situation also signified a certain form of self-censorship, as we can understand from Furtado's account of his experience at ECLAC. The relative freedom of the authors depended on the types of documents they were producing and on their status in the institution.

To tackle this subject, we will compare the analysis and policy recommendations regarding income distribution in Brazil and Chile based on two different types of documents. The first is a report published in 1956 that resulted from one of the first ECLAC's technical assistance missions that started in 1953. We show that this type of missions had enormous

potential because it opened the possibility of cooperation between the Commission and regional institutions, in this case the Brazilian National Bank for Economic Development (the BNDE). The joint ECLAC-BNDE mission is of particular interest for four reasons. Firstly, Furtado was the one at charge of the joint research group. Secondly, the report it produced was the basis of Jucelino Kubitscheck's government "Plano de Metas" (target program) (Furtado 1997, p. 11). Thirdly, the mission allowed for the gathering of more data, a better statistical analysis and a more in-depth knowledge of the socioeconomic problems of Brazil. Finally, this joint report pointed at a scarcely studied subject at the time (including within ECLAC) which was income distribution. Hence, it is an example of the richness of producing knowledge in the frame of an official mission of ECLAC, but it also raises the question of its limitations. Indeed, while the report elaborated a sound critical assessment of some social tendencies (especially income concentration) and policies, it fell short of providing coherent policy propositions and theoretical elaboration. The lack of a strong policy proposal could be indicative of political restrictions, as it was difficult to criticize a member country. The theoretical contradictions could result from the intellectual restrictions that arise when cooperating with another institution that could have different theoretical traditions.

The second type of documents is the writings of Nicholas Kaldor on Latin America published between 1959 and 1965, and especially on the issue of income distribution in Chile and his propositions for a fiscal reform. These were non-anonymous texts that enjoyed from relative freedom compared to the joint CEPAL-BNDE report. We chose these works because they were partly the result of Kaldor's work at ECLAC, where he had been invited as a consultant in 1956. His works involved the institution less directly than official reports and had less diplomatic incidences. Besides, his analysis is similar to the joint report of ECLAC and the BNDE but his conclusions are more radical, an evidence of the greater freedom he enjoyed. This freedom has to be nuanced though, as his policy proposals sparked a controversy in Chile

in 1958 that blocked the publication of one of his work in the Economic Bulletin of ECLAC as evidenced by Palma and Marcel (1989).

We also refer to Celso Furtado's experiences of the restrictions that two of his works encountered at ECLAC. We take as a basis his own narration, as what interests us is his perception of the limitations he faced while working in the institution. In 1957, he elaborated a report on Mexico and another on Venezuela that were considered too critical by these member governments. In the first case, the report had to be greatly modified; in the second, the government forbid its circulation. Prebisch, as the Executive Secretary, was directly involved in these restrictions. These incidents can give elements for understanding the diplomatic considerations that an institution like ECLAC needed to have, and could explain to some extent the contradictions found in the ECLAC and BNDE joint report.

The chapter will be organized in two parts. In the first one, we discuss the limitations of ECLAC's technical assistance by studying richness and limitations of the ECLAC-BNDE joint report. We complete the part with a reflection on Furtado's experience as a member of the institution. In the second part, we focus on the greater freedom found in Kaldor's writings, both because of his status in the institution as a consultant and foreign scholar and because of the nature of his texts, that were non-anonymous and did not involve the institution to the same degree.

I. ECLAC's technical assistance: an ambiguous exercise

A) An example of ECLAC technical assistance and regional cooperation

Regional cooperation and the important creation of data

The study of “Analysis and projections of economic development, II- the economic development of Brazil” provides an example of ECLAC's technical assistance at its beginnings, as well as one of its first cooperation project with national institutions. It is a work produced by the joint working group of the BNDE and ECLAC in 1956. It is important to note that the BNDE was created in 1952 to provide credit for investment in the industry and infrastructure. It was at the same time an occasion to train public servants to the technique of projection needed to elaborate a development plan, and to perfection the tools and methods by applying them in a concrete case. This was a cooperation between two newly created institutions and the report was published less than 10 years after the creation of ECLAC.

this study originated from a request of the Brazilian Banco de Desenvolvimento Econômico, with whom the secretariat concluded an agreement in April 1953 providing for a joint study of the elements required to prepare a programme [...]. Research into the economic development of individual countries is carried out with the co-operation of the government agencies or departments concerned, and fulfils a dual purpose:

a) to collect and analyse information in order to measure the rate of economic growth in the immediate past; and

b) to establish projections of series on the different sectors of the economy, with the aim of assisting governments by providing them with the background data and bases required to draw up an over-all programme of economic development. (United Nations 1956, p.1)

This joint project allowed ECLAC to contribute to the generation of statistics on Brazil, which is one important aspect of regional cooperation, since the basic data used in the report comes from the Fundação Getúlio Vargas¹²⁶ and the BNDE. This access to national data was very important for these young institutions. ECLAC needed to have first-hand data on its member countries and establishing good relations with these national institutions was of fundamental importance for the constitution of its network. Besides, regardless of the report's results, producing a joint report with the objective of providing projections and guidelines for development planning was in itself an achievement and important step forward in ECLAC's objectives:

[...] from the point of view of the secretariat, the present study constitutes a step towards transforming the technique of projection into a practical instrument for the formulation of economic policy.

[...] the fundamental interest of the study for the secretariat is methodological, but this does not preclude its intrinsic practical value for the Administration of the BNDE in the formulation of an investment policy (United Nations, 1956, p.1).

However, to what extent could this type of report propose a critical analysis and fundamental policy changes?

Analysis of Brazil's structure: income concentration as a structural bottleneck

Parts of this report have radical political conclusions, showing to some extent that ECLAC's cooperation could bring forth certain criticism to the functioning of some of its

¹²⁶ Fundação Getúlio Vargas was also a new institution created in 1944. Its objective was to provide training for public and private administration employees, which was coherent with ECLAC's training (Fundação Getúlio Vargas official website, consulted in November 2020: <https://portal.fgv.br/en/institutional>)

member countries. In particular, the report pointed at the problems of income concentration in Brazil, even though it was not the central topic of the report.

Data on income distribution in Brazil is very difficult to find. Indeed, Kingston (1951) talks about high income concentration in Brazil, but he highlights the scarcity of statistics around this subject:

Despite the long period of collection of this [income] tax [...] the statistical data on the individual distribution of income are [...] almost nonexistent. (Kingston, 1951, p. 71)

His data was limited to Rio de Janeiro and Sao Paulo for the years 1928, 1934, 1942, and from 1944 to 1948. Besides, his data was also limited to the taxable income, as it was data relative to the income tax from the Division of income tax of the Federal Districts (ibid, pp. 71-72), thus it excluded a huge part of Brazil's population. He does conclude on this basis that there was a high level of inequality and income concentration, but it is a source that does not allow comparison between countries, or between different periods in Brazil's history. Even recent studies show the limited sources to study income inequality in the 1940s and 1950s in Brazil. Souza and Medeiros (2015) try to provide long series on income inequality in Brazil from 1928 to 2012, but highlight data shortcomings for most of the period as it was based on gross taxable incomes, and the regions covered in some periods (1928-1943 and 1966) are the richest areas of Brazil (Souza and Medeiros, 2015, p.3). Despite these shortcomings, they provide a "lower bound" for income concentration and show that "[o]n average, about 15% of all income accrued to the top 1%. Their income share fluctuated between 10% and 20% most of the time". They show that income concentration by the end of the 1930s and before 1945 increased, as the top 1% income share went from 15% to around 25%. It was between 16%-19% at the end of the 1940s and beginning of the 1950s, and consistently decreased from 1955 to the beginning of the 1960s, going below 10% (ibid, p.8).

The ECLAC-BNDE joint report used data from the Getúlio Vargas Foundation, but also from ECLAC and from the BNDE to create statistics on various macroeconomic indicators. Among these indicators, they produced data for 1947-1953 on the share of income of the wage-earning sector in total consumption (private and public), on the consumption and saving of the higher income sector (capitalist and entrepreneurial sector), and the indices of the growth of consumption of these different sectors (United Nations 1956, pp.19-20)¹²⁷. The report does not give more precise information on the method used to collect these data. This elaboration of statistics was precisely one of ECLAC's mission, and on the basis of this data they could provide information on a scarcely studied subject such as income concentration. However, since it was not the main focus of the report, there was not an extensive study or many tables on the subject. Besides, these indicators were not sufficient to tackle the subject, and the study of income inequality will be further developed in the 1960s and mostly the 1970s as there were more studies carried out on this matter (CEPAL 1971). In any case, it still provided some important conclusions.

For instance, based on the joint report's data, the income share of the wage-earning sector (excluding agricultural wages) in the geographic income was 25% in 1953¹²⁸. In comparison, this share was 21,5% for the capitalist and entrepreneurial sector (including profits, income of managers of firms, interest and rent) (United Nations 1956, pp. 19-20 and p.72). The report does not provide the income of rural workers, that could be wage-earners or independent workers, which represented the majority of the workers of Brazil. Besides, the report does not give an indication of the percentage of the population found in each sector.

¹²⁷ They only cover the period 1950-1953 for the indices of the growth of consumption

¹²⁸ We notice that the report seems to make the hypothesis that the wage-earning sector does not save and consumes all its income (United Nations 1956, p.19).

Still, it brought to light how income distribution in Brazil resulted from the social classes dynamics (since the report distinguished between wage-earners and capitalists/entrepreneurs) and sectoral dynamics, and argued that this concentration of wealth was not beneficial for economic development. Instead, it showed that it did not increase neither investment nor national savings and was also a source of inflation. Particularly, the report analyzed the structural bottleneck created by the agrarian sector and the export sector (that were often related), where national income was mostly concentrated:

The agricultural sector, and of course the export sector as a whole, managed to retain the benefits accruing from the improvement in the terms of trade; moreover, they were successful in provoking an additional re-distribution of income in their favour (ibid, p.18)

Table 6. Brazil: price indices of the principal sectors (1947=100)

year	agriculture	industry	services
1948	114	99	102
1949	121	106	117
1950	143	108	122
1951	166	128	131
1952	188	145	154
1953	220	138	170

Source: reproduced from United Nations (1956), p. 18

To describe this “additional re-distribution”, the report used the concept of “internal terms of trade” (p.18) to signify how the dynamics of prices went in favor of the agrarian sector: there was a tendency for agrarian prices to increase more than the prices of manufactures and services. Hence, “there was a large redistribution of income in favour of the agricultural sector”

(ibid, p.18). This means that the internal terms of trade were beneficial to agricultural producers, unlike the international terms of trade. Besides, the report described the harmful behavior of that sector for the rest of the economy: when export prices of agrarian products were high, there was no interest in selling those products cheaper in the internal market.

Throughout the entire period, the index of agricultural prices rose more rapidly than the general level, and also increased with greater intensity than did the export prices.

[...] the large majority of Brazilian exports consists of articles which are also sold on the domestic market. Thus, when export prices rise, the domestic consumer has to pay more for these commodities. This second rise in prices is a typically inflationary phenomenon; in other words, it is an attempt to re-distribute real income in favour of the groups producing and trading in these goods. (ibid, p.18)

We understand that the agrarian sector could set higher internal prices when the export prices rise. Why would the producers sell for less internally when they could make more profit by exporting? This strategy would explain this tendency in the internal terms of trade in which agrarian prices were increasing more than manufactures and services in the period 1948-1953. The report also shows that the agrarian and export sectors accumulated wealth to the detriment of other sectors. In terms of social classes, the landlords, entrepreneurs and exporters benefited while the workers were confronted with higher prices of essential products such as foodstuffs.

This degree of concentration becomes clearly apparent when it is noted that, in the period 1947-53, the level of income of capitalists and entrepreneurs varied between 85 and 100 per cent of the total income of private and public wage-earners. (ibid, p.20)

Hence, these analyses could have important theoretical and policy repercussions. It proposed the novel notion of internal terms of trade for analyzing of the price dynamics in different sectors. It also showed that a growth strategy that relied only on the agrarian export

sector could not succeed in developing the other sectors nor guarantee a fair distribution of income. Finally, it went against the theories that favor the concentration of wealth as a mean to increase capital accumulation, which would eventually lead to a « trickle-down » of revenues to the lower income classes¹²⁹. In the case of Brazil, essential products like foodstuffs became too expensive for consumption while prices and wages in other sectors did not follow this price increase. Since there seemed to be a logic of class struggle, it could not be argued that the economic system could work without public intervention and redistribution of income.

[...] it would appear that the great concentration of income existing in Brazil does not constitute a motive force for development. (ibid, p. 20)

Besides, the report argued that wealth concentration was not the solution for increasing private savings because “this mechanism of spontaneous accumulation does not function”

¹²⁹ The ECLAC-BNDE report does not use the term of “trickle-down”. However, Heins W. Arndt (1983, pp. 1-2) has shown that the term “trickle-down” has been used decades before it was popularized in the 1970s. For instance, he notes that Jawaharlal Nehru used the expression in 1933 that appeared again in “a well-known article by Jacob Viner” in 1953. Indeed, we can read in that article:

There is a school of thought with respect to economic development which [...] contend[s], the prosperity will trickle down to the lower levels of the population, and the national resources will become abundant enough to make possible largescale programmes to rescue them from their poverty, whereas a direct and immediate attack on mass poverty would result only in the squandering of the limited national resources on temporary palliatives, with increases in the number of the desperately poor as the only important result (Viner 1953, p.15).

Arndt rightly notes that Viner did not say who belonged to this school of thought (Arndt 1983, p. 2). The joint ECLAC-BNDE report also stays vague as to who defends income concentration for economic growth. (United Nations 1956, p.20). Hence, the idea was already circulating in the 1950s and before, although no specific school of thought or author appears as vehiculating it.

(p.20). It analyzed the consumption of the higher income groups, and concluded that prevailing theories, without clearly stating which theories, did not fit with Brazil's experience:

It is commonly assumed that, in view of the high marginal savings coefficient of the upper income groups, this concentration is an efficient driving force for accumulation in periods of rapid income increase. Experience would appear to indicate, however, that the behavior of the higher income groups may be identical with that of the lower income groups, the marginal coefficient of saving levelling off with, and under certain conditions, even exceeding, the average coefficient. (ibid, p.20)

Hence, from these observations, the report raised very important questions related to wealth concentration, income distribution and social class dynamics. In terms of policy implication, at first, it implied that a fiscal reform was needed because these sectors that concentrated wealth were practically tax exempted:

The way in which Brazil's agricultural production is organized keeps this important activity far from the reach of the fiscal system. A large increase in income concentrated mainly in the agricultural sector almost inevitably creates difficulties for the public sector. This is because an increase of activity in rural areas requires greater public investment, particularly in transport, whereas public revenue does not tend to grow with income, owing to the relative tax exemption of agriculture. (ibid, p.18)

These questions were also a main focus of Prebisch's later book, *Towards a dynamic development policy in Latin America* (1963). Indeed, he emphasized the harmful effects of "a situation of privilege in the distribution of wealth and therefore of income" (Prebisch 1963, p.5) on capital accumulation and on private initiative, thus shining a light on the contradictions of the trickle-down theory. There is thus an apparent concordance between the ideas of Prebisch in the 1960s and with some of the conclusions that this joint report puts forward:

[...] privilege weakens or destroys the incentive to economic activity, to the detriment of the efficient utilization of human resources, land and machinery[.] This state of privilege in regard to distribution is not reflected in a rapid rate of capital formation, but in extravagant patterns of consumption in the upper strata of society, in contrast with the unsatisfactory living conditions of the broad masses of the population (Prebisch 1963, p.5).

Actually, we notice that in the 1950s, the subject of income inequality was not a central matter in Prebisch's writings or ECLAC's reports. In the Economic Survey of Latin America for 1949 (1951), Prebisch mentions that wages stayed relatively low and that there was a "very marked increase in land rent" (Prebisch 1951, p.145). However, he did not clearly denounce income inequality nor income concentration. In 1952, he does talk about "achieving a more equitable distribution of income" in Latin America notably through taxing higher-income groups, but it was not a central topic of the text (Prebisch 1952b, p. 391). Several years later, in his foreword written in 1979 to Octavio Rodríguez (1980), Prebisch recognizes that the focus on social inequality came in the 1960s, as he realized that inequality was increasing:

The problem of social inequality, which is presented so frankly in that 1963 writing¹³⁰, requires a theoretical explanation. I confess that the need for such an explanation was increasing in me when I saw later that social disparities were worsening instead of diminishing, and that the exclusionary character of the system was stubbornly maintained. But, as has always happened to me in the course of my existence, the responsibilities of the functions that I have had to perform did not give me the time or the spiritual comfort that the theoretical task demands. (Rodríguez 1980, p. X)

Besides this lack of time mentioned by Prebisch, we can also provide another explanation. During the 1950s, Prebisch and ECLAC seemed to believe that industrialization

¹³⁰ Prebisch refers to his book *Towards a dynamic development policy in Latin America* (1963).

could decrease social inequality. For instance, through the opportunities of employment in activities with higher productivity per worker, wages could increase. There could be more skilled workers. The urbanization of the country could contribute to social, economic and political inclusion of formerly unrepresented populations. Through these changes, maybe income could be better distributed. But these mechanisms were not automatic, and ECLAC started focusing on social inequality from the 1960s onwards.

It is thus even more striking that this ECLAC and BNDE joint report gave importance to the matter of income concentration and created data to show it. We could thus assume that this report would defend a fiscal reform in which the higher-income groups would be more heavily taxed, since it had argued about the uselessness of relying on their savings for capital accumulation. That is what ECLAC had endorsed in some of its works, and that is what Kaldor had concluded in his studies on Chile for the Commission, as we will see in the next part (Kaldor, 1959). We will now see the report's shortcomings in terms of policy proposal.

No definite policy recommendation: The limits of institutional cooperation and official reports.

The tone changes in the next part of the report, as it claims that “it is in the possibility of increasing the rate of saving that a development programme finds its principal justification” (United Nations 1956, p.27). That claim seems odd, as raising the rate of savings does not appear as a goal *per se* in ECLAC's works but might be presented as a means for capital accumulation. What is puzzling is that the importance given to private savings leads to a counter-intuitive conclusion regarding taxation:

Heavier taxation is not in itself sufficient to raise the rate of saving. The revenue accruing from additional taxes may be used to cover current expenditure. Moreover, an increase in the tax burden may result in a reduction of private saving. It is therefore conceivable that higher taxation may cause a decline in the rate of saving.

[...] the main consequences of a rise in the tax on luxury goods may be a curtailment of private saving. Direct taxation, whose incidence is almost exclusively on the middle and upper income groups, principally results in a reduction of private saving.

Thus, it may be concluded that it is no easy task to increase the rate of saving by the use of fiscal instruments. (ibid, p.28)

While the report had argued that the higher-income groups did not have a higher propensity to save and that their wealth did not lead to more investments, it still does not recommend increasing the taxes on those groups. If the focus was given to increasing total savings, an increase in taxes would have been justified, as it would be a transfer of savings to the State that could utilize that income to invest in industries and infrastructure. We can notice that in this respect, during the 1955 period of sessions that discussed this still unpublished report, Prebisch only mentioned the creation of national savings (ECOSOC, 1955c, p.13). In his 1963 book, Prebisch developed his ideas on income distribution and capital formation, and stressed the importance of reducing the consumption of the upper-strata – especially luxury consumption – and transforming it into investment (Prebisch 1963, pp.5-7). While he does not explicitly present a plan for a fiscal reform, he does emphasize the role of the State in diminishing that consumption with the aim to redirecting it towards investment:

Hence there is no way out but for the State deliberately to reduce the consumption of the higher income groups in the community (ibid, p.16).

This impressive disproportion in the consumption of these groups and in the income transferred abroad for investment and hoarding offers an ample savings potential which could lead to a sharp increase in the rate of development, provided other conditions were met at the same time (ibid, p.47).

He does mention the use of taxation (ibid, p.50), but he also considers that “popular saving would then have to be stimulated also by means of adequate incentives” (ibid, p.51) and, in a footnote, Prebisch even considers the use of credit for increasing saving¹³¹. This contrasts with the 1956 joint report, as Prebisch does not see any incompatibility in compressing the consumption of higher-income groups with the formation of savings, on the contrary. He also explores other ways of increasing savings through State intervention.

Incoherencies in the report regarding savings and investment

At the beginning of the report, savings were presented as important for developing countries but not as central:

[...] saving in an under-developed economy is not always an effective cause of growth. There must also be the possibility of converting this saving into real investment – a possibility dependent, to a varying degree, upon the capacity to import (United Nations 1956, p.9).

Here, the capacity to import appears as the obstacle for investments because if machinery cannot be imported, the needed investments would not be possible to make. Yet, a part of the report mostly pointed at the behavior of the higher-income groups as one of the causes for this possible ineffectiveness of savings and for the lack of savings. We can also point out that even for developing countries there is no reason for private initiative to increase investments if the demand does not follow. Hence, if we follow Prebisch’s works and the

¹³¹ “Perhaps [saving] practices could be encouraged by credits for the purchase of securities by the workers themselves, either in the enterprises in which they work or in other. These possibilities should be explored and the organizations that finance development might play a very important part in this respect.” (Prebisch 1963, p. 51)

general structuralist perspective, it would make more sense to stress the importance of public savings and public investment rather than private savings.

There seem to be contradictory stances in the same report regarding the use of savings for investment. In the first chapter of the first part, it is implied that private savings were not invested and what counted was the use of national savings by the State. In the next chapter, private savings were highlighted and increasing taxes was discouraged since it would diminish private savings. These contradictions could be due to diverging opinions or to different theoretical backgrounds of the authors of the report, and maybe of their respective institutions.

Another point that is difficult to understand is that credit is barely mentioned in this report, even though it was partly elaborated by a development bank. The focus is on increasing private savings, and not so much on financing investment through credit, although there is one mention to it:

[...] since the individual entrepreneur is not fully informed of market prospects or of the plans of his fellow entrepreneurs, there is in many cases an inevitable duplication of effort, with the consequent waste of the community's resources.

The execution of a programme will tend to correct omissions and duplications, since it will help to provide entrepreneurs with a more precise idea of the future market and with a fuller knowledge of all the advances being made in the principal sectors. But it is mainly through the encouragement afforded by credit, complemented by direct state action, that a programme makes its decisive contribution to the prevention of sectorial disequilibria (United Nations 1956, p.27).

However, despite these contradictions and incoherencies, this report is important in itself as it pinpoints a very delicate subject in economic theory and policymaking, which is the incompatibility of the behavior of higher-income groups with economic development. Even

though it fell short of providing policy proposals to compensate or correct the behavior of these groups, it is remarkable that such young institutions criticized at the same time a powerful social class and an influent economic theory. It also shows the beginnings and potentiality of the regional cooperation of ECLAC. These activities increased the Commission's influence in the region and were certainly a channel through which it disseminated its theory.

B) Furtado's account of the limitations: the impossibility of criticising a member government

The ambiguity that we found in the joint report of ECLAC and the BNDE raises the question of the intellectual freedom of the civil servants writing within an institution and in its name. Regarding this type of limitations, a dispute between Prebisch and Furtado is sometimes mentioned when talking about ECLAC in the mid 1950s. Its origins would be the blocking by Prebisch of a report written about the external vulnerability of Mexico by Celso Furtado, Juan Noyola, Oscar Soberón and Osvaldo Sunkel, that was to be presented at an ECLAC Conference in La Paz, Bolivia, the 15th of May 1957.

The narration of this event is mainly based on Furtado's autobiographical work, *A fantasia organizada* (1985). Indeed, Dosman (2010 pp.361-362) and Dutra Fonseca and Solomão (2018), only quote that source when talking about the incident. I have not found Prebisch's point of view on the subject. According to Furtado, the first version of that work was too critical towards the Mexican government and also in contradiction with some of Prebisch's works at that time. Hence, the latter asked for the report to be re-written several times. The 1957 original report on Mexico, with the ideas of Furtado, Noyola, Soberón and

Sunkel before Prebisch's interventions, has never been published and I have not come across secondary literature that claims having read it. According to Furtado:

The final text was mimeographed for its presentation in the conference of La Paz, in May 1957, but was never published in final form, constituting today a rarity for collectors of ECLAC's works (Furtado 1985, p.312).

Today we can find the version of the 1st of April 1957 in ECLAC's online library. However, without the possibility of comparing it to its first version, it seems difficult to grasp the extent of Prebisch's censorship. Having said all this, we can take into account Furtado's perception of the incident almost 30 years afterwards, as he narrated it in his autobiography. It is indicative of the experience of working in an international organisation and the limitations that he felt on his intellectual work and policy recommendations. Regardless of whether Furtado was right or not, his narration impacted his contemporaries and the literature. The way in which he experienced the limitations of working at ECLAC will allow us to think about the conditions of research within the boundaries of an institution.

Furtado narrated the numerous problems his team had with the Mexican administration and "local authorities", because "Mexicans are extremely suspicious with those who come to observe them". "The information they provided was incomplete, and even uncertain", not only because of their suspiciousness but also because of "the great insufficiency of statistics in the country" (Furtado 1985, p.310). Furtado's team was also critical to the policies applied by the Mexican government, as it was not countering the growing social inequality and it had "excessive social cost" (ibid, p.312). Indeed, they insisted on the "persistent concentration of income" that occurred with economic growth, and on the "inadequacy of the fiscal system":

The external sector carried out a highly dynamic role, but there was no way to control it, because of the nature of the relations that the country had with the United States. [...] The exchange rate

stability in which the government was engaged, in the absence of exchange control, required large reserves and/or a semi-recessive policy. [...] Lastly, periodic devaluations rewarded speculators. All of this pushed towards income concentration (ibid, p.311).

According to Furtado, “this vision was mitigated in the text [they] prepared, and despite this [they] faced great resistance from Prebisch, who feared that it could be interpreted as calling for greater interventionism” (ibid, p.312). He hints at a political disagreement between him and Prebisch, because the latter had prepared a plan for the military government that overthrew Perón in 1955 (known as the “Plan Prebisch”). This sparked controversy because even if he did it on his name and without involving ECLAC, he remained its Executive Secretary and was siding with a de facto government. However, Furtado said that the main reason for Prebisch’s censorship was the “known intolerance to ‘external meddling’ of people linked with the Mexican government” (ibid, p.313).

Furtado also went to Venezuela in 1957 with the objective of gathering more information about the economic situation of the country. At that time, the country was under the dictatorship of Marcos Pérez Jiménez, and although it was Venezuela that requested ECLAC’s assistance the atmosphere was once again of secrecy and suspiciousness towards Furtado’s presence. Not only did he struggle to gather information, he also did not receive support for his three-month mission. In his report on the Venezuelan economy, he showed how dependant the country was to its petroleum production and stressed that its growth strategy was unsustainable. What Furtado faced was once again disapproval from the member government, which refused to have this work circulated:

No matter how cautious I might have been when writing the text, when the Minister of Development took notice of it, he warned me that I should not give a copy to anyone before the Venezuelan government had deliberated about the subject. The decision was peremptory: the

work should not circulate in Venezuela, and much less outside the country. It was informed to ECLAC that the Venezuelan government considered the work as *non-existent* for any purpose (ibid, p.319).

Furtado narrated that after the dictatorship ended in 1958 his work largely circulated in Venezuela, yet it was never published by ECLAC. It seems that the institution avoided conflict because it depended on its member governments, which could be an obstacle to an open policy discussion like Furtado desired. Furtado left ECLAC by the end of 1957 and went to King's College, after being invited by Kaldor. He said that this “decision of leaving ECLAC was less the fruit of disappointment” than his desire to change his project, expand his horizons and to move forward (ibid, pp. 327-328). He mentioned his wish to focus on economic dynamics and the theory of distribution. However, it is apparent that the feeling of being obstructed in his work at ECLAC grew bigger after his reports on Mexico and Venezuela were blocked. Other narrations of the event (as found in Dosman (2010), Dutra Fonseca and Salomão (2018), or as transmitted orally) depict a more dramatic event, emphasizing Furtado’s frustration and resentment towards Prebisch¹³².

As civil servants of an international organisation, ECLAC’s economists had to comply with its official mandate and some institutional (and diplomatic) restrictions. Because of this, there were also negative aspects of producing intellectual work within an institution. Furtado clearly stated those limitations:

¹³² Dosman in particular said that “Furtado lost control and cried from frustration” (Dosman, 2010, p. 362), which might be a romanticized version of the event. Dutra Fonseca and Solomão (2018) have stronger evidence, as they quote a letter from Furtado to Regino Boti (year unknown) in which Furtado says: “[m]y last year at ECLAC was not easy. I faced increasing difficulties to get along with the director” (Dutra Fonseca and Solomão, 2018, p.76).

The situation of international civil servant had more than one negative aspect. Intellectual freedom was tolerated if the problems addressed were abstract: terms of trade, structural surplus of labour, tendency towards external imbalance and so forth (ibid, p.312).

Abstract theoretical work did not directly criticise a member government's policies and enjoyed a greater degree of freedom, but some aspects of technical assistance had to deal with necessary diplomatic considerations to guarantee good relationships with the governments. This posed a limit to what could be said, thus compromising a free intellectual work. As the head of ECLAC, it is normal that Prebisch gave diplomacy more importance than Furtado. These considerations did not pose stringent restrictions in the initial years of the Commission, because as we saw in the previous chapter the member governments shared the same industrialist objectives as ECLAC. However, this became more problematic in the years that followed the period covered in this work, notably during the 1970s and 1980s with the arrival of neoliberal governments in some Latin American countries. Confronted with that change, ECLAC had to gradually adapt its discourse and research. Sunkel mentions this shift in ECLAC's works that went from mostly studying the middle to long term, to being heavily focused on the "short-term":

However, in the following decades, the 1970s and 1980s, attention turned heavily to short-term issues, exaggeratedly for my taste. But I do not think this fluctuation was so much the product of the institution's authorities' preferences, but most likely the consequence of the fact that ECLAC is an intergovernmental institution that basically has to follow the orientations and concerns of the governments. Critics of the institution, on both sides, often forget this essential fact (Sunkel 2000, p. 39).

II. Non-anonymous documents provide greater intellectual and political freedom: the example of Nicholas Kaldor

A) Nicholas Kaldor: a renowned foreign scholar writing for and within an international organisation

We find that in the individual texts of ECLAC's economists they can more easily defend certain economic policies even though they can enter in contradiction with the member countries governments. We have seen it in Prebisch's personal writings – notably his 1949 Manifesto – and we will see it in the case of the structuralist theory of inflation. For this chapter, we have chosen to study the works on Chile that Nicholas Kaldor had written as a consultant for ECLAC. We made this choice because they tackle the questions of social inequality and income concentration, which were central themes in Furtado's report for Mexico and in the 1956 joint report of ECLAC and the BNDE. Besides, Kaldor's works propose a concrete fiscal reform, which greatly contrast with the lukewarm policy proposals of the joint report.

Kaldor had worked on questions of economic and social development, and his ideas were close to Latin American structuralism as he agreed that underdeveloped countries “suffered under a structural handicap” because of their trade specialisation (Kaldor 1964c, p. 467). He believed that industrialization was the only viable strategy for rapid and sustained economic development (King 2009, p. 116-177). In 1956, Prebisch invited him to visit ECLAC and familiarize himself with the development problems of Latin America. In this context, Kaldor was a consultant for the Commission and carried out several studies with the aim to propose economic policies for development (Urquidí 1987; Palma and Marcel 1989; Thirlwall 1989; Dosman 2010, p.363). He was very close to the ideal of ECLAC economists by combining theoretical elaboration with policy advice: throughout his career, Kaldor counselled numerous countries such as India (1956), Ceylon (1958), Mexico (1960), Ghana (1961), British

Guyana (1961), Turkey (1962), Iran (1966) and Venezuela (1976) (Kaldor, 1965b) (Kay 1981 ; Thirlwall, 1989)¹³³.

The literature on Kaldor's development thought has noted his affinity with the Latin American structuralist school, as well as his insistence on tax reforms in developing countries (Griffith-Jones 1989; Palma and Marcel 1989; Dell 1991; Toye 1989; King 2009). Toye (1989) had focused on Kaldor's propositions of tax reforms in developing countries, but has given little importance to the Chilean case. Palma and Marcel (1989) study Kaldor's writings on Chile, which the rest of the literature scarcely mentions. They focus in particular on his analysis of the Chilean economy, on his policy proposals and they show how his analysis and solutions continued to be valid thirty years later. We will go back to Kaldor's analysis of Chile and his policy proposals to compare them with what was being said in ECLAC about income concentration and tax reform, which will help us talk about intellectual freedom and the institutional boundaries of ECLAC. Besides, the link with the structuralist school has not been extensively studied, and we wish to situate Kaldor's works on Chile as a contribution to structuralism despite its controversial aspect.

It is relevant to study the signed works of a consultant for the Commission, as it allows us to confirm to some extent what Prebisch had said in an interview when talking about the reaction of the Headquarters of the United Nations about his Manifesto that he also wrote as a consultant before becoming the Executive Secretary:

[...] New York sent the longest cable that I have ever seen in my life and that, regrettably, does not exist in New York or in Santiago [...] in this cable they made a series of considerations that

¹³³ Kaldor also had an influence in Great Britain in the 1960s and 1970s, because he was the adviser to three Chancellors of the Exchequer of the Labor Party.

ended in the following form: “The report is a document with a great content. But it speaks about development, industrialization, terms of trade, and many other matters that ECLA is not supposed to deal with. ECLA has no instructions to deal with these problems. But as the document is a serious and responsible document, we suggest to you (Martinez Cabañas), to present the document as an Introduction signed by the author, so that you will attribute the responsibility to him and not to the organization.” (Pollock, Kerner and Love 2001, p.11)

All the works of Kaldor that we will study were written in his name, but some were outside the scope of ECLAC (Kaldor 1959; 1965a; 1965b) while others were presented for the Instituto Latinoamericano de Planificación Económica y Social (ILPES) – which was ECLAC’s technical assistance program – (Kaldor, 1964a) or within the UN’s Economic Bulletin for Latin America (Kaldor 1963; 1964b). The Economic Bulletin published anonymous institutional texts, but also signed ones (such as Kaldor’s). All its issues have this disclaimer, showing that it might have more intellectual freedom than its reports for technical assistance, but they still involve the institution up to a point:

The ECLA secretariat assumes entire responsibility for The Economic Bulletin for Latin America. Its contents – intended for the information both of public officials and of the general reader – are not submitted to the Commission’s member Governments before publication (*Economic Bulletin for Latin America*, Vol. IX, N°2, 1964).

It is worth noting that Kaldor participated in a seminar organised by UNESCO in Sao Paulo that took place between December 30, 1962 and January 17, 1963, in which occasion he presented Kaldor (1965a) and (1965b). The seminar’s goal was training Latin American economists and experts to economic planning, similar to ECLAC’s technical assistance programs. Along with Kaldor, Jean Bénard, Michal Kalecki, Wassily Leontief and Jan Timbergen presented their works. In that seminar, around forty experts from Argentina, Brazil, Colombia, Costa Rica, Mexico, Peru and Uruguay participated.

However, Kaldor's 1959 article on Chile, written in 1956, could not be published in the Economic Bulletin even though it was not anonymous. Palma and Marcel (1989) report this incident based on Kaldor's correspondence. Some of Kaldor's analysis and policy recommendation on taxation – that we will study in the next part – had been leaked during the 1958 Chilean presidential election campaign and the right-wing strongly criticised Kaldor's policy propositions. The right-wing candidate Jorge Alessandri won the elections, which meant that Kaldor's recommendations were not welcomed. The Deputy Executive Secretary, Louis Swenson, explained this to Kaldor in a letter the 25th of September 1958:

... to put the matter bluntly we have decided not to publish your article on Chile. The principal reason is that it has strong political overtones which make it inadvisable to publish it in a UN document ... in the changed circumstances here in Chile where a new administration is taking over the Government (quoted by Palma and Marcel 1989, p.248).

Nonetheless, Palma and Marcel (1989) also report how Prebisch “wrote to the Mexican journal *El Trimestre Económico* to support its publication there” (ibid). It would seem like ECLAC's secretariat liked Kaldor's work despite its controversial aspects, but the leakage of Kaldor's policy recommendations during a tense political period in Chile created a political opposition to the text. In this context, its institutional publication in the Economic Bulletin could have a different meaning, since it involved the responsibility of ECLAC's secretariat. It would not be the only time in which Kaldor's policy proposals involving tax reforms sparked controversy, strong opposition or even riots. King (2009) reports that “Kaldor's advice to the governments of Mexico and Turkey was rejected before the legislative stage” and were rejected in India and Ceylon by the wealthy. Still, his reforms not always had the support of the lower-income groups, as was the case in Ceylon but mostly in Ghana and British Guiana, where “opposition to Kaldor's plans was led not by ‘enraged millionaires’ but by trade unions” (King, 2009, p.123). For Kaldor, this weak support or outright rejection by the lower-income groups

revealed that ‘in under-developed countries the moneyed interest is capable of exerting its influence in strange and unexpected ways’ (quoted by King 2009, p.124).

Hence, these works can show us what Kaldor could say in his name as a consultant for ECLAC, as an economist providing training in an institutional context and as a foreign scholar whose words were backed up by a regional institution. This status provided more intellectual freedom than anonymous official documents that involved solely the institution, even though the case of his analysis of Chile shows that if the controversy was too important, signing his works was not enough. However, it is possible that him being an European scholar who was temporarily in the Commission (and not a permanent staff, emblematic of the institution) gave him even greater freedom, similar to that of Prebisch in 1949.

B) Kaldor’s analysis: social inequality and the need for a fiscal reform

In this part we will see the economic problems and tendencies that Kaldor identified in South American economies, and what were the solutions he proposed. Kaldor moved away from Keynesian schemas and rethought the economic mechanisms that are intrinsically linked to political and class issues in Chile. He did not engage in a theoretical debate nor proposed a model of development like his model of economic growth (1957). His goal was to propose economic policies adapted to the precise socioeconomic situation of Chile and Latin America at that moment of its history. The method of analysis used in his texts is thus similar to the style used by ECLAC economists such as Raúl Prebisch, Celso Furtado or Aníbal Pinto. We will give particular attention to his analysis of Chile, notably through "Problemas económicos de Chile" (1959). Kaldor carried out an analysis of the Chilean economic situation on the basis of empirical data and tried to suggest avenues leading towards economic and social development.

He based his analyses on Chilean economic statistics covering the period 1940-1954, with data provided to him by the Corporación de Fomento de la Producción (CORFO)¹³⁴. In particular, he studied the evolution of production in different sectors, the evolution of productivity per worker, the social distribution of income and the weight of taxes. The aim of his text was above all to show that Chile, although underdeveloped, had the resources and the capacity to develop. We will see that Kaldor stressed the importance of class struggle in development, and that the solutions he proposed to help economic and social development were mainly tax reform and price regulation of exported goods to limit the deterioration in the terms of trade. This analysis followed the style of ECLAC's technical assistance: cooperation with national institutions such as CORFO, a diagnosis useful for both the Commission and the Chilean government, and policy solutions.

The problem of unequal income distribution and land concentration

Kaldor identified that the biggest obstacle to Chilean development was a social factor: the highly unequal distribution of income. Indeed, he estimated that from 1940 to 1954, the increase in national income was distributed through an increase in wages by 36%, owners' incomes by 80% and profits and dividends by more than 120% (Kaldor 1959, p.179). The unequal distribution of income was a key factor, because these private profits had not, for the most part, been invested in the country as we will see later. As a result, there had not been a significant improvement in the standard of living for the large part of the Chilean population, a sacrifice that was not even justified by an increase in investment. This social obstacle added to a political problem, because according to Kaldor the Chilean political system was not adapted to respond to societal problems such as conflicts of interest, nor to economic problems

¹³⁴ CORFO, created in 1939, is a Chilean state body for development and industrialization.

such as the distribution of income (Kaldor 1959, pp. 170-171). He was clearly pointing to the problems of class struggle, even though he didn't use that term:

In fact, the general impression that one has is that the obstacles to an accelerated improvement are neither natural, nor technical, nor economic, but essentially political, and that they derive from the constant friction between the particular interests of certain groups and classes on the one hand and collective interest on the other (ibid, p.171).

However, Kaldor's analysis seems a bit extreme when compared to those of other authors, such as the Chilean economist Aníbal Pinto. Although the latter also deplored the very unequal distribution of income, he noted that between 1940 and 1960 the middle classes and the “urban marginalized” had improved their standard of living and their political representation, to the point that he considered that the working class was a "third force" which influenced political decisions. This was due to the change in the structure of production through import substitution industrialization that increased the working and wage-earning class, and it was also due to the social policies of the government of Carlos Ibáñez del Campo elected in 1952¹³⁵. However, rural population was the most marginalized and the middle classes were mostly wage-earners, which limited their economic and political influence. On the other hand, the new owner-entrepreneur groups in the industrial, financial and commercial sectors were gaining a lot of power, had an influence on the state apparatus and shared the interests of the oligarchy (Pinto 1959, 1969).

¹³⁵ Carlos Ibáñez del Campo was a Chilean military who served as president from 1927 to 1931 following a coup. He wanted to weaken the oligarchy and increase the power of the state; he carried out numerous public works and wanted to boost investment with policies of credit and protectionism. In 1952 he democratically won the elections as an independent candidate, notably with the support of small parties: Popular Socialist Party, Agrarian Workers' Party and Women's Party of Chile.

Kaldor noted that agricultural production grew slower than population for the period 1940-1954, due to the concentration of land in the hands of a small part of the Chilean population. According to him these landowners did not see the need to become more productive because they could live off their rent, property was transmitted by inheritance and could not be revoked from them. This constituted a significant problem for productivity gains and the economic growth of the country (Kaldor 1959 pp.174-175). Besides, inadequate agricultural production was a "structural" cause of inflation, as ECLAC economists noted around the same years, a subject that we will study more deeply in chapter 6 (Noyola 1956; Sunkel 1958).

We see that Kaldor made a severe criticism of Chilean social structure and the inadequate political system in clearer terms than those found in the ECLA and BNDE joint report. There are common criticisms, notably those of income and land concentration, as well as the depiction of a certain degree of class struggle. But the main difference resided in his proposition for a fiscal reform, as we will see.

A low and non-progressive tax rate coupled with a very low investment rate

Kaldor considered that this income concentration was due to a problem in the political management of the distribution of wealth. Indeed, he argued that public savings were low due to the high consumption of the capitalist classes. He emphasized that the tax rate on wealth and property was very low in Chile, even compared to one of the most liberal countries such as Great Britain. Indeed, he showed that in the period 1952-1954 the total tax burden (direct and indirect) for wage-earners was 16,2%; for independent workers 12,4%; for profits, rents and interests 17,3%. The total tax burden amounted to 15,6% of income¹³⁶. In contrast, Great

¹³⁶ He also shows that taxes in 1948 were higher. Total taxes were of 17.1%, and profits, interest and rents had higher taxes relative to wages, 19.9% and 17.6% respectively. We see that there was a reduction in taxes,

Britain's total tax burden was double and progressive. In 1953, the tax burden for employees and workers was 26,5%; for independent workers 31,5%; for profits, interests and rent 51,2%; with a total of 32,3% of national income.

Great Britain's progressive fiscal system mainly relied on direct tax, which was very low in Chile. As a result of these different tax systems, personal consumption of owners represented 7.4% of gross national income in Great Britain, against 21.2% in Chile¹³⁷ (Kaldor 1959, pp.193-195). For Kaldor, a poor tax system could be due to poor tax administration, insufficient knowledge, or pressure groups that do not allow for fiscal reform (Kaldor 1964a). He mobilizes the Turkish example, where there was very strong opposition to the tax reform that he had advised in 1962 and which could not be implemented (Kaldor 1965b).

Kaldor also showed that investment was not high in Chile, contradicting theories that a low tax on wealth and property would encourage the rich to invest more in the country. In particular, he showed that between 1952 and 1954, total gross investment was only 9.7% of GNP, while net investment in fixed capital was only 1.5%. Kaldor argued that low taxes encouraged agricultural and industrial unproductiveness, and that the income of capitalists and landowners was spent on imported consumer goods or was invested abroad rather than in Chile (Kaldor 1959). Besides, Kaldor argued that low taxes and the large consumption share of the owner class (capitalists and landowners) resulted in low state income and prevented an increase of public savings. As a result, the state did not have sufficient income to invest in infrastructure,

especially in favor of profits. This was mainly due to a drop in the direct tax which fell from 11.2% to 8.8% for profits.

¹³⁷ Kaldor also compares taxes to enterprises in the United States and Chile in 1953, which were of 7% and 2.4% respectively. He also notes that in the same year, dividends in the United States were 5.2% of national income, against 16.8% in Chile.

education and health. The economist added that during adjustment programs expenses were mainly cut in health and education, because it was easier to cut their budget in the short term (Kaldor 1964a, p.3). Kaldor also argued that a low tax rate created budget deficits and contributed to rising inflation. As a result, a restrictive monetary policy was implemented to limit inflation and credit became more difficult to obtain, which hindered private investment. (Kaldor 1964a; 1965b).

The solution: bring social justice through taxes on agrarian property, luxury consumption and personal wealth

Kaldor contended in several articles (1959, 1964a, 1965b) that “absentee feudal landlords” (Kaldor 1964a, p. 15) were a problem for development, especially in Latin America and the Middle East. These owners lived on rent and had unnecessary lavish consumption which used up a large part of the country's resources. To remedy the problem of land concentration, Kaldor mentioned the need for land reform. However, he thought land prices in Latin America were too high and land reform was difficult, but he believes that tax reform would both increase agricultural productivity and reduce land prices¹³⁸. Indeed, in the UNESCO seminar in Sao Paulo, Kaldor explained that if the landowners were unproductive and if they did not have pressure due to a lack of competition, a significant tax on agricultural property would force them to become productive in order to sell more and to be able to pay taxes. This would allow Chile to increase its agricultural production and match it with its population growth rate. Hence, the country could stop importing food, especially considering

¹³⁸ Kaldor wrote extensively on the subject of taxes as he was one of the leading experts on the subject in the post-war period (Thirlwall, 1989). Indeed, he proposes this reform in “Problemas económicos de Chile” (1959), in the context of the conference organized by UNESCO already mentioned, and in “El papel de la imposición en el desarrollo” económico (1963). As mentioned above, he proposed this reform to other countries.

its potential regarding natural resources. Kaldor used the examples of Japan and the USSR to show that high taxes on agriculture could encourage industrialization: increased agricultural productivity would free up labor and resources necessary for the industrialization process. Kaldor considered that industrialization was not possible without a productive primary sector. In this sense, he was also confirming Prebisch's and ECLAC's claims that structural change did not mean an abandonment of the primary sector, but a process through which all sectors must increase their productivity.

Kaldor proposed two concrete methods of establishing land tax. First, he proposed to carry out a cadastral survey in order to classify the land by level of fertility and thus determine the amount of tax. Secondly, he suggested self-valuation of land, where each owner would publicly declare the price of his land. If there was an offer to buy the land at a price 20% higher than declared but the owner refused to sell it, then the tax would be adjusted upwards (Kaldor 1965b). Kaldor recommended a land tax at 15-20% of the value of the property.

Kaldor also argued that for a socially fair and efficient fiscal system, luxury consumption should be taxed. This tax would be ideal, because it would not affect the basic needs of any category of the population and would not concern the middle and lower classes. Likewise, since most luxury goods were imported, this tax could help reduce unnecessary imports and save foreign currency for the import of necessary consumption or capital goods. Besides allowing for a better distribution of income, these taxes would also redirect income towards necessary investments for economic growth and social development (Kaldor, 1964a, 1965b). For instance, it could increase agricultural productivity (directly benefitting lower-income classes) and the productivity of the other sectors (export or industry), hence helping lowering inflation. Credits could also be cheaper and help private investment. In fact, Kaldor had a similar approach to the causes of inflation and the remedies for it as Noyola, Pinto,

Sunkel, and more broadly ECLAC, as we will see in chapter 6. According to John King, “he was impressed by the structuralist theory of inflation” (King 2009, p. 116).

For Kaldor, both income and wealth should also be taxed. But because of the system of "sociedad anónima" used in Chile, it was difficult to know who owned what. In order to prevent hiding the possession of shares, Kaldor proposed to set up a system whereby a bank must pay revenues to the shareholder and must indicate his name. He also proposed to separate three types of taxes on private individuals: "a tax on income and the profits of capital; a tax on wealth; and a tax on donations [...]". However, taxes must be reasonable to avoid fraud. Thus, Kaldor proposes, in addition to the land ownership tax, "an annual tax on wealth of 2% at most, a tax on donations not exceeding 50 or 60%", and taxes on profits of 10 or 15% (Kaldor, 1965b).

Hence, he proposed economic policies with a practical spirit, that he considered feasible and adapted to specific economic and social situations. Through studying the Chilean case, he realized that one of the major bottlenecks in development was social inequality and since this problem was mainly internal, the solution had to be internal too. Kaldor thus proposed a tax reform which would target especially the owner classes and higher-income groups, because by reducing their unnecessary consumption the State could generate public savings in order to invest in infrastructure, education, health and start a process of industrialization. He was aware of obstacles to the implementation of tax reform in Chile: because of the opposition of the higher-income groups and the right-wing party in power in 1958, he could not publish his text written in 1956 in ECLAC's Economic Bulletin and had to publish it independently from the institution only in 1959. He had also experienced the opposition from the upper classes in many of the countries he counseled. Yet, he did not seem to be holding back in his proposition for a fiscal reform in 1965, even though it implied a profound change in Chile's income distribution and would continue to be objected.

III. Conclusion

We have seen in this chapter that production of knowledge within an international organization was a complex exercise. On the one hand, it promoted the elaboration of original thinking, profiting from the contribution of economists from different countries and the possibility of cooperating directly with the administrations of ECLAC member countries. This last aspect was important, as it contributed to the elaboration of better statistics on Latin America. On the other hand, it limited what the staff members could write on behalf of the institution. The degree of intellectual freedom in ECLAC greatly depended on the type of document that was being produced. It seems that signed documents benefited from a greater degree of freedom, since they did not constitute the official stance of the institution. It was the case of most of Kaldor's signed documents, as well as Prebisch's first work for the Commission in 1949. The case was different regarding unsigned official documents, such as the joint ECLAC and BNDE report, and Furtado's reports on Mexico and Venezuela. These directly involved the institution and could pose diplomatic issues with its member countries.

Furtado was faced with the disapproval of the Mexican and Venezuelan governments, as well as Prebisch's restrictions. As a consultant, Kaldor was not tackling abstract subjects and seemed to benefit from a bigger degree of freedom, but the controversy and political opposition caused by the leaking of his work in Chile made the publication of his work in ECLAC's *Economic Bulletin* impossible. Kaldor's work still seemed to be supported by Prebisch, yet we cannot know if Kaldor's work would have been published by ECLAC had it not been leaked. On the other hand, he proposed concrete policy measures against income concentration, an aspect that was lacking from the joint ECLAC and BNDE report. It seems

that on similar subjects, the possibilities of what could be said greatly differed according to the nature of the document and the status of the author.

This is not surprising, as in an international organization ECLAC researchers had more constraints than within a University or an independent research facility. ECLAC had a specific mandate and was very dependent on its member governments. Hence, we can see that the thinking of an institution was determined to some extent by its constraints. However, the frame provided by ECLAC also stimulated research. We have seen it with the contribution of the joint ECLAC and BNDE report on the subject of income concentration. As we saw in the previous chapter, the institution gave strength and increased the reach of the writings produced within it. Besides, the particular setting that allowed intellectuals from various nationalities to cooperate and exchange also provided fertile ground for theoretical contributions. It was notably the case of the structuralist theory of inflation, that is an example of ECLAC's thinking as an institution and that constituted an important contribution to economic theory, as we will show in the next chapter.

Chapter 6. The structuralist theory of inflation: elaboration and scope of an institution's thought

The structuralist theory of inflation is one of the major contributions of ECLAC, and was part of a debate that took place from the mid-1950s and throughout the 1960s about the causes of inflation in Latin America. It is relevant to study the conditions of its elaboration by placing it in its historical, institutional and intellectual context. Indeed, it is a theory that was elaborated by numerous authors within the institution of ECLAC in response to a theoretical and policy debate against the IMF (and the "monetarists" later). It is also a theory that can be placed in a larger intellectual context because its influences and scope expanded beyond Latin America and ECLAC's "structuralism".

Indeed, since the 1940s, persisting inflation was a new and common problem for most Latin American countries, making it an important subject of study for the ECLAC. The Chilean economist (and future ECLAC member) Aníbal Pinto had developed a structural reading of Chilean inflation already in 1947 (Pinto 1947a, 1947b), before ECLAC was created. However, inflation seems to become a central topic for ECLAC mostly after 1956 when the Mexican ECLAC's economist Juan Noyola first elaborated a structuralist theory of inflation analysing the cases of Chile and Mexico (Noyola 1956). In 1958 the Chilean economist Osvaldo Sunkel, also member of ECLAC, reformulated the theory applying it to Chile (Sunkel 1958). Pinto also embraced this theory when he wrote about inflation in the 1960s as a member of ECLAC, as it was consistent with his earlier writings (Pinto 1960, 1961). The structuralist theory of inflation was also adopted and reinforced in more official institutional publications such as a study on inflation and growth written by ECLAC for the Social and Economic Council of the United

Nations (ECOSOC) (CEPAL 1961) as well as a text written by Raúl Prebisch as the Secretary General of ECLAC (Prebisch 1961). Visiting academics to that international organisation also wrote about inflation in Chile and Latin America around that time, such as Nicholas Kaldor (1959) and Dudley Seers (1962, 1963), the latter showing his adherence to the structuralist theory of inflation. However, we consider that Pinto, Noyola and Sunkel are among the main economists who elaborated this theory, which was later more largely adopted within ECLAC¹³⁹.

The main motivation for elaborating this theory were the authors' opposition towards the stabilisation plans proposed by the International Monetary Fund (IMF). Indeed, foreign advisers such as the Klein-Sacks mission (1955) and the IMF (1956) had given policy advice to Chile for stopping inflation, which collided with the development recommendations of ECLAC. These ECLAC authors explicitly targeted the IMF's conception of inflation and its policy recommendation that they considered erroneous or not adapted to Latin America¹⁴⁰. Indeed, they did not explain inflation in different countries with the same single factor (excessive monetary creation), but rather considered a plurality of causes, rooted in the real economy as well as in specific social and institutional structures.

¹³⁹ Boianovsky (2012) shows that Celso Furtado also contributed to the elaboration of this theory and influenced Noyola who worked under his supervision in ECLAC's Development Division.

¹⁴⁰ Pinto writes in 1961 "The analysis of inflation: 'structuralists' and 'monetarists' ". He does not clearly define the terms, but he identified himself and ECLAC economists as "structuralists" while he associates the term "monetarist" to the IMF.

Yet, they did not find satisfactory theories to explain inflation in Latin America: for instance, they did not consider that the usual Keynesian approach of inflation¹⁴¹ worked for Latin America, where inflation could exist without full employment and could even accelerate during recessions¹⁴². Although Michał Kalecki's approach to inflation was consistent with the general "structuralist" theory, and proved to be a base for Noyola's formulation of the structuralist theory of inflation (1956), it lacked "a series of elements derived from the observation of the structure and the functioning of the economy of [Latin American] countries" (Noyola 1956, p. 604). Hence, by applying the structuralist methodology, they proposed a different comprehension and an original view on inflation, which was a good example of the "structural" ECLAC thinking.

The aim of this chapter is to show that the originality and the strength of the structuralist theory of inflation resides in its political, institutional and intellectual contexts taken all together. Indeed, it was elaborated amidst a political debate in a context where inflation became persistent and required an analytical and political response. In opposition to the IMF "one-size-fits-all" approach, ECLAC provided an alternative theory of inflation and the corresponding policy advice by leaning on a structuralist analysis of the economy and the society of Latin American countries. This should be revisited and considered as an institutional thought elaborated within the unique setting of the ECLAC and coherent with its development theory

¹⁴¹ Broadly speaking, in the 1960s there were two Keynesian approaches to inflation. The demand-pull approach to inflation considered that when in full employment, excess demand will push the prices up. The cost-push approach focused on the supply side issues (for example, the problem of monopolies are taken into account) and gives more emphasis to the increase of wages as a cause of inflation. This last approach had more affinities with the structuralist theory of inflation (Weintraub 1960).

¹⁴² See, for instance, Boianovsky (2012) on the limits evidenced by Furtado of the Keynesian framework in explaining Brazilian inflation.

and policy recommendations. Finally, although its goal was to explain inflation in Latin America, its structuralist methodology could be applied in other contexts, giving it a larger scope. We actually identify converging views with other development economists, such as Kalecki, in their analyses of inflation in developing economies.

I define the structuralist theory of inflation as a manner of understanding and explaining inflation. It looks for the causes of inflation in the structure of the economy and the society of a country, so it is a long-term perspective of the phenomenon. This does not mean that the structuralist theory of inflation rejects short-term or circumstantial causes of inflation. Indeed, punctual changes in the international market can provoke an increase in prices, and monetary policies led by governments can also influence them. However, the structuralist theory of inflation focuses on the long-term causes of inflation, because it contends that the structures of Latin American countries can generate inflation independently of bad monetary policies or circumstantial causes. The only way of stopping this tendency towards inflation in Latin America is thus to change the productive structure and the social structure as well. Hence, the structuralist theory of inflation as elaborated by Noyola, Pinto and Sunkel focuses on how the productive structure of the Latin American economies can trigger inflationary forces. It is mostly due to the incapacity of these productive structures to supply sufficient goods to answer consumer demand but also capital goods, especially important for industrialization.

But the social structure is also an important element that can trigger inflationary forces, and this is mostly seen in the “propagation mechanisms” identified by Noyola and adopted by the other authors. When there is too much inequality and workers have no power, inflation can be slowed because of the incapacity for workers to negotiate a rise in wages following a rise in prices. This does not mean that inequality is helpful for inflation control: it may weaken one of the inflationary propagation mechanism, but it strengthens the basic causes of inflation. Indeed,

an imbalance of power in favor of capitalists can lead to an increase in prices because of a monopoly of production or supply. Besides, wealth concentration does not equate to increased productive investment; on the contrary, the patterns of consumption identified by ECLAC for these social groups is oriented towards importing luxury goods or consumption goods, with no positive impact on the efforts for development. Hence, economic inequality weakens the supply of domestic goods and has a negative impact on the balance of payments, two factors identified as major causes of inflation.

With this in mind, the structuralist theory of inflation can be defined as a theory that looks into the long-term, structural roots of inflation. It does not mean that short-term, circumstantial causes of inflation are irrelevant. Since it is a historical approach, it does not give a single explanation for all countries; it is natural that this theory will explain inflation differently in each country and in different historical periods. Furthermore, each author can identify different causes for inflation, and still be considered as contributing to the structuralist theory of inflation. What is important is mostly comprehending inflation as the consequence of the long-term structure of a country. If an author also identifies short-term causes of inflation, it does not invalidate his contribution to the structuralist theory of inflation.

To understand ECLAC's propositions, we need to understand it as a reaction to the IMF. I will see what where the determinants of ECLAC's way of revisiting inflation. I will first present the structuralist theory of inflation and show how ECLAC economists reacted to the IMF's propositions against inflation by elaborating an alternative theory. Then, I will focus on the policy, institutional and intellectual dimensions of the structuralist theory of inflation.

I. The structuralist theory of inflation as a response to a particular political, economic and social context.

A) A context of growing inflation.

Inflation became an important feature in Latin America after the 1940s: Latin America had been confronted to a changing international setting that boosted the industrialisation process especially in a group of Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay). The Great Depression had greatly affected the volume and prices of exports, which reduced the countries' capacity to import. The Second World War again affected the continent, not only because some exports were negatively affected, but also because many imports became scarce. As a result, there were important balance of payments problems in most Latin American countries, which anyhow maintained their efforts in pursuing industrialization. All of these countries saw their inflation rates rise in the late 1930s, with (generally) a continuous increase and persistence of inflation in following decades (see Table 7; inflation in the US is added for comparison).

Table 7: Average annual rate of inflation, 1930-1965 (in percentages).

	1930-39	1940-45	1946-50	1951-55	1956-60	1961-65
Argentina	-0,4	5,2	20,2	19,1	43,4	23,3
Brazil	3,1	16,3	16,0	19,5	27,1	65,4
Chile	5,8	14,7	21,4	49,3	25,2	29,4
Colombia	...	8,3	14,2	4,9	10,3	13,8
Mexico	8,4 ^a	20,8	10,8	13,0	4,2	2,2
Peru	-0,3	10,7	19,3	7,2	8,4	9,0
Uruguay	0,7	5,2	5,6	11,2	23,4	30,8
Venezuela	...	5,0	4,1	1,4	2,4	0,6
USA	-1,9	4,5	6,2	2,0	1,6	1,3

^a Corresponds to 1934-1939.

Sources: Based on Thorp (1994, p. 127 and p. 141), CEPAL (1961), Gerchunoff and Llach (2018), IPEAdata, Banco Central de Chile, Banco de la República de Colombia, INEGI, Banco Central de Reserva de Perú and INE

Currencies also experienced devaluations, the most serious case being Chile, but Brazil and Argentina were also greatly affected (Table 8).

Table 8: Value of local currencies facing dollar.

	1929 (mean)	1940 (end)	1945 (end)	1951 (end)	1959 (end)
Argentina (peso)	2	4	5	14	83
Brazil (cruzeiro)	9	20	20	20	202
Chile (peso)	8	34	32	93	1052
Colombia (peso)	1	2	2	3	7
Mexico (peso)	2	5	5	9	12
Peru (sol)	2	7	7	15	28
Uruguay (peso)	1	3	2	2	11

Source: CEPAL (1961, p. 35).

The need for theories to define action.

Facing this particular situation, it is natural that theoretical elaborations emerged. For ECLAC, "determining the cause of inflation is inseparably linked with the issue of knowing how to solve it" (CEPAL 1961, p. 3). There were high stakes in the theoretical analysis of inflation and the policy implications that would derive from it, especially in a situation in which foreign experts from the IMF were proposing controversial stabilisation plans to combat inflation to Latin American governments¹⁴³.

The structuralist theory of inflation was mostly elaborated as a reaction to the policy recommendations of the IMF aimed at fighting inflation in Latin America, and in particular in the Chilean context where inflation had greatly accelerated in the 1950s. In 1956, the U.S. financial consulting firm Klein-Sacks sent a mission to Chile to propose policies that would help the government obtain an IMF loan. Indeed, the IMF loans were only granted if some conditions were met by the countries, in order to address macroeconomic imbalances, in particular high inflation. Policy conditionality included monetary and credit restrictions, reduction of public expenditure and wage restraint.

ECLAC economists Noyola, Pinto, Prebisch and Sunkel, however, had a different reading of the causes of inflation and the policies that could be implemented to combat it. Hence, through a series of writings essentially spanning from 1956 to 1961, they elaborated a structuralist theory of inflation that went opposite the stabilisation program of the IMF. The theory essentially explained that inflation derived from the incapacity of developing countries

¹⁴³ From 1956 to 1960, the IMF lent funds and promoted stabilisation programs to Argentina, Bolivia, Chile, Colombia, Dominican Republic, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Peru and Venezuela (Costanzo 1961, p. 7)

to provide sufficient goods to meet the demand at a low price. It was a complex phenomenon that could have different causes and different degrees depending on the socioeconomic structure of a country and on its social and economic tensions. Because of the complexity of inflation, this theory is often presented in relation to the social and economic context of a country, and is not presented as a universal theory applicable to all countries and historical contexts.

Noyola identified "basic inflationary pressures" and "propagation mechanisms" and applied them to the cases of Chile and Mexico to explain the common points and differences in their experience of inflation (Noyola 1956). In his analysis of Chilean inflation, Sunkel kept these categories and added "circumstantial inflationary pressures" and "cumulative inflationary pressures"¹⁴⁴ (Sunkel 1958). Pinto's analysis of Chilean inflation in 1947 and 1954 is consistent with these categories, as he explicitly adhered to them in his writings on inflation in Latin America in the 1960s. Prebisch's writings on inflation also are consistent to some extent with Noyola's and Sunkel's categories, as we will see in more detail in the second part of this chapter.

I will attempt to reconstruct the structuralist theory of inflation by integrating these authors' analyses mainly under Noyola's categories "basic inflationary pressures" and "propagation mechanisms". The interest of this exercise is twofold: it will provide the

¹⁴⁴ The "circumstantial inflationary pressures" first could stem from "national catastrophes" or from political decisions (Sunkel 1958). Pinto also added wars, external depression or strikes as elements that brought inflation and named them the "external factors" (Pinto 1947a). The "cumulative inflationary pressures" would be induced by inflation itself, and increase it. To the extent that inflation deteriorated real exchange rate, it led to external imbalance, which sooner or later led to a new currency devaluation and inflation acceleration.

unfamiliar reader with a presentation of the structuralist theory of inflation and will expose the convergence between the analyses of Noyola, Pinto, Prebisch and Sunkel, showing the generation of an institutional thought. Throughout this presentation, I will contrast this theory with the policies implemented by Chilean government and driven by the IMF to show the points of dissidence and highlight its originality.

This theoretical reconstruction should not be misunderstood as an attempt of erasing the diversity of thinking between the studied authors. Indeed, ECLAC thought was not monolithic. However, based on their individual writings and institutional publications, I think that these authors share major common points in their analysis of inflation and complete each other, which allows for such a theoretical reconstruction.

Kalecki's direct influence on the structuralist theory of inflation

Aside from the economic context and the IMF's stabilization plans, there were also theoretical influences on the structuralist theory of inflation that are important to note as part of the intellectual context. The most direct influences would be those of Michał Kalecki and Henri Aujac. Indeed, Noyola said that among the most "refined analyses on inflation that shed light on the true nature of inflation", Kalecki's and Henri Aujac's¹⁴⁵ are noteworthy. He said that Kalecki's analysis "highlights the importance of the rigidity of supply and the degree of monopoly in the economic system" (Noyola 1956, p. 604).

We choose to focus on the influence of Kalecki on our ECLAC economists because they share numerous similarities on their analyses of developing economies in general. Indeed, Kalecki was a United Nations (UN) official from 1946 to 1955 in the Economic Stability and

¹⁴⁵ Henri Aujac (1919-2009) was a French economist, who had been a researcher in the École des hautes études en sciences sociales.

Development Division¹⁴⁶. He contributed to the yearly World Economic Report and, according to Dell (1977), he had a major influence on those reports both on the theoretical aspects and the practical analysis. During this time, he had a great exposure to the development problems worldwide. It is interesting to note that when Kalecki was in the UN, Dudley Seers was a junior researcher who worked with him and was visibly influenced by him¹⁴⁷ (Toporowski 2018, p. 167). Hence, Seers was probably an indirect kaleckian influence when he worked at ECLAC; for instance, Pinto highlighted Seers' influence on his work "The analysis of inflation: 'structuralists' and 'monetarists': a survey"(1961)¹⁴⁸. Finally, Kaldor is another possible indirect link to Kalecki. Indeed, not only they shared the Cambridge connections, but they had met and had epistolary exchanges when Kalecki was in England before going to the UN¹⁴⁹ (López and Assous 2010; Toporowski 2018).

Kalecki's influence on Noyola¹⁵⁰ probably dated back to August 1953, when Kalecki gave a series of lectures in the *Centro de Estudios Monetarios Lationamericanos*, in Mexico

¹⁴⁶ "Kalecki was appointed as a special adviser to the Director of the Economic Stability and Development Division. But when he arrived in New York, it transpired that Kalecki was to be the head of the Economic Stability Section, one of three sections in the Division." (Toporowski 2018, 167).

¹⁴⁷ "But [Kalecki] took great pleasure in working with younger scholars attracted by the brilliance of his scholarly reputation. Dudley Seers and Eprime Eshag, junior researchers at the time, went on to make international reputations for their work through which is visible the influence of their mentor" (Toporowski 2018, 167)

¹⁴⁸ "Many of the ideas that are exposed in this article have been developed in the course of the work on the subject carried out by a group of economists invited by ECLAC and especially during the author's conversations with two friends and colleagues, Mr Dudley Seers and Mr Osvaldo Sunkel" (Pinto 1961, 15).

¹⁴⁹ Toporowski (2018) studies some letters between Kalecki and Kaldor in 1941 and 1942 where they have lengthy theoretical discussions.

¹⁵⁰ Colin Danby (2005) considered that Noyola was located in the Kalecki-Robinson tradition (with an emphasis on theories of class) and was more institutionalist than structuralist.

City, as an official in the Department of Economic Affairs of the United Nations. We do not know if Noyola attended those lectures, but a summary of them was published in Spanish in the form of an article entitled "El problema del financiamiento del desarrollo económico" (The Problem of Financing Economic Development) in 1954. In those lectures, Kalecki developed some of his ideas on inflation being mainly a supply problem, concomitant with rapid economic development, which we find in the structuralist analysis:

The primary inflationary pressure experienced in the course of rapid economic development is [...] the result of basic disproportions in productive relations. Thus these pressures cannot be prevented by purely financial devices. The solution of the problem must be based on economic policies embracing the whole process of development. (Kalecki 1953, p. 61)

Indeed, we can already see Kalecki's influence on the term "basic inflationary pressures", as he used "primary inflationary pressures". Furthermore, the "disproportions in productive relations" signify both the social struggle and the inadequacy of supply structure, which we will now see were of central importance for the structuralists. Finally, it is striking that Kalecki's solution was based on economic development and not on monetary policy, and ECLAC proposed the same solution as we will see in the last part of this chapter.

However, we can also debate whether the structuralist theory of inflation had in turn an influence on Kalecki, as Jan Toporowski opened the possibility by qualifying Kalecki's approach to inflation as "structuralist"¹⁵¹. Although we cannot assert that Kalecki was influenced by ECLAC in regard to his analysis of inflation, we find a great number of

¹⁵¹ "This 'structuralist' approach to inflation, that attributed it to market conditions specific to particular countries, proved attractive in an international organisation keen to avoid ideological controversies and stick to 'empirical facts,' in the face of growing suspicions of hegemonic intent on the part of the two dominant powers" (Toporowski 2018, p. 168).

similarities between ECLAC and Kalecki's writing on development throughout the 50s and 60s. Furthermore, Kalecki mentioned Prebisch in a couple of footnotes: "[...] the four wise men of Latin America –José Antonio Mayobre, Felipe Herrera, Carlos Sanz de Santamarina and Raul Prebisch– [...]" (Kalecki and Sachs 1966, p. 91). While these common points are numerous and are not limited to the analysis of inflation, we will make some analogies throughout this chapter. This will allow us to see the compatibilities between the structuralists and Kalecki, as two approaches that study the situation of developing countries with similar dissident lenses. This was due to their similar methodologies that focused on understanding the dynamics of the economic and social structures of the countries and not on a universalistic explanation of the economic phenomena.

B) "Basic inflationary pressures": identifying the sources of inflation based on the analysis of the economic context.

In 1956, the Chilean government adopted a "comprehensive program of fiscal and monetary measures" in the context of a "stand-by agreement with the Fund", "whereby up to \$35 million may be drawn between April 1, 1956 and March 31, 1957" (IMF 1956, p. 57 and p. 120). This agreement "was made at the same time as similar arrangements with the U.S. Treasury and with private U.S. banks" and was "intended to give an assurance that temporary pressures upon Chile's exchange reserves can be withstood without serious embarrassment" (pp. 120-121). However, the program's goal was to decrease inflation through "severe restrictions". This approach, which would be called "monetarist" by Pinto in 1961, considered that the causes of inflation were caused by expansionary policies, in particular government deficit spending, credit expansion and Central Bank's exchange operations (Thorp 1971, p. 191; Costanzo 1961).

This view of inflation and the way of combating it were opposite to those of ECLAC's economists. Indeed, in Noyola's words (1956), "inflation is not a monetary phenomenon. It is the result of real disequilibria that manifest in the form of an increase in the level of prices". In his process of identifying what constitute these real disequilibria, he elaborated the category of "basic inflationary pressures", which is also used by Sunkel and Pinto. These constitute the origin of inflation, the reasons why there are tensions that cause the prices to rise.

For Juan Noyola (1956, p. 354), the basic inflationary pressures "usually stem from growth disequilibria mostly located of two sectors: foreign trade and agriculture". According to Pinto (1961), the basic or structural elements depend on the composition or nature of exports and imports (monopoly or monopsony in exchange), on whether the export industries were foreign or nationally owned, on the increasing costs in the export activity, and on the tendency of deteriorating terms of trade. Finally, Prebisch identified "a) the cost of import substitution, b) the rise in prices of agrarian products, and c) the changing relation of the terms of trade" (Prebisch 1961, p. 14). We can organise these elements in two categories: external vulnerability on the one hand, and problems of productivity and rigidities in the process of structural change on the other hand.

External vulnerability

External vulnerability was a major factor of inflation for countries with a primary export-led growth and import dependence since the fluctuations of international trade affected their balance of payments¹⁵² and their capacity to import¹⁵³.

¹⁵² See Boianovsky and Solís (2014) for an analysis of the structuralist approach to the balance of payments.

¹⁵³ Slow trade expansion also affected the government's finances since they were dependent on foreign trade taxes, as we will see later.

In the case of Chile, the country was very dependent on imports for both consumption and production, which resulted in an increase in internal prices (Noyola 1956; Pinto 1961). Indeed, according to Noyola, exports did not grow sufficiently in relation to the demographical growth and to the increase in the demand for imports. Besides, there tended to be violent short-term fluctuations in the volume of exports and changing relations in the terms of trade¹⁵⁴. This generally meant that the countries had to devalue their currency, which was often followed by inflation.

Inflation could be the result of a contraction or of an expansion of exports. In the first case, the government might opt to maintain the level of income and consumption, despite the reduction of the capacity to import. This could cause a rise of prices because this demand would increase the price of insufficient imported goods or would be redirected towards an inflexible internal production (Pinto 1961). In the case of an expansion of international trade and exports, there would be an increase in income and demand, with the same consequences. These are problems in the supply-side, be it of imports or of national production.

This external vulnerability is increased by the fact that many Latin American countries did not have diversified exports. Besides, their internal markets could not always absorb exportable goods in case of a contraction of foreign markets. This external dependency would likely induce a deficit in the balance of payments and hence a chronic devaluation of the currency, which in turn spurs inflation (Noyola 1956; Pinto 1961). Prebisch considered that the

¹⁵⁴ The worse would be when "an increase in costs coincide with the deteriorating terms of trade", which was a frequent problem according to Prebisch (1961, p. 16).

import substituting industries generally had higher costs, thus made the prices increase, but "it is the price of industrialisation" (Prebisch 1961, p. 14).

Prebisch also highlighted the importance of the different income-elasticities of demand between primary commodities and industrial goods. Indeed, with higher income, the demand for industrial goods increases more than the demand for primary commodities. This was a problem for developing countries with an incipient industry, and it made import substitution a necessity (Prebisch 1961). However, as Seers (1962) points out, the process of industrialisation and import substitution implies an increase in the import of capital goods during its first stages. Consequently, the demand for imports shifts from consumer goods to capital goods, but the volume of imports is maintained or even increased. Besides, since the exports suffer from fluctuations, the balance of payment continues being unstable (Prebisch 1961).

Following this analysis, countries like Mexico or Argentina had lower inflation rates than Chile partly because they had more diverse production and exports so they suffered less from external vulnerability. Furthermore, the type of exports of Argentina could be directed towards internal consumption since they mostly consisted of foodstuff that could be more easily absorbed by the Argentine internal market because of its significant size. Yet, Mexico and Argentina still had recurrent deficits in the balance of payments, which resulted in numerous devaluations and was a cause of inflation.

Seeing how ECLAC economists analysed the external vulnerability as a main gate for inflation, we can easily understand their opposition to the IMF's approach to inflation and policy proposals. Indeed, the IMF reversed the causality: there was a balance of payments problem because there was internal inflation (Costanzo 1961, pp. 23-24). Furthermore, the IMF wanted the "abolition of [Chile's] import licensing system" (IMF 1956, p. 88) and the elimination of the multiple exchange system of Chile, which were usual tools used by Latin

American countries to select which imports they wanted to limit in order to develop an import-substituting industry. Hence, the IMF positively reviewed the Chilean government's reforms:

[...] the previously existing multiple exchange rate structure was replaced by a free, fluctuating exchange market for all commodity transactions (IMF 1957).

Therefore, according to the structuralist theory of inflation, the IMF reforms proposed to Chile and the policies applied by the Chilean government did not tackle the first structural cause of inflation, which was external vulnerability. The IMF's propositions that aimed at the liberalisation of trade would make a process of industrialisation through import-substitution impossible. Hence, the IMF reforms would be increasing this external vulnerability by making imports regain their competitiveness over nationally produced goods. It is difficult to understand how this measure would diminish inflation and improve the country's balance of payment.

Low productivity and structural rigidities in the process of development

Since the 1930s and through the 1940s, in response to the Great Depression and the Second World War, Latin American countries started or intensified their process of industrialisation and structural change. For Pinto (1961), the speed and depth of the adjustment of the economy were important factors of inflationary pressures. He pointed out that many Latin American countries started shifting their structures very suddenly and quickly compared to the industrialisation rates of Europe and the United States. Hence, the countries had to reassign the productive factors towards the internal production and their new industries, and had to change both their economic and social structures. In parallel, Latin American countries went through an important process of urbanisation because of internal migrations from the countryside to the cities. Based on the same analysis, Prebisch insisted in his policy

recommendation on the necessity of accompanying this structural shift with an increase of mechanisation and productivity in agriculture in order to provide enough foodstuffs to the cities (Prebisch 1949). Kalecki also coincides with Prebisch's idea, and links it to his analysis of inflation:

[...] the expansion of food production, paralleling the industrial development, is of paramount importance for avoiding inflationary pressures. Investment in industry, transportation, public utilities and even long run development projects in agriculture should be accompanied by measures which will expand agricultural production in the short period (Kalecki 1953, p. 48).

Like ECLAC economists, Kalecki also stressed the problem of insufficient productive capacity in his analysis of inflation for underdeveloped countries¹⁵⁵. The rigidity of supply was the main cause of inflation in his analysis, and was also a main obstacle to economic growth. He considered that, in theory, there could be a problem of inflation led by demand if investment happens when there is full capacity utilisation (Kalecki 1953, pp. 44-45). However, in practice, the rigidity of supply is the main factor of inflation, in particular the rigidity of food supply:

[...] we encounter the bottleneck of supply of necessities which depends on the inelasticity of agricultural production. Any increase in employment implies generation of additional incomes and thus, if no adequate increase in agricultural output is forthcoming, an inflationary increase in the prices of necessities will be unavoidable (Kalecki 1960, pp. 17-18).

¹⁵⁵ Kalecki does not always specify which "underdeveloped countries" he is referring to, and probably refers to them as a whole based on the most common problems these countries face. Considering that Kalecki was a UN official from 1946 to 1955 (Dell 1977; Toporowski 2018), he was probably familiar with development problems as he advised countries. He sometimes specified which countries or regions he referred to: India, Turkey, the Middle East.

This is not to deny that in an underdeveloped economy there may be a deficiency of effective demand. There are many instances of countries whose capital equipment, meagre though it is, will nevertheless be underutilised. However, as contrasted with developed economies, even if this equipment is fully utilised, it is still not capable of absorbing all available labour, as a result of which the standard of living is very low. [...] The situation cannot be remedied therefore by a financial trick; the main problem here being the deficiency of productive capacity rather than the anomaly of its underutilisation. Productive capacity should be not only fully utilised but rapidly expanded and this, as will be seen, is a much difficult proposition (Kalecki 1965, p. 23).

Noyola, Prebisch and Seers put a great emphasis on the low productivity in the agrarian sector. Noyola contended that, in Chile, "the agrarian production was unable to keep up with the demand for food" because of the lack of technical progress in agriculture and to the "semi-feudal organisation" of the Chilean agrarian system (Noyola 1956). Prebisch also deplored that land tenure in Latin America was "anachronistic" and that the agrarian productivity did not rise enough compared to the rest of the economic activity, which resulted in high agrarian prices that weighed mostly on the working class (Prebisch 1961, p. 15). Indeed, in many countries, land distribution was very unequal, and land tenure took the shape of "latifundios"¹⁵⁶ (Seers 1962). The owners did not have an incentive to increase the productivity of the land, and lands tended to be partially cultivated and/or used with extensive methods of production. The influence of the agrarian sector on inflation varied between countries; for instance, Mexico did not have significant bottlenecks in its agrarian production, which was not a significant gate for inflation (Noyola 1956). Kalecki also concurred with ECLAC's authors regarding the problem of land tenure. He used the same words as Noyola and Pinto, as he said that the problem in food production was the agrarian semi-feudal or feudal organisation and production:

¹⁵⁶ Latifundios were large agricultural lands that were owned by only one person.

[...] in an underdeveloped economy agricultural production is beset with a variety of limitations, which would prevent it from growing at a high rate even if all material resources were available. These powerful obstacles to the development of agriculture are the feudal or semi-feudal relations in land tenure as well as the domination of the poor peasants by merchants and money lenders. Thus a radical acceleration of the development of agriculture is impossible if substantial institutional changes are not introduced (Kalecki 1965, p. 26).

The resulting low rate of expansion of the supply of food either limits the growth of the national income or causes inflationary increases in the prices of necessities (Kalecki 1963, pp. 28-29).

However, the agrarian sector was not the only problem, since the resources that went to the new industrial sector were generally not sufficient to increase its size and productivity. Furthermore, the new dynamic sectors were often monopolistic, and since they were not as productive and cheap as foreign competition they had to be protected by the government. This maintained the prices of the new industries high, while there tended to be a resistance towards decreasing prices in the other sectors. Kalecki also stressed this problem of monopolies as a factor inducing inflation:

[...] the inelasticity of supply in agriculture and the monopolistic tendencies in industry emerge as important factors underlying inflationary effects in the course of rapid economic development (Kalecki 1953, pp. 50-51).

A similar idea is found in Sunkel, who insisted on this difficult structural change as the main source of inflation:

"[Basic inflationary pressures] fundamentally obey to structural limitations, rigidities, or inflexibilities of the economic system. Indeed, the incapacity of some productive sectors to answer to changes in demand – that is, in short, the limited mobility of productive resources

and the poor functioning of the price system – would be the main generator of inflationary structural disequilibria" (Sunkel 1958, pp. 573-574).

In accordance with Sunkel, Pinto also highlighted the importance of the flexibility of the productive system to adapt to the requirements of an "inward looking development" (Pinto 1961). The degree of diversification of the country, the variety and richness in natural resources, the size of the internal market, were all elements that determine if a country's productive system could lead an industrialisation and development process with less bottlenecks. On the contrary, "land property and the concentration of the economic and financial power" could lead to institutional rigidity to structural change (Pinto 1961, p. 23).

Indeed, the reallocation of resources could only take place in the long-run if they were to address the structural and institutional rigidities. Not only the amount of capital investment needed in the new sectors is significant, but the workforce could not simply shift from agriculture to industry. The problem is also institutional and political: the landowners could resist to changes in their methods of production and would naturally oppose any attempt of land redistribution. Kalecki considered that the necessary changes in the developing countries are so important and affect that much the productive, social and economic structure of the countries that "the overcoming of all the obstacles to economic development enumerated above amounts to more than the upheaval created in the eighteenth century by the French Revolution. Thus it is not surprising that these reforms are not peacefully carried out" (Kalecki 1965, p. 27).

C) Propagation mechanisms: the social and policy reactions to basic inflationary pressures

These basic inflationary pressures could be amplified or neutralised by what Noyola named the "propagation mechanisms". They consisted in the reactions by social groups (or government policies) aimed at countervailing the effects of inflation, which paradoxically tended to accelerate the inflationary process. Hence, countries with similar basic inflationary pressures could experience different levels of inflation because of these propagation mechanisms, as Noyola evidenced for the cases of Chile and Mexico (Noyola 1956).

The propagation mechanisms are relatively similar among Noyola, Pinto and Sunkel. Noyola identified "fiscal mechanism [...], credit mechanism, and the mechanism of readjusting prices and revenues" (ibid). For Sunkel, they are mainly related to the income distribution between different social groups, and to resource distribution between the private and public sectors (Sunkel 1958). Pinto adhered to their analysis, and added devaluations to the category (Pinto 1961). Hence, we can establish the following three categories: the wage-prices race, expansionary policies (fiscal mechanism and credit expansion), and devaluations.

The wage-prices race

The race between wages and prices was an essential element in the propagation of inflation. The analysis of the social dynamics focused not only on its influence on the rate of inflation, but also on the consequences of inflation in the social distribution of national income. These dynamics tended to result in a change in the income distribution detrimental to wages (Pinto 1947a, 1954), while the goal of development was mainly to improve the living conditions of the masses.

For Pinto, the transformation of the economic framework would induce a change in the income distribution and in the composition of demand. If the degree of organisation of the different social groups was high, resistances to change regarding their share of national income and their living conditions were more likely to happen.

In countries with an organised working class and labour unions, the race between wages and prices could take the form of an inflationary spiral. Each social group wanted to readjust their share in national income and could exert pressures on the government. This was the case of Chile, whose social structure was characterised by a struggle for income distribution between "a strong right-wing group of landlords; an important (but not dominant) commercial and industrial bourgeoisie; and well organised and influential working class and labour unions" (Pinto 1954, p. 33).

However, this was not the case of Mexico, where the social inequalities and the little power of the working class resulted in diminishing real wages. Indeed, even though in Mexico inflation caused a dramatic (and regressive) change in income distribution, wage-earners could not defend their income share as effectively as in Chile, which weakened inflation propagation (Noyola 1956). According to Noyola, inflation greatly affected income distribution: in addition to its direct impact on real wages, it affected disposable income through the nominal increase of wages, as direct taxation started including economically weak social classes that should have been exempt. Inflation resulting from currency devaluation provided "extraordinary profits" to exporters while it penalised the working class by increasing the prices of popular consumption goods that were imported.

The social struggle for the distribution of income was particularly unfavourable to the working class due to the socioeconomic structure of Mexico:

[...] we have to note the existence of an enormous reserve army of agricultural workers of very low productivity. [...] still in 1950, almost 60% of the workforce in Mexico was in the agricultural sector and received only 20% of the national income (Noyola 1956, p. 615).

Hence, there was not a race between wages and prices nor an inflationary spiral in the Mexican case. While the propagation mechanisms linked to income distribution increased the inflationary process in Chile, in Mexico the weakness of such mechanisms mitigated inflation. Because of that, even though inflation was lower in Mexico than in Chile, it had a stronger regressive effect in the social distribution of income.

While the IMF and ECLAC both concurred that the social struggle for income distribution increases inflation, their solutions differed. The latter aimed at maintaining or increasing the wage-earners share in national income as a necessary factor towards development (since inequality was high and internal demand insufficient), while the former's propositions to Chile were to limit the annual wage increases in order to "break the wage-price spiral" and limit inflation:

The previous law requiring automatic increases in salaries and wages [...] was abrogated [...] and on January 23, 1956 the Congress approved a new law limiting automatic wage and salary adjustments. The new wage policy attempted to ensure that wages would be determined far more by the normal processes of bargaining than by law (Bernstein¹⁵⁷ 1958, p. 350).

The social struggle for income distribution was thus being removed from the political sphere to a more individual level, with the idea of a free market in which prices, including the price of labour, are determined by supply and demand. It is also interesting to see that the government of Carlos Ibáñez del Campo in Chile (1952-1958) managed to implement this wage

¹⁵⁷ Staff papers of 1958, "Wage-price links in a prolonged inflation" by E.M. Bernstein.

reduction by a brutal repression of organised labour. Indeed, the main labour union (the Central Unica de Trabajadores de Chile, CUTCh) had organised strikes in 1955 against the government's decision to cut wages in order to fight inflation, as all the burden would fall upon the working class. The government reacted by arresting the leaders and charging them with conspiracy, imposing martial law for two months, mobilising the army and threatening the strikers¹⁵⁸ (Kofas 1999, pp. 367-368). Hence, the social problem persisted even though it was repressed. The wage-price spiral was not solved by ensuring an adequate level of life and by solving the causes of inflation, it was evicted through the political decision of a decrease in real wages detrimental to the wage-earners.

Expansionary policies: fiscal mechanism and credit expansion

The IMF considered that to limit inflation, it was important to restrict credit and diminish government spending. They saw positively the policies of the Chilean government that "adopted measures to restrict credit through portfolio ceilings and tightening of rediscount policy" (IMF 1956, p. 79). However, for structuralists, credit expansion was not a cause but a consequence of inflation. Indeed, banks simply answered to the demand of credit, so their role was mostly passive and money is considered endogenous. However, it confirmed and propagated the inflationary tendency by providing more liquidity to keep up with the increase in prices (Noyola 1956).

The IMF also praised that "measures were also proposed to [Chile's] Congress to increase revenues and reduce public expenditures" (IMF 1956, p. 79). But in the structuralist analysis, the fiscal system of Latin American countries, the level of public expenditure and its

¹⁵⁸ "Ibáñez arrested two hundred trade union and opposition leaders and charged Blest and his senior aides with conspiracy" (Kofas 1999, 368).

composition were factors that could either increase or mitigate inflation, and simply reducing public expenditure was hardly an answer.

Indeed, an inefficient fiscal system resulted both in insufficient government revenue and in a higher fiscal burden on groups with lesser income, as was the case of Chile (Noyola 1956). As Pinto pointed out, most Latin American governments were dependent on taxes on imports and/or exports for their revenue, so a decrease in international trade could diminish their capacity to finance public spending and would increase the country's deficit (Pinto 1961). In this case, the basic inflationary pressure coming from external dependency would be amplified¹⁵⁹. This was an important issue, because public investment was essential to further the development process, solve the structural bottlenecks on the supply side and hence counter inflation by an increase in supply (Noyola 1956).

On another hand, the impact of public expenditure on inflation depended not only on its volume, but also on its composition. For instance, if the government directed public expenditure to an increase of nominal wages in the public sector instead of increasing the productive capacity of the country, it would lead to inflation because of the stagnation on the supply side (Pinto 1954).

Besides, an inefficient fiscal system often meant that there was a higher fiscal burden on the working class. Indeed, Kaldor¹⁶⁰ considered that the fiscal system in Chile relied too much on indirect taxes on consumption and had particularly low direct taxes directed towards

¹⁵⁹ "The external dependency that exposes [Chile's] economy, in particular public finances, to sudden fluctuations" (Pinto 1954).

¹⁶⁰ During his stay in ECLAC, Kaldor prepared a study called "the economic problems of Chile" where he analysed different aspects of the Chilean economy, in particular the fiscal system.

profits (Kaldor 1959). The consequence of this tax system could be another incentive in the race between wages and prices, since the disposable income of the working class, who spends most of it in consumption, is diminished.

Hence, in the structuralist view, the IMF propositions were targeting the "propagation mechanisms" of credit, wages and government spending to curb inflation. However, restricting government spending meant diminishing the possibility of public investment in a developing country. This would be harmful for the development process, since the need for new infrastructure is high and the private sector could not withstand the costs. Besides, this is a very short-term solution, since without public investment the structural change towards an industrialised country would be either greatly slowed or impossible. Finally, without public investment guided towards industrialisation, the external vulnerability would remain untouched.

Devaluations

Currency devaluations are another important propagation mechanism, which translate a basic inflationary pressure (external vulnerability, leading to recurrent balance of payment deficits) into higher inflation. As already mentioned, Latin American countries faced frequent commercial deficits and subsequent currency depreciations had a direct impact on the price of imported final consumption goods, production inputs and capital goods. They also allowed domestic agents who produced similar goods to increase their own prices.

In countries like Argentina, where the main export products (foodstuff) were also consumed domestically, currency devaluations had a direct impact on domestic consumption prices: if producers were not allowed to increase their domestic prices in line with their higher earnings from exports, they would send all their production abroad.

II. Beyond the theory: policy implications, institutional setting and broader intellectual scope of the structuralist theory of inflation

A) IMF's policy recommendations for Chile: the beginnings of monetarism?

To better understand ECLAC's writings on inflation and its policy recommendations in opposition with the IMF's anti-inflationary policies, it is important to better grasp the IMF's theoretical position in the 1950s. Chwiero (2010) argues that throughout the 1950s capital control was accepted in the IMF, and that the Fund was still predominantly Keynesian. According to him, it is by the end of the 1950s and through the 1960s that liberalizing capital movements is put forward by the institution. However, we saw that in the case of Latin America and Chile, the IMF was against capital control and recommended liberalization policies. Hence, we will try to understand the complexities of the IMF, and how these can help us understand its policy recommendation in Chile¹⁶¹.

At its beginnings and for most of the 1950s, the IMF accepted that its member governments implemented some capital controls¹⁶², within limits: multiple exchange rates were not accepted by the Fund and in that sense the recommendation given to the Chilean

¹⁶¹ We do not have the ambition to make an intellectual history of the Fund, but to have more elements to contrast the two institutions.

¹⁶² Article VI, Section 3 explicitly grants governments the right to use capital controls: "Members shall exercise such controls as are necessary to regulate international capital movements." [...] "But no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfer of funds in settlement of commitments." Article VIII, Section 2a similarly prohibits the implementation of "restrictions on the making of payments and transfers for current international transactions." (Chwiero 2010, pp.107-108)

government to abolish this practice was in line with the institution's general direction (ibid, p. 114).

Chwierothe indicates that “[i]n the 1950s the Fund’s staff became increasingly concerned about heightened capital mobility” (ibid, p.116) and “viewed the gradual liberalization of controls in the 1950s as beneficial in that it helped to stir trade and development and to ease the adjustment process in some countries” (ibid, p.130). That echoes with a “subtle shift in the attitudes that many West European governments took toward capital freedom” (ibid, p.117) by the end of that decade. This shift within the IMF might have been strengthened by the arrival of Per Jacobsson in 1956, who believed in capital freedom and had a “deep commitment to neoclassical orthodoxy served to articulate these bureaucratic motives” (ibid, p.125). Chwierothe contends that the arrival of Jacobsson “decreased the influence of Edward Bernstein, who had been a delegate to Bretton Woods and served as the Fund’s first RES director until 1958. There were reportedly significant disagreements [...] Bernstein was sympathetic to the use of controls to help establish equilibrium” (ibid, p.132). This support for the use of controls is presented as compatible with a “Keynesian understandings of market behavior” (ibid, p.132) from the staff, a position that weakened overtime and with Jacques Polak¹⁶³ replacing Bernstein. However, if we take a look into the writings of Bernstein in 1958¹⁶⁴, we see that his analysis of inflation was monetarist at its core, even though he seemed to admit the existence of different causes of inflation:

Although the basic causes of inflation vary widely in different countries and at different times, the process of inflation always shows strikingly similar characteristics. Essentially, it is caused by the excessive expectations of government, business, or labor in the use of the national

¹⁶³ Polak devised the “Polak model”, which is a monetary approach to the balance of payments.

¹⁶⁴ The text analyzed is not focusing on a specific country or region.

product and is associated with the excessive creation of credit. If the causes of inflation are not eliminated, the mere linking of wages to prices will not of itself bring the inflation to a halt. On the other hand, if the causes of inflation are eliminated, the linking of wages to prices need not prevent the restoration of stability, provided the wage base which is thus linked is not too high in relation to the productivity of the economy (Bernstein, 1958, p.323).

Bernstein even showed some understanding of the structural bottleneck evidenced by ECLAC, as he recognized that:

Even if a rise in wages is economically justified and is financed by a shift of money income from profits to wages, it can be undertaken without inducing a rise in consumer prices only if the supply of consumer goods is increased to the same extent as the increase in consumer expenditure. [...] In the longer run, apart from the effects of productivity on supply, the restoration of real wages to an appropriate level will require some shift of productive resources to consumer goods industries” (ibid, pp.327-328).

If we stopped reading here, it would seem that Bernstein could ultimately agree with ECLAC’s theory. Yet, he does show his disagreement with the structuralist theory of inflation by saying “it cannot be emphasized too strongly that inflation is a monetary phenomenon” (ibid, p.323). His monetarist core is most evident when he talks about the policy action required to fight inflation. Indeed, while he hinted at a disconnection between demand and supply, he did not put the emphasis on the supply bottlenecks like the structuralists did. Instead, he insisted on “excess aggregate demand”, that “arises from an increase in investment (or a budget deficit)” (ibid, p.327). We understand that anti-inflationary policies should act on the demand-side, as he insisted that “[i]f the excess demand is allowed to continue, inflation will degenerate into a hyperinflation” (ibid, p.326). For Bernstein, the problem resides thus in labor, which “occupies a key role in the inflation process” (ibid, p.327). The policies that he recommended

were destined to curb demand, which was presented as “excessive” instead of presenting supply as insufficient. It is thus not surprising that he gave a central importance to restricting credit:

A large and prolonged inflation is possible only if the monetary authorities permit an excessive and continuous expansion of credit. [...] any measures taken to halt inflation must include the restriction of credit (ibid, p.324).

Bernstein contended that “an inflation may have its origin in excessive wage expectations rather than in excessive expenditure by the government or excessive investment by business” (ibid, p.329). We understand that this “excessive demand” could be caused by excessive government expenditure, excessive investment, or excessive wages. However, there is no definition on what constitutes this “excess”. Besides, if demand becomes “excessive” after an increase in wages, it would be useful to distinguish what goods are being sought after: we cannot see how demand for essential goods or foodstuffs could be excessive.

Bernstein is particularly against linking wages to prices, because it would reduce “the degree of flexibility in the economy” (ibid, p.331) and “is an indication that the monetary system has failed to perform its function of regulating the production, distribution, and use of the national product” (ibid, p.332). Besides, he contended that “wherever the linking of wages to prices has been introduced, this action has followed a period of large and prolonged inflation” (ibid, p.333). He goes further, as he claimed that “the principal danger in linking wages to prices is that the link will be based on an uneconomic level of real wages” (ibid, p.333). Finally, it “interferes with the normal process of wage bargaining” (ibid, p.338).

These policy recommendations of Bernstein are thus exactly the same as those of the IMF for Chile in 1956: abolishing the automatic adjustment of wages, diminishing wages, restricting credit and “reducing private consumption and investment” (ibid, p.335) even if it meant increasing unemployment:

An uneconomic level of wages thus results not only in higher prices but in a tendency toward continuously rising prices. As in all other cases of inflation, the price-wage spiral depends upon the expansion of bank credit to maintain full employment at higher costs. If the monetary authorities were to restrain the expansion of credit, an excessive rise in wages would lead to some unemployment; and unemployment would act as a deterrent to renewed demands for higher wages to offset the rise in prices (ibid, p.330).

An “uneconomic level of wages” would correspond to a wage that is above “the economic value of the wage earner’s work” (ibid, p.335), which is a particularly vague definition that reminds us of the numerous debates on value. Contending that the rise in prices is caused by an excess aggregate demand could be a neo-Keynesian analysis of inflation. However, the solutions of diminishing demand through a fall on real wages and restricting credit are close to Friedman’s monetarist policies.

If we compare Bernstein’s policy advice and the IMF’s intervention in Chile, we see a “one size fits all” approach to fighting inflation. This conclusion is not to be generalized for all IMF staff in the 1950s, as Chwioroth argues that there were more nuances among the staff. However, we notice that the policy recommendation of the IMF in Latin America, most notably Chile, was not following the supposedly “Keynesian” orientation of the IMF in the late 1940s and early 1950s, and there was not much tolerance to capital controls. Indeed, the IMF was acting contrary to what Keynes had proposed in Bretton Woods; it is closer to White’s perception. While in its constitutive articles it posited freedom to apply capital controls, Chile was required by the stand-by agreement to liberalize its economy to benefit from an IMF loan. Indeed, the stabilization program required the abolishment of multiple exchange rates and less import selection. The IMF reviewed positively these changes in Chile:

Import licensing was abolished and imports of listed goods were permitted without limitation [...]. The previously existing multiple exchange rate structure was replaced by a free, fluctuating exchange market for all commodity transactions, while the brokers' free market continued to be applicable to private capital transactions and some invisibles. (IMF, 1957)

This meant that the deficit country had to support the whole weight of the disequilibrium. The IMF did not have in its mandate to control inflation, but to administer the international monetary system. It was part of its mission to help countries avoid long-term deficits. Keynes considered that in the international payments system, the weight of adjustment should be shared between the deficit and the surplus countries. Indeed, a deficit was always accompanied by a surplus elsewhere. The adjustment had to be symmetrical, with the deficit country reducing its expenses and the surplus country increasing its expenditure, notably in imports. This is what it meant to be Keynesian in an international framework. The IMF concentrated its policy tools in the deficit country which had to bear alone the weight of adjustment by diminishing demand. This introduces a recessive bias in the international economy. Hence, Keynes's vision was absent from the IMF toolbox, but it was closer to the structuralist vision of international trade.

Hence, the IMF adjustment programs in Chile were following White's vision, not Keynes's. The theory the IMF followed was monetarist, because they considered that excess expenditure caused monetary creation, generated inflation and deficit in the balance of trade. That simplistic analysis of the deficit in the balance of trade put all the blame and thus the weight of adjustment on the deficit country.

That is the main point of dissidence with structuralism, that saw more causes for a deficit in the balance of trade. ECLAC possessed a deeper knowledge of Latin America's experience and productive structure and knew that a fall in the prices of exports could generate

inflation and a deficit in the balance of trade during times of recession. There could be inflation without monetary creation; as we saw, it is in reaction to an initial inflation that the propagation mechanisms come into play. ECLAC's vision gives a great importance to the external causes of inflation, as opposed to Bernstein's text or the IMF's "one-size-fits-all" vision that only see internal causes and only consider inflation as a cause of a demand shock, not a supply shock. We will now analyze the policy proposals of ECLAC that went hand in hand with its development plans.

B) ECLAC's alternative policy proposals.

As we saw, according to the structuralist theory of inflation, the IMF policies did not tackle the structural causes of inflation; instead, they targeted the "propagation mechanisms", and hindered development. In addition, the IMF policies were exactly what ECLAC was against:

It is always necessary to insist on the basic objectives of policy: a policy that avoids inflation but that does not indicate solid perspectives of growth, a more equitable income distribution or a reduction to the vulnerability towards fluctuating exports, can hardly be considered satisfactory (CEPAL 1961, p. 10).

We see that the IMF reforms essentially wanted to return to the old growth model of Chile, and in general of Latin America: an export-led growth based on primary commodities, characterised by an open economy with relatively small restrictions to international trade. The countries following this growth model generally had a small industrial base, relatively small urban centres and weak labour unions. Their economies tended to be very dependent on capital flows and foreign investment, and foreign companies were dominant.

Using the structuralist lens of ECLAC's economists, the answer of the IMF to Chilean inflation was to stop the process of development and come back to the old structure. In Prebisch's words, this showed "the irremediable falsity of the orthodox position" that "ignores unscrupulously the phenomena of economic development". He contended that the IMF "implicitly denied the necessity of a development policy, of changing the productive methods, the economic and social structure and income distribution" (Prebisch 1961, p. 25). In Seers's words:

Policy measures devised for developed economies are not necessarily, or usually, transferable to economies which are fundamentally different. The essence of a fundamental stabilization policy is a long-term development programme to achieve the structural changes which are needed. Any other sort of stabilization policy is a palliative (Seers 1961, p. 192).

The goal of ECLAC's economists was to shift from a vulnerable and dependent agrarian economy towards a sturdier and independent industrialised economy. In their view, the only way of solving this inflation was to further the development process.

The necessity to further economic and social development

As we have seen in the presentation of the structuralist theory of inflation, the main cause of inflation was underdevelopment:

An underdeveloped country that attempts to change and grow quickly faces specific tensions that can result in inflation (CEPAL 1961, p. 13).

[Inflation is the result of] a bigger or lesser success in achieving the changes and adjustments to the socioeconomic structure that are needed to spur development and equally distribute its fruits (Pinto 1961, p. 29).

Inflation is a phenomenon of economic and social change, an essentially dynamic phenomenon (Prebisch 1961, p. 25).

Of course, it would be nonsensical to stop this process of development in order to maintain price stability at all costs – especially when that solution would not even guarantee price stability because of the persistent external vulnerability. Policies that only target inflation without considering the needs of a developing country "will only achieve a precarious truce of inflation that will be paid by a slowing of development" and will not solve any problems, which will inevitably resurface (Pinto 1961, p. 30). In fact, only through development the "basic inflationary pressures" could be removed.

ECLAC was very clear that the solution to inflation was essentially a long-run one that was based on continuing this process of structural change, i.e., development¹⁶⁵. Applying austerity measures that targeted consumption and government spending assumed that a choice had to be made between inflation and growth. This is why Prebisch wrote "the false dilemma between inflation and economic growth" in 1961. For him, as head of ECLAC, it is nonsense to consider that choosing economic growth will lead to inflation. The official ECLAC report on inflation also highlighted it:

In the long run, the fallacy of the opposition is even more apparent. Only through economic development the economy can acquire more flexibility and vigour, so that it is less prone to inflation. If growth was diminished in order to avoid inflation, we would delay the moment to develop the economy with less tensions and, thus, with less risks of inflation. A country that

¹⁶⁵ Furtado saw the importance in applying measures having a short-term effect on inflation, even if they might negatively affect growth. See Boianovsky (2012) on this subject and Furtado's stabilisation program known as the "Three-Year Plan" of 1962, which he presented as the Minister of Planning in Brazil.

tries to achieve stability at the expense of growth, might achieve in the end neither of these objectives (CEPAL 1961, p. 11).

The countries solve the "basic inflationary pressures" when they increase the productivity of both the agrarian and industrial sectors. This way they decrease their dependency on imports and exports and become less vulnerable to the fluctuations in international trade.

Hence, the more specific solutions to inflation are to be found in the theory of development of ECLAC and its policy recommendations to achieve it. We will now select some of the general development propositions.

Diversification of exports and counter-cyclical policies

Prebisch (1961) deplored that the export sector was being left aside in favour of the national industries for internal markets. He contended that having new types of exports consisting of industrial goods would be essential to maintaining an important level of exports and thus be able to import necessary goods. Exporting manufactures would also facilitate the incorporation of more technology and benefit from economies of scale, allowing for lower prices in the domestic market as well.

In addition to this structural transformation, Prebisch argued in favour of counter-cyclical policies. Faced with external fluctuations, a country might have to choose between contraction and the liberal use of credit (that Prebisch qualified as "inflationary") to maintain the level of activity. However, this would also maintain the demand for imports even when the level of exports and currency reserves do not permit it.

Hence, it was essential to build reserves and secure enough government revenue when external conditions were favourable, especially through a fiscal reform and counter-cyclical policies. The latter could make the most of the periods of favourable international trade to Latin American exports by building the reserves needed for importing capital goods for the new industries and develop the import-substituting industries (Prebisch 1961).

Although counter-cyclical policies are more of a prevention than a cure to inflation, to the extent that they help stopping the balance of payments deficits and subsequent devaluations, they can be considered as anti-inflationary policies. However, these policies are not a short-term solution to diminish an already advanced inflation.

*Conducting a fiscal reform*¹⁶⁶

Prebisch was favourable to import taxes especially when they allowed for import selection within an import-substitution scheme; they were a way of diverting consumption from imports towards internal production. He also considered that these taxes should be particularly applied to imports of luxury goods. However, these taxes were not sufficient, and a significant fiscal reform could help securing a more stable government revenue and public investment.

Prebisch was favourable to a fiscal reform based on "reasonably" progressive direct taxes on income. He specified that only the income share directed towards consumption should be taxed, but not the share that was invested by individuals or enterprises¹⁶⁷ (Prebisch 1961, p.

¹⁶⁶ The importance of this aspect is evidenced by the organisation of a conference on fiscal policy by ECLAC in December 1962 (which Kaldor attended).

¹⁶⁷ He does not specify how this would be implemented, but we see that Prebisch was still attached to the idea that savings, not credit, should finance investment, although he had accepted in the 40s that bank credit was essential for investment.

22). He specifically targeted luxury consumption by proposing a tax system to "discourage the excessive consumption of high-income social groups" and encourage productive investment "thus achieving the social effects of a better [income] distribution and the adequacy of investments" (Prebisch 1952a, p. 391)¹⁶⁸. Prebisch wished to broaden the tax base in order to increase investment, and he considered that these direct taxes on income would help "modifying the patterns of consumption and saving" (Prebisch 1961, p. 22). He stressed, however, that the subsequent increase in government revenue should not be used in government current spending but be directed towards productive investment. We understand that he wished to encourage private investment, and he considered that the State played a major role in guiding this investment towards strategic sectors for the process of development¹⁶⁹ (Prebisch 1952b).

C) An institutional thought...?

As we have shown, this theory was closely reacting against the IMF policy propositions and to the policies applied by the Chilean government. However, it was not only the fruit of a particular social, economic and political context: it was also the fruit of a particular institutional context.

Although Pinto already had a structuralist reading of inflation in Chile in 1947, he did not present it as a new theory, and we do not consider it as such. Pinto's analysis of inflation is not very known, in particular because before joining ECLAC he wrote for local Chilean economic reviews (especially "Panorama económico", of which he was the editor) which had

¹⁶⁸ This is compatible with Pinto (1954) who contented that luxury consumption should be diminished.

¹⁶⁹ "It is possible that some productions, despite their lower productivity, are however highly advisable because they decrease the vulnerability of a country regarding fluctuations and external contingencies" (Prebisch 1952b).

a limited reach. Furthermore, his analysis focused on the Chilean case, without attempting any degree of generalisation. This contrasts with the writings of Noyola and Sunkel who, although focusing on specific cases (Noyola on Chile and Mexico and Sunkel on Chile), still presented "ideal types" for explaining structural inflation that had a larger reach and could be adapted to other countries. Finally, when Pinto wrote about inflation in ECLAC's publications in the 1960s, he showed explicit adherence to Sunkel's reformulation of the theory and did not claim any paternity over the structuralist analysis of inflation (Pinto 1960, 1961). Instead, he continued to contribute to it both within and outside the institutional framework of ECLAC.

We consider that the institutional setting of ECLAC was essential in the making of the structuralist theory of inflation, something that Pinto lacked in 1947. Indeed, the theory was mostly elaborated during the 1950s when ECLAC was expanding its influence in Latin America, which also expanded the reach of this theory throughout the continent. We have shown in our exposition of the theory that many economists contributed to it in the span of around fifteen years. As such, we see that the structuralist theory of inflation is not limited to its statement by Noyola and Sunkel, but also expands to how it was mobilised by Furtado¹⁷⁰, Pinto, Prebisch and Seers (among others) and within official ECLAC documents about inflation in Latin America. Its use in ECLAC's reports, that were unsigned official documents, is an indication that the institution as a whole adhered to this reading of inflation.

This theory greatly benefited by this institutional context because the economists that joined ECLAC in the 1950s generally wanted to work in an institution that had an unconventional reading of economic development and of economic phenomena, as Prebisch had clearly set the direction of ECLAC's line of thought as "structuralist" during the Havana

¹⁷⁰ For an analysis of Furtado's contribution to the structuralist theory of inflation, see Boianovski (2012).

Conference of 1950. Hence, it is normal that many ECLAC economists adhered and contributed (more or less significantly) to the structuralist theory of inflation. The proximity between these authors who worked together, sometimes in the same Division, meant that the intellectual exchange was significant, facilitating the emergence of such a theory. As such, the influence of Furtado in the elaboration of this theory, as evidenced by Boianovsky (2012), is another element attesting the importance of this institutional setting. As already mentioned, Furtado was Noyola's supervisor in the Economic Development division and they had worked closely together.

Finally, the fact that ECLAC is a regional institution whose mission is giving economic counsel to Latin American countries allowed these authors to have a regional perspective. This enriches the theoretical elaboration, and Noyola's comparison of the Chilean and Mexican inflations shows how the national contexts influence differently the phenomenon of inflation.

Hence, the structuralist theory of inflation is a proper example of an institutional thought.

The influence of the structuralist theory of inflation on Prebisch

Prebisch's adherence to the structuralist theory of inflation is important to note: not only because it shows the constant evolution of Prebisch's thought, but also because his approval of the theory was important for its legitimation by ECLAC as a whole. Indeed, Prebisch's position regarding inflation had been ambiguous and changed through the 30s, 40s and 50s, but in 1961 he adhered and contributed to the structuralist theory of inflation as we have seen. Indeed, in 1931, Prebisch's analysis was compatible with the monetarist analysis, as he considered that public debt was a factor of inflation because it led to subsequent monetary emissions:

By solving the problem of short-term debt, the Central Bank is avoiding the danger of inflationist measures, that would fatally lead to a greater depreciation of our peso with all its serious economic, social and political consequences. (Prebisch 1931c, p. 25).

However, in 1934, Prebisch changed his analysis to add more complexity: for developing countries very dependent on international trade – like Argentina – the rise in prices and price instability did not directly come from monetary emission:

The bigger amount of circulating means of payment [...] immediately translates into a bigger general demand of goods. And [this] [...] leads to an increase of imports [...]. In countries that are not as connected to foreign trade, or that have a very developed internal production, instead of immediately [witnessing] an increase of imports, an increase in prices will mainly be felt. [...] Prices depend so closely on the international market that the most direct consequence of [money emission] is to be found in imports. (Prebisch 1934c, p. 318).

In 1956, Prebisch acknowledged that inflation had different causes and focused on cost-driven inflation for the Argentine case. However, he also considered that the Argentine inflation was due to erroneous policies implemented by the ex-President Juan Domingo Perón (1946-1955). In this aspect, Prebisch's political opposition to Perón was also a factor in his analysis of the Argentine inflation¹⁷¹:

The Argentine inflation has a double origin. On the one hand, the massive increase of wages and salaries, unaccompanied by productivity increases. On the other hand, banking credit

¹⁷¹ We see his partisan side in the reports he handed to the Argentine military government that succeeded Perón after the 1955 coup. When referring to the overthrowing of Peron's government (that he qualified as "dictatorship"), he said: "It is necessary to have a new courage. The soldiers had it when they raised their swords to destroy the dictatorship. Civilians have to show this courage as well to restore the economy of this country and extract it from chaos and the grovelling that this dictatorship led to" (Prebisch 1956b, p. 119).

expansion to cover the deficit in agricultural operations (4 billion pesos), the deficit in transportation (2 billion pesos) and in mortgage transactions (4.5 billion) (Prebisch 1956a, p. 3).

Although a massive increase in wages and salaries would nourish a price-wage inflationary spiral, his solution was not to simply diminish wages, as he acknowledged that many workers had very small wages (public servants in particular). He considered that increasing wages and salaries was "indispensable" (Prebisch 1956b, p. 119), but had to be done at the expense of profits and through the increase of productivity.

Prebisch also considered that there was excessive monetary creation in Argentina that was inflationary; however, his solution was not to lead a deflationary policy but to increase productivity and production:

[...] for such a noticeable increase in circulating money to not have serious inflationary effects, it is indispensable to accompany it with a significant increase in the quantity of goods and services (Prebisch 1956b, p. 118).

[...] it won't be possible to avoid the increase in prices [...] if the State continues issuing money as the previous Government did (ibid, p. 120).

We see that Prebisch's approach showed some differences with the structuralist theory of inflation. Still, the policies he proposed were consistent with the structuralist approach: it was necessary to increase productivity and output, instead of reducing wages or the quantity of money in circulation¹⁷². Prebisch's particular approach might be explained by the particularity

¹⁷² He also held this position in 1952: "[...] because of the institutional factors that characterize cost inflation, it is not an exaggeration to say that the problem of inflation is largely outside the purview of Central Banks" (Prebisch 1952b, p. 390).

of the Argentinian case¹⁷³, and also by his strong reject towards Perón's Government and policies. However, considering his past stances (in particular during the 1930s) in which he considered that excessive credit creation was destabilising for the economy and that only savings should finance investments "even if they are extremely productive" (Prebisch 1934b, p. 369), we believe that in 1956 he might still have had a lingering quantitativistic approach.

Yet, in 1961 Prebisch changed his theoretical approach to inflation, adhering more clearly to the structuralist theory of inflation:

The general mistake persists of considering inflation as a purely monetary phenomenon to be combated as such. Inflation cannot be explained as something divorced from the economic and social maladjustments and stresses to which the economic development of our countries gives rise. Nor can serious thought be given to an autonomous anti-inflationary policy, as if only monetary considerations were involved; it must be an integral part of development policy.

Economic development calls for constant changes in the form of production, in the economic and social structure and in patterns of income distribution. Failure to make these changes in time or to undertake them partially and incompletely leads to these maladjustments and stresses which release the ever-latent and extremely powerful inflationary forces in Latin American economy (Prebisch 1961, p. 1).

Prebisch's 1961 text is a little unorganized and touches upon different elements, which makes it difficult to understand and to grasp his position. However, it is important to analyse it more extensively because in my opinion Prebisch is trying to reconstruct a part of his thinking by mixing his previous analysis of the cycle with the structuralist theory of inflation. Indeed,

¹⁷³ ECLAC's report on inflation (1961) considered that Argentina's increase in wages in the 1940s "caused an increase in costs of production and contributed to the beginning of a chronic inflationary state" (CEPAL 1961, p. 80).

he adopts some of the elements of the structuralist theory of inflation as we have shown, but he gives an important role to counter-cyclical monetary policy.

This text shows that his cycle theory was structuralist before the school was born, and including it at this point in his career is an explicit way of recognizing that his cycle theory has its place in the structuralist theory (of inflation and, more globally, of development) and has its place in ECLAC's policy recommendation. It was already present in ECLAC's Manifesto of 1949, but it slightly faded away in the first years of Prebisch at ECLAC, as seen in chapter 4.

Hence, saying that Prebisch fully adheres to the structuralist theory of inflation would be an overstatement and a simplification, but saying that he was not influenced by it and did not adopt parts of it would also be a mistake in my opinion. Once again, Prebisch's position has to be nuanced. However, the structure of this 1961 text is also important: he begins by showing his adherence to the structuralist theory of inflation's main contributions, then proceeds to bringing his analysis of the cycle, and finally ends by warning States against a bad use of fiscal and monetary policy.

During most of the text, Prebisch attempts to bring together the structuralist theory of inflation and his analysis of the cycle. The end is a disclaimer that contrasts with the beginning and the core of the text, and can bring the reader to question part of what Prebisch wrote, hence wondering if he really adhered to the structuralist theory of inflation or not. In my opinion, the text's last 5 pages are a safeguard necessary in his position as the head of ECLAC. Similar to what we have seen in chapters 3 and 4, this ambiguity in the way some theoretical aspects were translated in policy action could be due to his fear that governments follow bad policies that could lead to high inflation rates. Indeed, even in the structuralist theory of inflation, bank credit is a propagation mechanism that can worsen inflation in some countries. Keeping credit in check through a counter-cyclical monetary policy could help with inflation. Furthermore,

Prebisch wanted to avoid unnecessary public expenses, and this element was present as well in Pinto's writings on the structuralist theory of inflation. Indeed, we saw that Pinto stressed the importance of the volume and composition of government expenditure in determining if it could diminish or increase inflation. Hence, if Prebisch was cautious on government spending, it does not necessarily mean that he did not adhere to the structuralist theory of inflation. In fact, he ends his 1961 text saying:

Neither inflation, nor orthodoxy. The time has come to formulate a monetary policy which meets the requirements of an economic development policy, which fits into its framework perfectly. Orthodoxy, owing to the dogmatic complacency with which it is administered, owing to the uncompromising finality with which it is generally presented to our countries, acts as a severe brake on the effort to devise this new form of monetary policy. I greatly fear that its continued application will increasingly strengthen the notion that economic development and monetary stability are incompatible concepts (Prebisch 1961, p. 25).

However, Prebisch does not completely dismiss orthodox policies, as he considers that they can be useful in certain circumstances, although only after reaching a certain level of development:

Once structural equilibrium has been established by virtue of an energetic development policy, monetary policy can efficaciously discharge its proper function of correcting deviations therefrom; and the instruments of monetary orthodoxy can be very useful – although not all-sufficing – in restoring external and internal equilibrium (ibid).

But for Prebisch, this type of nuanced policy needed to be applied by competent people. He questioned himself on the possibilities of “putting a rational development policy into practice” and if there was a “lack of political maturity” in Latin American countries (ibid). He identified “ability and wisdom, a firmness of purpose and a depth of conviction” as important

qualities for policymakers, because “[i]f these human qualities are lacking, monetary stability will be constantly threatened, however weak the structural factors conspiring against it” (ibid, p. 20).

Indeed, there can be a difference between theory and policy advice, and the latter can be more ambivalent. Hirschman had written about the nuances that policy advice could have in regard to economic theory, as he stressed that there are some necessary precautions to be taken when endorsing the role of policymaker. I will make the parallel between the two economists, as I think it can help understanding Prebisch’s ambiguities. When assessing his experience as a theoretician and policy advisor, Hirschman wrote in 1984:

Once the discoveries were made and proudly exhibited, there arose, inevitably and embarrassingly, the question: Would you actually advocate unbalanced growth, capital-intensive investment, inflation, and so on? The honest, if a bit unsatisfactory, answer must be: yes, but of course within some fairly strict limits. There is no doubt that the unbalanced growth strategy can be overdone, with dire consequences.

[...] it is clearly impossible to specify in advance the optimal doses of these various policies under different circumstances. The art of promoting economic development, research and development, and constructive policy making in general consists, then, in acquiring a feeling for these doses. (Hirschman 1984, p.92)

Hirschman raises the matter that economic theories are not enough for policymaking, and policies don’t always precisely follow theories. If we extend this reasoning, economic theories should not be an excuse to follow policies that could lead to macroeconomic instabilities. This could be an explanation for Prebisch’s precautions regarding governmental policies, as he could fear that the structuralist theory of inflation encourages governments to

follow policies that worsen the problem of inflation because of the propagating mechanisms since the roots of inflation are structural.

Hence, I think that Prebisch in his 1961 text shows a compatibility with the structuralist theory of inflation. It is not a complete adherence, but he does not contradict it either. He uses the vocabulary of the structuralist theory of inflation in the first parts of the text, and thus it seems like he wants to be associated with it – up to a certain point. The nuances we can find mostly at the end of the text are precautions he takes because of the policy impact his texts could have. It is, in my opinion, a text in which he tries to mix his cycle theory with the structuralist theory of inflation, and in which he tries to adapt the policy recommendations to the political and economic conditions in the region.

We saw throughout our exposition of the structuralist theory of inflation that Prebisch adhered to the main elements of the theory that placed external vulnerability and low productivity as main causes of imbalances and inflation. Besides, he is one of the authors that provided more concrete policy proposals to deal with inflation as a real phenomenon and not as a monetary phenomenon. This evolution in his economic thinking is interesting as it is indicative of the importance of ECLAC's institutional thought. Even though Prebisch held the highest hierarchical position within ECLAC and had an intellectual leadership, the other economists of the institution also influenced him and helped him evolve in his thought.

It is also interesting to see that he kept this approach for the following decades. Indeed, in "Dialogue on Friedman and Hayek: From the standpoint of the periphery" (1981), he opposes Friedman's *Free to Choose* (1980) and gives a great importance to the social structure and to

the power relations in the market to explain inflation¹⁷⁴. He insisted that restrictive monetary policy would be useless to fight against a wage-prices inflationary spiral, and considered that credit restriction and could even penalise the enterprises:

In face of the phenomena we are discussing, [...] monetary policy proves not only incapable of containing the inflationary spiral, but also counterproductive. [...] if the monetary authority refuses to enlarge the flow of money needed by the enterprises to pay these higher wages, [...] [t]hey cannot help but use part of that flow of money to meet wage increases. And in proceeding thus they must necessarily reduce the amount of money that they ought to have earmarked for the expansion of production (Prebisch 1981, p. 162).

Hence, it seems that the structuralist theory of inflation had a lasting influence on Prebisch, and was not limited to the 1960s debate against the IMF in Latin America.

III. Conclusion

The structuralist theory of inflation was elaborated by a group of ECLAC economists as an answer to the stabilisation policies recommended by the IMF and applied by some Latin American governments like Chile. They did not simply criticise the policies applied; their response was constructive as they formulated an alternative theory to prove that inflation in Latin America had a plurality of causes, was different than in developed countries and differed

¹⁷⁴ For instance, Prebisch considers the case of a country with strong trade unions: the labour force can negotiate an increase in wages if, for example, taxation is too high and insufficiently progressive thus diminishing its purchasing power, or if there is inflation caused by other reasons. Faced with an increase in wages, enterprises could increase their prices to maintain their profitability, and the trade unions could ask for another increase in wages, this creating an inflationary spiral.

even between Latin American countries. This meant that they rejected the universality of theories in time and space, even their own. They also were against applying the same set of policies and disregarding the specificities and development needs of the countries. Hence, inflation in each Latin American country had to be studied according to its specificities and the policy responses would probably differ.

Even though in their seminal articles they did not propose concrete short-term policies to stop inflation, they proposed longer-term policies. Indeed, IMF (or monetarist) sponsored short-term policies might mitigate the symptoms of inflation, but would not solve the problem: they would even aggravate its fundamental causes. However, the lack of short-term proposals to handle inflationary processes may have limited the usefulness of the theory in view of policy-makers. In fact, they proposed to apply the same policies that ECLAC had been recommending throughout the 1950s to reach socioeconomic development. From that point of view, this theory of inflation is an integral part of ECLAC's structuralist theory of development.

The structuralist theory of inflation was not elaborated for the sake of theory and was not an academic exercise. It was a theory that tried to answer a concrete need, to provide a better understanding of the Latin American situation and an adequate policy response. It was also a theory that was inherently tied to politics and policy: development depended on a political decision to be taken by the governments, since it could not be achieved without a strong development program and planning from the State.

The unique ECLAC setting was paramount for the elaboration of such a theory. It gathered economists from Latin America that shared similar views on the economy and development. These economists could compare the experience of their countries with those of other countries, and could identify numerous common points between them as well as their particularities. This allowed for a regional vision of inflation and highlighted the specificities

of the phenomenon in some countries. These economists working closely allowed the dissemination of the theory, to the point where Prebisch, as head of ECLAC, ended up adopting it and the institution as a whole endorsed it. This theory also received the influence of foreign authors like Kalecki, and the intellectual exchanges with foreign scholars like Seers and Kaldor expanded its reach and reinforced its links with other convergent theories. The convergences with Kalecki raise the question of a possible dialogue between unconventional voices. It shows that the structuralist theory of inflation, but also of development, was within an intellectual context where economists such as Kalecki, by looking for alternative responses to development problems, found similar theoretical answers.

The structuralist theory of inflation was the fruit of a theoretical and policy debate about inflation, of a particular institutional setting and of a wider intellectual context. Although this theory was rooted in the economic, social, historical and political reality of Latin America, it also had, thanks to its methodology, a larger scope.

General Conclusions

Prebisch and his ECLAC team were an example of “pragmatic” economists who adapted their thought to a changing reality. In this sense, today’s context poses a similar challenge to our profession. The 2008 crisis had appeared to be the occasion to question the dogmas of neoclassical economics because of the evident failure of unregulated markets, in particular in the financial sector. With the crisis, critical voices like Michel Aglietta (Aglietta 2008, 2019; Aglietta and Rigot 2009), James Galbraith (2015), Joseph Stiglitz (Griffith-Jones, Ocampo and Stiglitz 2010; Stiglitz 2019), Yanis Varoufakis (Varoufakis, Halevi and Theocarakis 2011; Varoufakis 2020) arose. However, according to some critics like Philip Mirowski (2013), the status quo remained widely unchanged. Indeed, there was no substantial change in the way economics were taught and, policy-wise, the conclusions of neoclassical economics continued being applied with only some improvements in the precautionary framework of the financial system and the widespread implementation of austerity policies that lowered State expenditure.

With the recent Covid-19 pandemic, yet another depression arrived. It brought up the question as to how capitalist economies would deal with the pandemic and the economic depression that resulted from it. Indeed, the economic and health emergencies that started in the beginning of 2020 put an extraordinary stress on the public sectors. Even in developed economies, the issues of public health became apparent, with insufficient capacity of the public hospital to treat urgent cases and the dependency on mask and respirator production coming from abroad. Furthermore, with the pandemic there is a tendency towards rising inequalities worldwide (UNCTAD 2020; “How the pandemic is worsening inequality” by Valentina

Romei, *The Financial Times*, December 31 2020; ECLAC 2021)¹⁷⁵, which raises the question of measures to redistribute wealth within nations. This pandemic also forces us to rethink the relationship between the Global North and South, with the collapse of international trade and FDI, but also the growing inequality between them. Underdeveloped countries have suffered particularly from the pandemic: the insufficient hospital capacity, the impossible social distancing in slums and the lack of running water in some areas to follow basic hygiene measures are only some examples. Finally, the wealthiest developed countries that represent only 13% of the world population purchased in advance 51% of all vaccines against covid-19 (Oxfam press release, 17th September 2020).

Both crises, the financial and the pandemic, raise fundamental questions about the role of the State in the economy, particularly in the functioning of financial markets, rising inequalities and the environmental problems (which became evident not only because of the climate change, but also with the recent and possible future plagues). They also raise more global issues on the economic growth regime and the center-periphery relations. It is therefore relevant to look at previous experiences in which deep crises marked the end of a growth regime and the need to design a new one.

This thesis examined the elaboration of the structuralist theory of development, “arguably the most influential ideas ever to appear in Latin America” (Love 1994, p.393). It resulted from the critical view of a few economists who understood how inaccurate dominant theories were to explain regional problems and to provide a guideline to economic development. Two big crises (the 1930s Great Depression and the Second World War) acted

¹⁷⁵ France has reached the historic threshold of ten million people living in poverty during the pandemic (Secours Catholique, 2020).

as intellectual triggers, showing the need for a fresh theory and new policies. The question was no longer how to adapt foreign ideas to Latin American problems, but to elaborate original ideas and policies adapted to Latin American situations and goals. The intellectual breakthrough made by Prebisch and the ECLAC team was to understand that those crises marked the end of the previous regime of growth, and what was now needed was a new development strategy, with leading roles for the State, the industrial sector and domestic demand.

We have shown that the structuralist theory of development emerged in Prebisch from his experience as a policymaker during crucial times for Argentina. He experienced firsthand the vulnerabilities that derived from having a primary commodity-exporting economy dependent on the economic situation of central countries and on the conditions of international trade. To address these vulnerabilities, Prebisch devised national policies, national institutions and finally a theory adapted to Argentina's structure. Once he became the Executive Secretary of ECLAC he continued his endeavor to complete and widen this theory; his goal was to provide a theory adapted to different Latin American countries. While the structuralist theory of development was meant to be large enough for similar yet different countries, the analysis of economic phenomena and the policies recommended by ECLAC to Latin American countries were not necessarily all the same. The structuralist theory of inflation did not identify the same causes of inflation in all Latin American countries, so the solutions could not be the same. The Commission provided a stimulating setting for economists sharing similar goals and a common approach to development and economics. It benefitted through the 1950s and 1960s from ideal conditions to develop this theory, as it was in accordance with the developmentalist governments of the region.

Understanding the appearance and consolidation of an original theory that took its roots in concrete socioeconomic problems requires the combination of two disciplines: History of Economics and Economic History. That theory was made by a group of socially and politically committed Latin American economists and social scientists who shared a diagnosis about that region's (historically determined) problems and wanted to transform that reality through a common development strategy.

Combining both disciplines is the proper way to studying Prebisch's evolving thought. As a pragmatic economist and policymaker, Prebisch's departure point was the socioeconomic situation evolving in a changing context. His goal was to transform the economic structure to render it less vulnerable and more resilient. This meant that the changing context would inevitably affect his theoretical production. This approach to economics and policy was consistent with his vision that economic theories should all be dynamic. It was rooted in him that since the context is always subject to cycles, crises, structural changes, etc., studying a static point made no sense; and it made even less sense to consider a theory as universal and ahistorical, a given state of equilibrium as the normality. In order to understand Prebisch's thought, hence, it is important to place it in its historical context and not fall into abstract concepts that could be considered as ahistorical and universal.

This methodology is also adequate to study the emergence and strengthening of the structuralist theory of development: it has to be understood within Latin America's historical attempt to industrialize, pushed by the unprecedented events of the 1929 crisis and the Second World War and by the developmentalist governments that dominated the region. The establishment of ECLAC as an influential organism in Latin America also can be understood by using this hybrid methodology. The historic relationship of tensions with the United States explains why the Latin Americans wanted to form an organization as independent as possible

from the hegemon; the prevalence of European economic theories despite their inadequacy for the region explains why Latin Americans wanted to create their own theories. The starting point was Latin America (for Prebisch, at first, Argentina), so the structuralist theory of development did not aim at being general but at being historically determined and adapted to the region's structures at the time.

Approaching economics as a social science that is also imminently political allows us to think about the interests behind Prebisch's and ECLAC's theories. Indeed, they were economists and social scientists who were committed to developing the region.

ECLAC's and Prebisch's approach can be linked to Karl Marx's conception of "critical economy", as opposed to "vulgar economy". Indeed, "critical economists" aim to question the "mode of production" in order to modify it. "Vulgar economists", on the contrary, are apologetic and doctrinaire (Marx 1861-3). While Prebisch and ECLAC were rationalizing and giving a theoretical base to the ongoing industrialization process of Latin American countries, they criticized both the underdevelopment they intended to overcome and the existing theories that, in their views, were unable to address the region's problems.

In Prebisch's views, reaffirming independence and sovereignty of Latin American countries was essential in the proposed development policies, and before that for the national recovery strategies after the Great Depression. Consistently, during the negotiations that led to the creation of the Argentine Central Bank and ECLAC, he maneuvered for reaffirming their independency vis-à-vis developed countries. He therefore devised a Central Bank that would defend Argentina's interests above all: the Bank would be more important than foreign interests, but also more important than a given theoretical conception of how Central Banks should be. This proved Prebisch's independence of thought, that contradicted the consensual visions of Central Banks as found in Kemmerer, Niemeyer and the League of Nations.

Similarly, the willingness to defend the regional interests through the structuralist theory of development and its related policy recommendations, explains why ECLAC needed to be as independent as possible from the United States (and Europe). Indeed, these regions did not share the same interests than Latin America, and ECLAC's purpose was to follow the interests of its member governments. Theoretically, then, ECLAC's contributions were aiming at modifying the situation of Latin American countries regarding their own socioeconomic structure and their place in the international market; it was not elaborating theories to justify the existing conditions.

Studying the structuralist theory of development through the prism of Prebisch and ECLAC shows the strength of a pragmatic approach to economics. Following Karl Popper's definition of scientific theories, a theory can never be proven to be true; what determines its scientificity is its falsifiability. It is possible, nonetheless, to argue that facts corroborate a theory, even if this does not validate it. What counts, then, is to test theories in the light of facts. For sure, a theory that has been falsified should not be abandoned prematurely because the conditions of the test might not have been optimal, especially in social sciences (Popper 1978). Nonetheless, defending a theory that has been falsified by facts numerous times can be considered as dogmatism and a negation of reality. Previous and current examples seem to indicate that incorporating experience to economic theory is rather infrequent. A telling example is provided by Joseph Schumpeter who deplored how economists, despite being aware that banks create money through credit, did not incorporate this mechanism in their theories. There is in some cases a disconnection between facts, practice and theory:

[...] it proved extraordinarily difficult for economists to recognize that bank loans and bank investments do create deposits. In fact, throughout the period under survey they refused with practical unanimity to do so. [...] This is a most interesting illustration of the inhibitions with which analytic advance has to contend and in particular of the fact that people may be perfectly

familiar with a phenomenon for ages and even discuss it frequently without realizing its true significance and without admitting it into their general scheme of thought (Schumpeter 1954, p. 1081).

It thus appears that Prebisch can be commended by his capacity to identify when there is a breaking point such as the Great Depression or the Second World War, following which there is no possibility of going back to a prior state. As prevailing theories used in response of the Great Depression were falsified by events, there was a need to adapt his thought and develop a new theory. We saw how he left behind the quantity theory of money, advocated for State intervention and finally for State-led industrialization through development planning.

Prebisch and ECLAC thinking were policy-oriented, and as such they never disconnected their theories from reality. This inductive approach and pragmatism is a characteristic feature of Prebisch and ECLAC, which distances them from existing dogmas and from creating new ones. In my opinion, this approach should be the norm in social sciences, including economics, especially following the 2008 crisis and the current pandemic. The solutions to these crises cannot be dogmatic and based on purely abstract considerations. The historical-structuralist methodology could be useful to understand the causes of the crises, to devise solutions and maybe to think about new forms or new organizations of the social and economic lives – nationally and internationally.

This highlights the interest of (explicitly) policy-oriented economic theories, and constitutes the relevance of the structuralist theory of development: it wishes to enter in the making of history. Hence, ECLAC and Prebisch's main targeted public was not academia, and even less US or European academics. The public they wanted to reach were governments and the civil society, mostly in Latin America, with the aim to convince them on the policies to follow. The international community was also part of the targeted audience, since one

important goal was to modify the international economic order. As a consequence, if ECLAC entered in theoretical debates – such as the debate with the IMF on inflation and recessionary programs – it was not to convince academia or the IMF. It was to convince the Latin American governments and the civil society that the IMF was wrong. The stakes of the debate were political more than theoretical, but the theoretical field is important because it determines policy orientations. We have seen how Prebisch praises the merits of having both theoretical and practical training for economists; he was not so fond of theories disconnected from reality. As such, Prebisch's writings did not begin with a number of unverifiable hypotheses such as rational agents that maximize their utility; it started with concrete issues.

Besides, because of his public and his pragmatism, both his policy and theoretical conclusions were not radical. Contrary to some of his critics, that coined him as an autarkist or reproached him of abandoning the agrarian sector (Dosman 2001), Prebisch's propositions were balanced. While recommending industrialization and import substitution, he kept in mind the necessity to modernize the primary sector in order to increase the export of primary goods (Prebisch 1949, 1963). Similarly, although he argued in favor of structural changes for dealing with the roots of inflation, he did not dismiss the use of “orthodox monetary tools” (Prebisch 1961, p. 25). While recommending customs barriers to protect Latin American industries, he envisioned it as a temporary measure to strengthen the industries before integrating a freer international trade in which competition could have positive effects for industrialization (Prebisch 1963). These nuanced positions are related to his role as a policymaker who seeks to propose feasible policies, who takes development problems as a starting point and wishes to be influential on his region. Prebisch's and ECLAC departure point is never abstract concepts nor abstract academic debates. Pinto considered that ECLAC acted like nomads that collect easily accessible dates, because it went from one subject to another, making the points that were relevant for policy actions, but without trying each time to come up with radically new theories

(interview with Alfredo Eric Calcagno in 2020). That was because it did not adhere to the academic rules but was concerned with solving numerous problems.

After choosing to study both an author and an international organization, in this particular case, it proved necessary to explain the importance of the structuralist theory of development. I could show how the combination of Prebisch with an institution like ECLAC allowed for important theoretical elaborations that had a large influence in Latin America and beyond. An influence that was felt politically and theoretically as was the case in Brazil, arguably the country that was most influenced by ECLAC theories and policy advice (Couto 2007; Sikkink 1988), and Chile under the government of Frei Montalva (1964-1970) (Calcagno 1989). We have also seen how possible bridges between ECLAC's structuralism, Kaldor and Kalecki could be built. Analyzing the thinking of ECLAC as an institution shows the originality of this form of theoretical work, because we can see from an epistemological point of view what are the potential and limitations of such a setting. The synergy that is produced within the institution by the gathering of economists with common objectives and a similar perception of economics can be nuanced by the restrictions imposed to them by the same institution. As such, the structuralist theory of inflation is the result of such synergy, while Furtado's complaints related to his works on Mexico and Venezuela indicate the possible restrictions. Through the debate on inflation between the IMF and ECLAC, and by studying with a closer lens the latter, we can see how organizations as a whole can generate a specific thinking and take official theoretical stances.

Summing up, I have explored in this thesis how an international organization could elaborate a particular thinking through the gathering of intellectuals with similar approaches, the formulation of an official stance and the support of its member governments. The question of the establishment of a school of thought that went beyond this organization is a pertinent

research question that I wish to develop in future works. Indeed, ECLAC's technical assistance was also an important vector in spreading its new views, since it also consisted in training economists and officials throughout Latin America that could consequently adhere to its thinking without being part of the Commission. Another question that derives from this institution's thinking, is what happens when the member governments of the institution change their political line and their objectives. That issue was of central importance when Latin America's neoliberal turn starting in the 1970s replaced the developmentalist consensus that appeared in the mid-1930s and was the strongest in the 1950s to 1960s (Vernengo, 2020). Since ECLAC was dependent on its member governments that validated its works and contributed to set its objectives, the discrepancy that appeared with the neoliberal governments jeopardized its line of thinking and it was forced to adapt in some way. Here appears another major inconvenience of elaborating a thought within an international organization, as it is dependent on the political lines of the governments, on the changes in leadership within the institution and the changes of its staff.

As a direct continuation of my thesis, I would like to study Prebisch's theory of peripheral capitalism as a response to Argentina's and Chile's neoliberal dictatorships which started in the mid-1970s. Under the new political orientation, ECLAC's policy propositions were neglected, and its theoretical views fiercely criticized. Prebisch had observed the shift of capitalism from social-democracy in the post-war period to neoliberalism, and how the new international framework, especially with Margaret Thatcher and Ronald Reagan, became detrimental to developing countries. In that vein he wrote *Capitalismo periférico, crisis y transformación* (1981), in which he stated that Latin American countries could not expect to develop in the existing global system because by nature it is based on the exploitation of the periphery by the center. It was also a system intrinsically unable to redistribute income and that exacerbated not only the inequalities within the countries but also between the center and the

periphery. This work is coherent with his previous writings, but the conclusion is more radical: he now considered that the system itself had to be transformed. Prebisch seemed to have lost his “institutional optimism”, and was closer to dependency theory that doubted that existing institutions in peripheral capitalism could lead to a fair development (Lampa, 2020). It is also by the end of his life that Prebisch will think more systematically about the relationship between democracy, capitalism and development. He advocated for a hybrid regime combining capitalism and socialism, which would allow for a better income distribution and maintain the benefits of capitalism on productivity gains. Such a system would be consistent with more democracy and a fairer income distribution, which would bolster development.

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Introduction générale

Cette thèse de doctorat étudie l'émergence de la théorie structuraliste du développement à travers l'évolution de la pensée de Raúl Prebisch et des activités de la Commission économique pour l'Amérique latine et les Caraïbes (CEPAL), sur une période allant de 1930 à 1963. Elle affirme que le structuralisme latino-américain est né de la volonté de disposer d'une théorie adaptée aux structures économiques et sociales de l'Amérique latine, car aux yeux d'économistes tels que Prebisch, les théories économiques développées au cours des siècles précédents en Europe et aux États-Unis ne répondaient pas aux besoins des pays latino-américains. Cette recherche d'indépendance théorique était étroitement liée à l'objectif de promouvoir l'indépendance économique et politique du continent.

La recherche d'indépendance ne découlait pas uniquement (ou principalement) de valeurs nationalistes ou de points de vue idéologiques : l'un des objectifs de cette thèse est de montrer comment Prebisch a compris que les pays sous-développés souffraient d'une position subordonnée vis-à-vis des États-Unis et de l'Europe qui les rendaient vulnérables sur la scène internationale, et que changer cette situation était une étape nécessaire dans le processus de développement. Cette recherche d'indépendance l'a amené à changer sa façon de penser et à développer une nouvelle théorie qui a été approfondie et propulsée par la CEPAL. Pour qu'elle puisse remplir ce rôle, il était essentiel que cette institution offre un espace de réflexion qui serait principalement sous le contrôle des Latino-Américains. Tout du moins au début, le lien entre la CEPAL et les gouvernements latino-américains n'était pas le problème, car les élaborations théoriques et les propositions politiques de la CEPAL leur étaient destinées.

Il y a trois personnages principaux dans cette thèse : la théorie structuraliste du développement, Prebisch et la CEPAL. Mon approche consiste à voir comment la théorie structuraliste du développement est née dans les écrits de l'un de ses fondateurs, puis à étudier

comment la CEPAL l'a développée au niveau théorique et appliquée par le biais de recommandations politiques. Prebisch est à la fois déterminant dans la théorie structuraliste du développement et à la CEPAL, c'est pourquoi il occupe une place si importante dans cette thèse. Cependant, dans ce travail j'analyse également les contributions d'autres auteurs de la CEPAL et je réfléchis à la constitution d'une pensée institutionnelle. Les questions de recherche sont donc les suivantes : comment le pragmatisme de Prebisch et sa quête de souveraineté et d'indépendance l'ont-ils conduit à élaborer une théorie du développement basée sur l'analyse structurelle des pays latino-américains ? Comment le cadre institutionnel de la CEPAL a-t-il permis l'élaboration collective d'une théorie économique alternative ?

J'ai choisi d'analyser l'émergence du structuralisme latino-américain en accordant une attention particulière au parcours intellectuel de Prebisch parce qu'il était un économiste au cœur de cette école de pensée, qui a occupé des postes d'influence en Argentine dans les années 1930 et 1940 et a été secrétaire exécutif de la CEPAL de 1950 à 1963. Suivre l'évolution de sa pensée est un point d'entrée pour étudier l'émergence du structuralisme et les défis du développement de l'Amérique latine au 20^e siècle.

L'étude de la CEPAL nous permet de voir comment les pays latino-américains ont utilisé une organisation internationale pour créer un cadre adéquat à l'élaboration de leurs propres théories et raisonnements. Cette initiative a permis de rassembler des économistes partageant des visions similaires du développement, tant sur le plan théorique que politique, qui ont pu réfléchir collectivement à des alternatives à la théorie néoclassique pour l'Amérique latine. La quête d'indépendance théorique, économique et politique de la CEPAL est particulièrement évidente dans son élaboration de la théorie structuraliste de l'inflation, qui s'opposait aux recommandations du Fonds Monétaire International (FMI) contre l'inflation, tant dans ses aspects théoriques que politiques.

Le résultat, dans une région où « l'histoire des idées (...) se limite généralement à la description des adaptations régionales des idées européennes », a été le développement du structuralisme et de l'école de la dépendance, « sans doute les idées les plus influentes jamais apparues en Amérique latine » (Love, 1994, p. 393).

Raúl Prebisch comme point focal pour comprendre l'émergence du structuralisme

Raúl Prebisch (1901-1986) est un économiste argentin connu pour sa théorie du développement qu'il a défendue au sein de la Commission économique pour l'Amérique latine et les Caraïbes (CEPAL) et de la Conférence des Nations unies sur le commerce et le développement (CNUCED) de 1950 à 1969. Il est connu pour les politiques monétaires qu'il a mis en place en tant que directeur général de la Banque centrale d'Argentine (1935-1943). Il a également travaillé à la Banque de la nation argentine (1927-1935) et a été professeur à l'université de Buenos Aires (à partir de 1924, mais surtout de 1943 à 1949, lorsqu'il a approfondi ses explorations théoriques).

Il est également connu pour être un économiste dont la pensée a beaucoup évolué et mûri tout au long de sa carrière. Dans cette thèse, je soutiens que Prebisch était un économiste pragmatique et ouvert d'esprit, et que ce trait a été décisif dans ses changements théoriques. Il n'a pas seulement essayé d'échapper à des dogmatismes spécifiques, mais au dogmatisme lui-même. L'important pour lui étant le résultat final, à savoir l'amélioration des conditions de vie de la population, il trouvait naturel de modifier ses opinions théoriques lorsqu'elles s'avéraient erronées. En tant que décideur politique de premier plan, il a pu observer directement les résultats des politiques économiques et a pu intégrer cette expérience empirique dans sa compréhension théorique.

Il a abandonné ses idées sur l'autorégulation du marché en 1931, car la dépression ne prenait pas fin d'elle-même et les politiques d'austérité qu'il avait initialement approuvées ne faisaient qu'aggraver la situation économique de l'Argentine. Il a commencé à réfléchir aux spécificités de la structure argentine et de son cycle, qui expliquaient pourquoi les théories européennes ne pouvaient pas fonctionner dans son pays. Il a admis la nécessité d'un rôle plus important de l'État dans l'économie, principalement pour soutenir le marché interne. Le plus grand changement dans sa pensée à ce moment-là était que l'État devait mettre en œuvre des politiques fiscales et monétaires contre-cycliques. Son principal objectif était à ce stade d'adoucir les cycles au sein d'une économie agraire axée sur les exportations, et non de modifier la structure économique du pays. Le deuxième grand changement dans la pensée de Prebisch est intervenu avec la Seconde Guerre mondiale. Les perturbations du commerce international lui ont montré la vulnérabilité d'une croissance fondée sur les exportations agricoles, qui empêchait l'économie argentine de jouir d'une croissance stable. Il a donc commencé à soutenir l'industrialisation de l'Argentine et de l'Amérique latine, pour que ces pays puissent bénéficier du marché international au lieu d'être dominés par lui.

Ces deux changements dans sa pensée ont conduit à sa théorie structuraliste du développement, qu'il a complétée pendant ses années à la CEPAL en travaillant avec d'autres économistes latino-américains. En tant que Secrétaire Exécutif de la CEPAL, Prebisch a joué un rôle clé en donnant une orientation aux élaborations théoriques et aux recommandations politiques de l'institution.

Une pensée qui a donné lieu à de multiples interprétations

L'œuvre intellectuelle de Prebisch s'étend des années 1920 aux années 1980 et couvre de nombreux sujets qui reflètent son activité professionnelle à différents moments. De ce fait, il est considéré dans la littérature comme un « homme complexe et multiforme » (Pollock 1988,

p. 121), comme quelqu'un ayant « de multiples images publiques » (Sikkink 1988, p. 91). Sa pensée a toujours présenté des nuances importantes et n'était pas facile à classer. Il y a souvent une certaine ambiguïté à la lecture de ses textes, car ses pensées passées se retrouvent souvent dans ses œuvres ultérieures, et du fait des « luttes intérieures qui sous-tendaient sa pensée et son travail ». (Dosman 2010, p. 35).

Prebisch a été souvent critiqué et les attaques contre lui ont été nombreuses et contradictoires : dans les années 30, il a été critiqué comme étant « un homme des Britanniques » par des auteurs argentins, puis dans les années 40, il a même été soupçonné d'être un agent nazi par l'ambassade des États-Unis (Sikkink 1988, p. 100 ; Pollock 1988 p. 121 ; Pollock, Kerner et Love 2002 pp. 547-548 ; Vernengo 2013, p. 5). En tant que chef de la CEPAL, les économistes orthodoxes l'ont souvent dépeint (sans fondement) comme un défenseur des politiques autarciques, un adversaire des entrepreneurs privés ou un ennemi des exportations primaires. D'autre part, il a également été accusé de défendre des politiques orthodoxes lorsqu'il a présenté le « Plan Prebisch » au gouvernement argentin, peu après le coup d'État militaire de 1955.

Un domaine dans lequel les opinions de Prebisch sont particulièrement complexes est celui du crédit, de l'épargne et de l'inflation. L'étude de ses écrits entre 1930 et 1963 montre comment il oscille par rapport à l'utilisation du crédit pour l'investissement. Ces ambiguïtés semblent être au moins partiellement liées au contexte dans lequel Prebisch écrit : ses opinions n'étaient pas les mêmes avant et après qu'il ait adopté l'industrialisation comme principale stratégie de développement, et son point de vue a changé en fonction de ses responsabilités institutionnelles. En fait, il avait tendance à avoir une approche plus conservatrice du crédit lorsqu'il était directeur général de la Banque centrale ou à la tête de la CEPAL, que celle qu'il enseignait en tant que professeur à l'université de Buenos Aires.

Par conséquent, une évaluation de la pensée de Prebisch nécessite une perspective globale, couvrant différentes périodes de son travail et différents aspects de sa pensée. Une grande partie de la littérature secondaire sur Prebisch se concentre sur des sous-domaines particuliers au détriment d'une vision globale de sa pensée, essentielle pour comprendre sa nature holistique. Mon objectif est de saisir la complexité de son œuvre en reliant les différents domaines sur lesquels Prebisch a travaillé.

Cette thèse souhaite aller plus loin dans le détail de certains sujets tout en gardant une perspective relativement large pour comprendre l'émergence de la théorie structuraliste du développement. En effet, elle examine différents aspects de la pensée de Prebisch, notamment ses analyses sur la monnaie, la banque, les cycles, le commerce, le développement et la planification, et montre comment ils sont liés entre eux. Ce travail inclut également ses recommandations politiques sur ces sujets. En étudiant ces sujets ensemble, il est possible d'évaluer comment les écrits de Prebisch intègrent la plupart des aspects macroéconomiques et de développement, montrant ainsi la richesse et l'exhaustivité de sa production théorique. Cependant, comme Sprout (1992) l'a mentionné, Prebisch n'a pas réussi à intégrer un aspect sociologique complet dans ses écrits, car il a tardé à réaliser que l'égalité sociale ne suivait pas automatiquement l'industrialisation. Prebisch lui-même a reconnu que cet aspect lui était apparu tardivement (voir sa préface à Rodríguez 1980). Ce choix de combiner de nombreux aspects de la pensée de Prebisch permet d'expliquer comment ils évoluent ensemble et non indépendamment, ce qui montre la cohérence de la pensée de Prebisch et la capacité d'adaptation permise par la méthodologie structuraliste.

L'étude de la CEPAL comme cadre institutionnel et comme institution qui « pense »

Dans cette thèse, je ne cherche pas à analyser l'ensemble des travaux de la CEPAL (comme l'a fait, par exemple, Octavio Rodríguez, 1980), mais à comprendre comment elle a

fourni les conditions d'émergence de la pensée d'une institution. Cela n'équivaut pas à dire que la CEPAL avait une pensée autonome, mais je pense comme Mary Douglas (1986) que les institutions peuvent favoriser l'émergence d'une pensée à l'intérieur de lignes précises. En effet, la CEPAL avait un agenda et ses publications suivaient une ligne institutionnelle, définie par Prebisch, le personnel et les gouvernements membres. On ne peut pas dire que Prebisch seul à définissait cette ligne, mais il l'a fortement influencée par ses écrits et ses recrutements (chapitre 4). Les affinités du personnel dans leur pensée économique étaient également d'une importance capitale, car ceci permettait d'avoir une cohérence dans les études de la CEPAL. Les pays membres avaient également leur mot à dire, en tant que constituants formels de l'institution. Lors des sessions bisannuelles (« Período de Sesiones »), ils approuvent les travaux réalisés au cours de la période précédente, ils discutent du programme de travail pour le prochain exercice biennal et soulignent leurs priorités en matière d'assistance technique et d'études analytiques. Ainsi, ils ont à la fois légitimé et limité les activités de la CEPAL (chapitres 4 et 5).

Grâce à ces conditions, la CEPAL, en tant qu'institution, a contribué à la théorie économique. Par exemple, elle a développé la théorie structuraliste de l'inflation (chapitre 6). On peut aussi dire que la CEPAL a contribué à la consolidation de la théorie structuraliste du développement : le fait que cette théorie soit endossée par une institution internationale a renforcé sa légitimité. Mais surtout, ses missions d'assistance technique en Amérique latine ont permis de former les fonctionnaires des pays membres, de renforcer la coopération avec les institutions des pays pour la création de statistiques et de fournir des analyses de la situation économique des pays avec des recommandations de politiques économiques.

Théorie structuraliste latino-américaine du développement

Les économistes de la CEPAL sont structuralistes parce qu'ils pensent en termes de structure et utilisent le concept de structure à différents niveaux : dans le système centre-

périphérie, où ils réfléchissent à la relation entre les pays développés et les sous-développés ; à l'intérieur de la périphérie, pour analyser et comprendre ses caractéristiques. Il ne s'agit pas d'une prolongation du structuralisme de la linguistique ou de l'anthropologie, qui se concentre sur les relations entre les éléments d'un système conceptuel, et non sur les éléments du système en eux-mêmes. Le structuralisme latino-américain analyse à la fois les relations entre les éléments d'un système et les éléments eux-mêmes. Pour Prebisch et d'autres économistes de la CEPAL, la compréhension de la structure des pays périphériques est essentielle. Ils étudient donc la structure productive, la structure sociale, ainsi que la structure commerciale (qui est le lien avec la relation centre-périphérie). Toutes ces structures sont imbriquées à différents niveaux, et chaque pays a une structure différente, qui est déterminée par l'histoire. Il est possible de trouver des similitudes entre les structures des différents pays, mais cette élaboration d'idéaux-types tels que le « centre » ou la « périphérie » n'équivaut pas à nier leurs spécificités. Cette focalisation sur les caractéristiques structurelles (historiquement déterminées) des pays périphériques constitue l'originalité de l'approche de la CEPAL.

Par conséquent, le structuralisme latino-américain est généralement défini par sa « méthodologie historico-structuraliste ». Ricardo Bielschowsky (2009, p.173) propose la définition suivante du structuralisme de la CEPAL : « Le système analytique de la CEPAL est basé sur la méthode 'historico-structurelle'. Celle-ci étudie les caractéristiques productives, sociales et institutionnelles spécifiques, ainsi que l'engagement international des pays d'Amérique latine et des Caraïbes, qui sont considérés comme périphériques, par opposition à celles des économies 'centrales', considérées principalement du point de vue des changements à moyen et à long terme ». Toujours selon lui, « l'approche historico-structuraliste de la CEPAL implique une méthode de production de connaissances très attentive au comportement des agents sociaux et à la trajectoire des institutions, qui est plus proche d'un processus inductif que des perspectives abstraites-déductives traditionnelles » (Bielschowsky 1998, p.15).

Bielschowsky distingue donc le structuralisme de la CEPAL du structuralisme que l'on trouve en linguistique et en anthropologie, qu'il définit comme étant « synchronique ou ahistorique » (ibid., p.14). La théorie structuraliste latino-américaine du développement est identifiée comme la théorie de la CEPAL. Elle est basée sur les concepts de centre-périphérie, la tendance à la détérioration des termes de l'échange pour les produits de base et une interprétation particulière du processus d'industrialisation (Rodríguez 1980).

Les économistes de la CEPAL ont pensé en termes de perspective historique de manière spontanée, pour analyser leur situation économique actuelle. Par exemple, Prebisch considérait que « le mode cyclique de croissance » dépendait de « la structure économique de nos pays » (Prebisch 1949, p. 63). Ces structures étaient le résultat d'un processus historique et le travail de la CEPAL consistait à les comprendre et les analyser. Certains économistes de la CEPAL ont apporté des contributions majeures à l'histoire économique ; par exemple, Celso Furtado (1920-2004) et Aníbal Pinto Santa Cruz (1919-1996) ont écrit d'importants ouvrages sur l'histoire économique du Brésil (1959) et du Chili (1964) respectivement. Bien que les économistes de la CEPAL n'aient pas toujours explicitement placé leurs écrits dans un cadre historique et se soient concentrés sur leur situation économique actuelle, cette dernière doit être comprise en fonction de la structure, qui est historiquement déterminée. La structure est donc le médiateur entre l'histoire et la situation économique actuelle.

En outre, le structuralisme latino-américain n'étudie pas le comportement d'individus indépendants, mais la relation structurée entre des groupes ou des agents distincts. L'objet d'étude est la société stratifiée et les relations entre les groupes sociaux, même lorsqu'il s'agit d'étudier la structure productive des pays. Il ne s'agit pas d'un structuralisme rigide, mais plutôt d'un structuralisme dialectique et historique au sens marxiste : les agents peuvent avoir une influence sur la structure et la modifier. En ce sens, le structuralisme latino-américain a une

vision du développement comme une relation dynamique entre les pays développés et les pays en développement, et non comme un chemin linéaire vers un développement qui se produira inévitablement. Ce lien entre les pays fait la structure du sous-développement et permet de penser les problèmes de détérioration des termes de l'échange ou d'inégalité globale. C'est également cette lecture structuraliste du développement qui pousse Prebisch et la CEPAL à plaider pour un changement de la place des pays en développement dans le commerce international. Cette lecture permet d'analyser les raisons à long terme, ou « structurelles », du sous-développement de différents pays. Pour autant, le structuralisme n'est pas à mon sens une « théorie du sous-développement », comme l'affirme Sharukh Rafi Khan (2014, p.19). Tout au long de cette thèse, nous verrons que la théorie structuraliste de la CEPAL propose également des politiques de développement des pays, qui transforment leur structure sociale et productive et changent les relations entre les groupes sociaux et entre les secteurs économiques. En effet, le problème du développement n'est pas seulement technique, il est aussi politique. Et derrière chaque recommandation politique de la CEPAL, il y a une vision théorique de la manière dont cette politique affecterait la structure du pays et le conduirait au développement. Le structuralisme de la CEPAL est donc intrinsèquement dynamique et se concentre sur l'évolution des structures et des relations entre les groupes sociaux.

La théorie du développement de Prebisch a commencé à prendre sa forme connue dans les années 1940. L'accent qu'il met sur l'industrialisation commence en 1940, et l'appel au développement des pays d'Amérique latine, qu'il considère comme une « périphérie », date de 1944. La première forme achevée de sa théorie structuraliste du développement date de 1949 et peut être considérée comme une théorie à part entière et non comme une « pensée sur le développement ». Par conséquent, en raison de son originalité par rapport aux économistes contemporains et de l'émergence de sa théorie tout aux débuts de l'apparition de l'« économie

du développement » en tant que branche de l'économie, nous pouvons considérer Prebisch comme un pionnier dans ce domaine.

Une méthodologie hybride pour étudier un décideur politique, un théoricien et une institution orientée vers la recommandation en matière de politiques économiques

Cette thèse combine deux disciplines, l'histoire de la pensée économique et l'histoire économique. La méthodologie adoptée est hybride et ne relève pas entièrement d'écoles précises. Par conséquent, je fais de l'histoire analytique et contextuelle (Lapidus, 2016). Je contextualise de manière sélective, en fonction de mon objectif principal et de mes questions de recherche. Je me concentre sur les événements qui font réagir Prebisch et évoluer sa pensée, ce qui signifie que je choisis le degré de contextualisation. Par conséquent, j'étudie le cas de l'Argentine avec plus de détails que les autres pays d'Amérique latine, car le contexte argentin a eu un impact direct sur la pensée de Prebisch. Ainsi, ma méthodologie pourrait se rapprocher de celle de Pierre Dockès (2019), qui considère que l'histoire économique et l'histoire de la pensée économique sont complémentaires et même inextricablement liées. Je m'appuie sur la littérature existante en histoire économique et mes principales contributions directes se situent dans l'histoire de la pensée économique. Cependant, cette thèse contribue également à l'histoire économique, car elle analyse l'émergence d'une théorie économique influente en Amérique latine qui a façonné les stratégies de croissance de différents pays tout au long des années 1940, 1950 et 1960.

Si cette recherche porte sur les théories du passé et étudie le contexte latino-américain (en particulier l'Histoire argentine), le statut de décideur et de théoricien de Prebisch pose la question plus générale du rapport entre économie et politique, et fait écho au débat sur le positionnement de l'économie comme science sociale ou comme science « dure ». Ce débat sur la « neutralité » des modèles scientifiques (c'est-à-dire mathématisés) en économie a été

particulièrement présent en économétrie, comme en témoigne le travail d'Ariane Dupont-Kieffer (2019) sur les Conférences du Vatican de 1963. La théorie économique doit-elle être « pure » et isolée du politique et de l'histoire ? Cette thèse n'a pas l'ambition d'apporter une réponse définitive mais se positionne dans le débat en choisissant d'étudier un économiste et décideur politique comme Prebisch qui a adopté la méthodologie historico-structuraliste dans son élaboration théorique. Elle mettra l'accent sur la façon dont cette méthodologie permet d'adapter ses vues à un contexte changeant, en évitant le dogmatisme.

Cette thèse montre le lien intrinsèque entre l'économie et la politique : une théorie économique fournira, directement ou indirectement, des lignes directrices pour l'action politique publique. C'est ce qui ressort le plus clairement des années de gouvernement de Prebisch : parce qu'il a adopté différentes théories au fil du temps, les politiques qu'il a recommandées ont été différentes. Et réciproquement, il a intégré ses recommandations pratiques dans son cadre théorique. Nous voyons ainsi que la théorie économique et l'élaboration des politiques sont profondément liées et ne devraient pas être étudiées séparément l'une de l'autre. Prebisch était à la fois un analyste passionné et un décideur politique influent, et ses recommandations politiques ont toujours été présentes, même dans ses travaux les plus théoriques. Et vice versa, nous pouvons voir sa théorie et ses idées en lisant ses écrits les plus orientés vers la politique. Le pragmatisme de Prebisch était lié à son statut de décideur politique et lui a permis de reconsidérer ses convictions théoriques en période de crise, en particulier après la Grande Dépression et la Seconde Guerre mondiale. En particulier, alors qu'il était opposé à l'intervention de l'État dans l'économie jusqu'en 1933, il a de plus en plus accordé un rôle central à l'action de l'État : d'abord pour mettre fin à une crise, puis pour prévenir les crises, et enfin pour changer la nature du cycle argentin en modifiant la structure du pays. Cela l'a poussé à abandonner la stratégie de croissance basée sur l'exportation de matières premières et à adopter l'industrialisation comme moyen d'atteindre le développement.

Plan de la thèse

La première partie de la thèse (chapitres 1 à 3) répond à la première question de recherche : comment le pragmatisme et la quête de souveraineté et d'indépendance de Prebisch l'ont-ils conduit à élaborer une théorie du développement basée sur l'analyse structurelle des pays latino-américains ? Elle analyse l'évolution intellectuelle de Prebisch depuis la Grande Dépression jusqu'à son arrivée à la CEPAL. En retraçant son parcours, nous voyons comment la préoccupation centrale de Prebisch était de parvenir à une croissance économique stable et indépendante des fluctuations extérieures pour l'Argentine et l'Amérique latine car, sans ceci, le développement économique n'est pas possible. Ce développement économique va de pair avec une quête de souveraineté et d'indépendance (économique, intellectuelle et politique). Cette quête est sous-jacente à chaque étape, mais les méthodes pour y parvenir ont évolué. Cette première partie s'achève en 1949, date à laquelle nous voyons la théorie structuraliste du développement de Prebisch prendre forme: le développement, l'indépendance et la souveraineté ne sont possibles que par un changement profond de la structure économique et sociale de l'Amérique latine par le biais de l'industrialisation.

La deuxième partie (chapitres 4 à 6) répond à la deuxième question de recherche : comment le cadre institutionnel de la CEPAL a-t-il permis l'élaboration collective d'une théorie économique alternative ? Pour ce faire, elle se concentre sur la période allant de 1949 à 1963, lorsque Prebisch a rejoint la CEPAL pour y jouer un rôle central. En ces années, la CEPAL proposera une théorie du développement qui défend le changement structurel par l'industrialisation, avec un rôle important de l'État et de la planification, mais sans sous-estimer l'importance du secteur privé (vision d'une économie mixte). Il s'agissait d'un processus de développement qui avait déjà commencé sur le continent ; la CEPAL a rationalisé, légitimé et orienté une pratique qui était déjà en cours. La CEPAL cherchait à développer des théories

adaptées à l'Amérique latine, en opposition à celles développées en Europe et aux États-Unis, tant dans le passé (par Smith, Ricardo, Marshall) que dans le présent (par Keynes ou le monétarisme émergent). Elle part du principe que les Latino-Américains sont les mieux à même de comprendre leur région et de développer les théories pertinentes, ainsi que de défendre les intérêts de leurs pays respectifs. Il était donc de la plus haute importance que la nouvelle institution soit indépendante des économies développées, en particulier des États-Unis : c'était le premier objectif crucial lors de la création de la CEPAL. La CEPAL a également renforcé sa coopération avec les institutions des pays membres, et donc sa présence dans la région. Dans le cadre de son programme d'assistance technique, elle a formé des experts dans les pays membres et a proposé des politiques économiques. Elle sut s'imposer ainsi face à d'autres organisations internationales, comme l'OEA (Organisation des États Américains) ou le FMI (Fonds Monétaire International). Une telle institution était ce que Prebisch souhaitait pour l'Amérique latine, car elle permettrait d'atteindre son objectif d'indépendance et de développement.

Chapitre 1. Le tournant de Prebisch dans son cadre théorique : le rôle clé de la Grande Dépression en Argentine (1930-1934)

Ce premier chapitre étudie comment l'analyse structuraliste de Prebisch a émergé. Pour ce faire, nous analysons l'évolution de la pensée de Prebisch entre 1930 et 1934.

Nous montrons comment Prebisch soutenait initialement des politiques pro-cycliques visant à la consolidation monétaire et financière. Dans son projet initial de Banque centrale, cette dernière aurait le rôle de restreindre les crédits et de préparer le retour à l'étalon-or. En effet, il considérerait « l'expansion artificielle du crédit » comme l'un des principaux éléments

d'instabilité monétaire qui conduisait à une augmentation inutile des importations et à la sortie de l'or du pays.

Cependant, nous observons que dès le début, l'« orthodoxie » de Prebisch n'était pas entièrement conforme aux croyances économiques dominantes de l'Argentine. Par exemple, il n'adhère pas aveuglément à la théorie de la quantité de monnaie, car il ne croit pas que l'émission de monnaie soit la seule cause de l'instabilité monétaire et des cycles en Argentine. Pour Prebisch, ce sont surtout les problèmes de la balance des paiements qui expliquent les cycles (Rapoport, 2014) en raison des spécificités de la structure économique argentine. Cela explique pourquoi il a proposé une politique de réescompte lors de la dépression de 1929, alors qu'il avait largement expliqué en quoi l'émission artificielle de monnaie était néfaste.

Au fur et à mesure que la dépression se prolongeait, Prebisch remettait en cause l'efficacité du marché et finit par soutenir l'intervention de l'État. Ainsi, nous montrons qu'il a adapté sa théorie et ses conseils politiques aux besoins de l'économie et de la société. Il a rédigé des décrets sur le réescompte et le contrôle des changes, permettant à l'activité interne de se maintenir à un certain niveau. Il a abandonné également l'idée de l'étalon-or et commença à considérer qu'une monnaie dépréciée et l'inflation peuvent en fait être bénéfiques, à court terme, pour l'activité économique. Ses projets pour la banque centrale ont également changé, l'institution se dotant d'outils pour une action contracyclique sur le marché.

Ce revirement dans ses positions monétaires est étroitement lié à sa compréhension croissante de la structure économique et sociale de l'Argentine. Cela lui a permis d'envisager de nouvelles solutions pour sortir de la crise. Il s'est rendu compte que l'Argentine était dépendante du commerce extérieur et que, ne pouvant contrôler les prix à l'exportation ou à l'importation, elle ne pouvait qu'espérer une reprise mondiale. Dans *La producción rural y el mercado de cambios* (1934), Prebisch élabore un plan de relance qui associe des politiques monétaires

actives à des politiques fiscales et confère un rôle de premier plan à l'État. Il propose de stimuler la reprise interne en aidant les industries argentines, en recourant à la coopération public-privé et en lançant d'importants travaux publics. Comme nous le voyons dans le chapitre 3, les opinions de Keynes sur la politique fiscale, exposées dans ses articles de 1933, ont eu une influence importante sur Prebisch, probablement plus importante que ses travaux antérieurs sur la politique monétaire.

L'évolution de la pensée de Prebisch après la crise de 1929 montre une tension entre ses vues théoriques antérieures et les problèmes concrets auxquels il a dû faire face en tant que décideur politique influent. Cela a conduit à des incohérences entre son cadre théorique antérieur, qu'il n'a pas abandonné immédiatement, et ses conseils politiques pragmatiques. Or, ces contradictions sont la preuve d'une évolution intellectuelle.

Prebisch s'est rendu compte que l'Argentine, n'ayant pas la structure économique et sociale des pays européens et des États-Unis et occupant une position subordonnée dans l'économie internationale, était sujette à des vulnérabilités économiques spécifiques et ne pouvait pas se baser sur les théories dominantes (élaborées dans les pays développés) pour faire face à la crise. De même, bien qu'il ait été d'accord avec une partie des recommandations de Keynes pour faire face à la dépression, il considérait que d'autres parties de ses écrits ne pouvaient pas s'appliquer à l'Argentine. À ce stade, surtout en tant que décideur politique, puis en tant que théoricien, il acceptait l'intervention de l'État dans l'économie et cherchait des politiques adaptées aux problèmes de son pays qui permettraient de sortir de la crise.

Prebisch commence à élaborer la théorie structuraliste du développement tout en essayant de comprendre les problèmes économiques de son pays et de proposer des solutions. Dans les années 1930, le défi de Prebisch était de déterminer si les problèmes auxquels l'Argentine était confrontée étaient circonstanciels ou structurels. En reconnaissant qu'ils étaient

structurels, en raison de la vulnérabilité récurrente de son pays causée par les fluctuations du commerce international, il a fait son premier pas vers une analyse structuraliste.

Mon analyse vise à apporter une perspective différente de la littérature secondaire, en me concentrant sur l'émergence de la pensée structurelle de Prebisch à travers l'analyse de ses écrits sur la monnaie, les banques, les cycles et de ses propositions politiques. L'élaboration théorique de Prebisch était étroitement liée à la mise en œuvre de politiques monétaires actives, y compris la gestion du crédit et des devises, qui étaient nécessaires pour faire face à la crise. Dans ce contexte, une étape importante a été la création de la Banque centrale, une décision qui résultait de besoins nationaux très concrets plutôt que de préoccupations académiques ou de points de vue généraux véhiculés par des « money doctors » étrangers.

Chapitre 2. La création de la Banque centrale d'Argentine : un outil de souveraineté

Dans ce chapitre, la question principale est de savoir comment l'influence de Prebisch dans la création de la Banque centrale d'Argentine montre son souhait d'élaborer une institution flexible capable de s'adapter à la structure et aux besoins du pays et d'affirmer sa souveraineté.

Nous présentons une comparaison entre la Banque centrale du Chili, créée en 1925 suivant les conseils monétaires d'Edwin Kemmerer, et la Banque centrale d'Argentine, dont la création en 1935 a été influencée par Prebisch, comme le montre Sember (2010, 2012, 2018) et comme le mentionne Pazos (1988). Ce chapitre met en évidence comment la conception de ces banques centrales révèle la vision du développement, de l'indépendance et de la souveraineté des économistes qui les ont créées.

La Banque centrale du Chili (1925) a été conçue comme une institution essentiellement passive et procyclique. Le projet de Kemmerer ne prenait pas en compte les besoins d'un pays périphérique comme le Chili. Sa conception orthodoxe basée sur la stabilité monétaire et l'étalon de change or ne s'adaptait pas à des événements extraordinaires comme la Grande Dépression. Cette Banque centrale était une porte d'entrée pour les États-Unis dans le pays plutôt qu'un outil de développement, comme le montrent Rebeca Gómez Betancourt (2008) et Paul Drake (1989) qui mettent en exergue un conflit d'intérêts dans la mission de Kemmerer au Chili.

Le projet de Niemeyer pour l'Argentine n'était pas radicalement différent : il visait également le retour à l'étalon de change-or, ne confiait pas la fonction de supervision bancaire à la Banque centrale et le rôle de cette dernière était essentiellement passif. Il s'agissait également d'une Banque centrale orthodoxe qui reflétait la vision et les intérêts d'une autre grande puissance internationale, la Grande-Bretagne. Les autorités argentines, sous l'influence de Prebisch, ont compris qu'une telle Banque centrale n'était pas adaptée aux intérêts du pays.

En revanche, Prebisch proposait une Banque centrale active disposant des outils nécessaires pour intervenir dans l'économie, tant au niveau bancaire (car elle avait un rôle de supervision bancaire) qu'au niveau de l'activité économique (notamment par le biais de politiques contracycliques). Cette Banque était discrétionnaire, polyvalente et adaptable : c'était un outil qui pouvait être mis au service d'une politique globale de développement si le gouvernement central, qui détiendrait 50 % des actions de la Banque, en décidait ainsi. C'est cette conception qui a permis à Prebisch de mettre en place des politiques contracycliques de 1935 à 1939, créant des réserves pendant les périodes de prospérité pour les utiliser pendant les périodes de besoin, afin de maintenir une monnaie stable et atténuer les fluctuations économiques. C'est aussi cette conception qui lui permit de modifier le rôle de la Banque en 1940 pour aider les industries du pays à se développer dans une stratégie de substitution des

importations, notamment par une nouvelle politique de crédit. Il s'agissait en effet d'un outil nécessaire pour renforcer la souveraineté argentine et, à terme, pour lier la politique monétaire à une stratégie de développement. Cette évolution dans la conception de Prebisch du rôle de la Banque centrale, qui passe d'appliquer des politiques contracycliques à financer des investissements à plus long terme, s'est faite en même temps qu'il plaçait l'industrialisation comme principale stratégie de développement dans les années 1940.

En somme, Prebisch était préoccupé par les problèmes concrets rencontrés par l'Argentine et prenait en compte la situation particulière d'un pays de la périphérie. C'est pourquoi il a conçu une banque centrale active, pouvant mener des politiques monétaires contracycliques et promouvoir les industries nationales par le contrôle des changes et la facilitation du crédit, des sujets que nous approfondissons dans le chapitre 3. Cette évolution a été possible grâce à la flexibilité et à l'action discrétionnaire dont a bénéficié la Banque centrale argentine lors de sa création, ce qui n'était pas le cas de la Banque centrale du Chili.

En outre, Prebisch a tenté de maintenir l'indépendance vis-à-vis de la Grande-Bretagne en essayant de réduire l'importance que la livre sterling (ou toute autre devise étrangère) pouvait avoir sur l'institution. Dans l'ensemble, la Banque centrale était pour Prebisch un atout important pour la souveraineté de l'Argentine.

Chapitre 3. Comment l'industrialisation est devenue le cœur de la pensée de Raúl Prebisch

Ce chapitre examine comment, dans le cheminement intellectuel de Prebisch, l'industrialisation devient la solution pour changer la structure socio-économique de l'Argentine et de l'Amérique latine afin de parvenir au développement et à l'indépendance économique. Il montre comment, de 1933 à 1948, la promotion de l'industrie est passée d'une stratégie « à court terme » de lutte contre la crise à un outil conscient de changement structurel. Les premières

solutions de Prebisch ne consistaient pas à modifier la structure socio-économique, mais à pallier ses faiblesses par une politique contracyclique.

De 1933 à 1935, en plus des politiques fiscales et monétaires expansionnistes, Prebisch a inclus des politiques industrielles comme outil permettant à l'État de réduire le chômage, d'augmenter l'activité économique et de mettre fin à la dépression. Toutefois, il ne semble pas prendre en compte les changements structurels (effets à long terme) résultant de cette promotion de l'industrie. Prebisch présentait cette stratégie comme une politique à court terme destinée à résoudre un problème immédiat. Nous confirmons ce constat en étudiant les écrits de Prebisch lorsqu'il devient directeur général de la Banque centrale d'Argentine en 1935. En effet, il ne mentionne plus l'industrie ou les politiques industrielles jusqu'au déclenchement de la Seconde Guerre mondiale. De 1935 à 1939, il se concentrait sur les politiques monétaires contracycliques et sur l'étude du cycle économique argentin, défini comme caractéristique d'une économie essentiellement agricole soumise aux chocs du commerce international et des mouvements de capitaux. Ces politiques industrielles ne remettaient pas en cause le statu quo, elles visaient à obtenir une croissance économique stable en atténuant les cycles d'origine externe. Elles n'étaient pas associées à une stratégie industrielle active, elles tentaient de compenser la vulnérabilité extérieure de l'Argentine sans s'attaquer à sa source. En effet, Prebisch croyait encore que le modèle de croissance fondé sur les exportations agricoles, s'il était correctement géré, pouvait permettre une croissance soutenue à long terme.

Toutefois, avec les troubles économiques provoqués par la Seconde Guerre mondiale et notamment suite à la généralisation des accords de commerce bilatéraux, la pensée de Prebisch a encore évolué. Il s'est rendu compte que ces pratiques révélaient la domination politique des pays industriels sur les pays producteurs de matières premières. Dans ces conditions, l'Argentine et l'Amérique latine risquaient de rester dépendantes économiquement et

politiquement à long terme. Le modèle de croissance devait donc être redéfini : il ne pouvait pas permettre une stabilité et une croissance à long terme, même en appliquant bien les politiques contracycliques. C'est à ce moment-là qu'il place au cœur de sa réflexion la nature structurelle de la vulnérabilité externe de l'économie argentine et la nécessité de la réduire par l'industrialisation. C'est ici que la théorie structuraliste du développement commence à prendre forme. L'industrialisation pouvait aider les pays à devenir plus indépendants, moins vulnérables et à atteindre la croissance économique stable nécessaire au développement économique. Elle renforcerait également la souveraineté et l'identité nationale. Ainsi, de 1940 à 1943, Prebisch (BCRA 1940, 1941, 1942, 1943) a mis en avant depuis la Banque Centrale la nécessité d'industrialiser le pays et le rôle que la Banque elle-même pouvait avoir dans cette nouvelle stratégie. En tant que décideur politique, il pouvait appliquer ou proposer un ensemble de politiques qui renforceraient et approfondiraient le processus d'industrialisation en cours.

Puis, de 1943 à 1948, en tant que professeur à l'université de Buenos Aires, Prebisch a théorisé le lien entre industrialisation, changement structurel, indépendance et développement économique. L'industrialisation modifierait la structure économique et sociale des pays d'Amérique latine, ce qui leur permettrait d'acquérir une plus grande indépendance économique, car ils seraient moins vulnérables aux fluctuations des prix et de la demande de matières premières sur le marché international. Nous montrons qu'à la fin de la période, Prebisch disposait des éléments de base de la théorie structuraliste du développement. Il s'agit donc d'une théorie qui s'appuie sur la pratique : chez Prebisch, elle est née d'une volonté pragmatique de réduire la vulnérabilité extérieure de son pays, et son but est d'orienter les politiques économiques. Elle est également née de l'expérience de Prebisch en tant que décideur politique.

Sa vision évolutive de l'industrialisation est allée de pair avec l'évolution d'autres aspects de sa pensée, comme sa vision du cycle, de la politique monétaire et de l'intégration

internationale. Dans un premier temps, l'analyse cyclique de l'économie argentine par Prebisch a conclu que le pays, essentiellement agraire, était soumis aux cycles provenant des pays du centre et qu'il fallait donc mettre en œuvre des politiques monétaires contracycliques pour adoucir le cycle. Après la Seconde Guerre mondiale, Prebisch a maintenu cette analyse cyclique mais a conclu que l'Argentine et l'Amérique latine devaient changer la nature de leurs cycles grâce à un vaste plan d'industrialisation qui modifierait la structure de l'économie. La politique monétaire devait aller au-delà de l'action contracyclique et soutenir l'industrialisation par des crédits à moyen et long terme, la gestion des taux de change et le contrôle des changes. Cela signifiait également que l'Argentine et l'Amérique latine devaient changer leur place sur le marché international et passer du statut d'exportateurs de produits primaires à celui d'exportateurs de produits industriels. La nouvelle place de l'industrialisation dans la pensée de Prebisch a permis à tous ces changements de constituer une vision théorique cohérente qui a trouvé sa première formulation complète dans le manifeste de la CEPAL de 1949.

Ce chapitre propose également une réflexion sur la façon de procéder de Prebisch, et comment sa pensée s'est formée. En effet, jusqu'en 1943, Prebisch était avant tout un décideur politique, et sa théorie semblait en retard sur ses recommandations politiques. Il proposait d'abord un ensemble de mesures visant à résoudre un problème immédiat, puis il adoptait une théorie qui, la plupart du temps, existait déjà. L'étude de cette période met en évidence son approche de la politique économique et de la théorie. De 1933 à 1949, ses préoccupations ont tourné autour du maintien de la croissance économique, et l'évolution du contexte international l'a contraint à rechercher les meilleurs moyens d'y parvenir. Cela révèle la méthodologie de Prebisch : son point de départ était le contexte, et non les théories économiques. Cela révèle également son objectif, qui était d'avoir un impact sur l'économie argentine et latino-américaine. Pragmatique, il était prêt à modifier ses recommandations de politique économique lorsqu'elles s'avéraient inefficaces et, finalement, sa théorie économique. Après 1943, il a eu l'occasion de

revenir sur son expérience et d'en tirer des conclusions théoriques, notamment dans le cadre de ses cours à l'université de Buenos Aires et de visites dans d'autres pays d'Amérique latine.

Lorsque Prebisch a quitté ses responsabilités gouvernementales, il a poursuivi les mêmes objectifs de développement économique avec des outils différents. Après quelques années d'activité universitaire, il trouva un moyen efficace de donner un nouvel élan à ses idées : en tant que Secrétaire Exécutif de la CEPAL, une institution naissante des Nations unies, dont l'objectif était précisément le développement économique et social des pays d'Amérique latine.

Chapitre 4. L'émergence d'une institution orientée vers la planification du développement et l'assistance technique

Dans ce chapitre, l'axe de la thèse change : elle s'intéresse désormais à la CEPAL et au rôle que Prebisch y a joué. Bien que la pensée de Prebisch continue d'être étudiée, le point focal est élargi pour intégrer la pensée personnelle d'autres économistes de la CEPAL et leurs interactions avec Prebisch. Le chapitre examine comment, depuis sa création en 1948, la CEPAL émerge en tant qu'institution influente pouvant fournir des théories économiques, une planification du développement et une assistance technique. Nous y analysons les défis qui se sont dressés devant elle à sa création : en effet, face à l'opposition des États-Unis, la Commission devait prouver qu'elle était un acteur nécessaire en Amérique latine. Après la conférence de la Havane de 1950, la légitimité de la CEPAL dans la région est prouvée. À partir de là, son premier objectif était de fournir un espace indépendant pour l'élaboration de théories et de politiques latino-américaines. Cette indépendance intellectuelle était nécessaire dans un contexte où les pays modifiaient leurs stratégies de croissance et où les changements structurels qui en découlaient créaient de nouveaux problèmes. En d'autres termes, elle permettait de soutenir l'indépendance économique que les pays d'Amérique latine s'efforçaient d'atteindre.

Nous montrons en effet comment elle a constitué un pôle intellectuel qui a rationalisé et légitimé le processus d'industrialisation en cours en Amérique latine par l'élaboration d'une nouvelle théorie économique. En effet, les écrits des économistes de la CEPAL contenaient une rhétorique particulière. Leur objectif était de convaincre que les théories économiques existantes n'étaient pas adaptées à l'Amérique latine, que l'expérience européenne n'était pas reproductible. Au contraire, le modèle de croissance basé sur la substitution des importations et la diversification des exportations était nécessaire au développement de la région. Ces textes visaient également à légitimer l'intervention de l'État dans l'économie, en particulier par la planification du développement. Cela répondait à un objectif diplomatique, car les pays membres avaient également besoin de la justification théorique des politiques économiques qu'ils appliquaient. Nous montrons également que la théorie structuraliste du développement s'est approfondie et a été renforcée par les contributions d'autres grands économistes latino-américains, contributions qui ont été facilitées par le cadre institutionnel fourni par la CEPAL. Cette théorie s'est également nourrie de l'engagement de la CEPAL en Amérique latine, de l'importance qu'elle a accordée aux recommandations de politiques et à l'assistance technique.

Une certaine unité au niveau théorique était importante afin d'avoir un discours cohérent. Les économistes de la CEPAL devaient partager des visions similaires du développement économique. Prebisch avait énoncé les principes fondamentaux de la théorie structuraliste du développement en 1949, ce qui annonçait la direction théorique que l'institution allait suivre. Cependant, Prebisch n'était pas le seul à avoir formé l'institution et à avoir ces idées. Parmi d'autres économistes, Celso Furtado et Aníbal Pinto étaient d'accord avec la vision du développement de Prebisch, partageant les objectifs et les méthodes pour y parvenir.

La CEPAL devait également être en accord avec ses pays membres et bénéficier de leur soutien. Aux débuts de la Commission, les délégués des pays membres ont soutenu son travail

dans la région, en particulier son assistance technique. Ils ont demandé plus d'interventions de la Commission, notamment en ce qui concerne la formation d'experts dans leurs pays. Nous avons pu le constater à travers l'étude des comptes-rendus des réunions qui eurent lieu dans le cadre des sessions du Conseil Économique et Social des Nations Unies de 1955, où les délégués des pays membres de la CEPAL ont montré leur appui à la substitution des importations, à l'intervention de l'État et à la planification du développement.

En effet, l'objectif de la CEPAL était également de fournir une assistance technique aux pays membres dans la formation des fonctionnaires de ces pays, dans l'élaboration de statistiques, dans l'analyse économique et dans la proposition de politiques économiques. Les missions d'assistance technique et de formation avaient pour but d'augmenter le nombre d'experts au sein du gouvernement ayant les capacités d'élaborer et de mettre en œuvre un plan de développement. Les missions pouvaient également avoir pour objectif de recueillir des données et créer des statistiques, parfois en collaboration avec des institutions locales telles que des banques de développement (Nations unies, 1956) ou en coopération avec les gouvernements locaux (Furtado, 1985). L'assistance technique pouvait également consister en l'envoi d'experts de la CEPAL dans les pays pour étudier leur situation économique, fournir des rapports détaillés, et aussi de suggérer des réformes afin de changer la structure des pays. Ainsi, la CEPAL a tissé des liens avec les institutions des pays membres, et la formation d'experts qu'elle a assurée au fil du temps a largement contribué à étendre son influence dans la région, une influence qui perdurera pendant des années. En ce sens, la CEPAL a tenté de changer le paysage intellectuel et politique du continent, un pari qu'elle a en partie gagné.

La pensée de Prebisch en matière de développement est étudiée dans une certaine mesure dans ce chapitre, et elle est utilisée comme référence pour explorer le sujet de l'unité théorique au sein de la CEPAL et pour analyser l'évolution des écrits de Prebisch.

Chapitre 5. Les conditions d'émergence de la pensée d'une institution

Ce chapitre analyse les conditions dans lesquelles le personnel de la CEPAL a élaboré ses travaux théoriques. Elles ont été caractérisées par de fortes synergies entre économistes éminents, mais aussi par certaines limites au travail intellectuel mené au sein d'une organisation internationale. La nécessité de maintenir de bonnes relations avec les gouvernements membres rendait difficile la formulation de critiques sévères dans les rapports institutionnels officiels établis pour les pays membres (Furtado, 1985). Cela était particulièrement vrai pour les documents non signés, car ils représentaient la position officielle de l'institution. J'utilise pour cette analyse trois types de documents différents : un rapport officiel de la CEPAL sur le Brésil (Nations Unies, 1956), l'autobiographie de Celso Furtado (dans laquelle il fait référence à un document qu'il a co-écrit sur l'inégalité des revenus au Mexique ainsi qu'à un rapport fait pour le Venezuela) et certains travaux de Nicholas Kaldor sur l'Amérique latine (principalement le Chili). Les trois documents présentent une analyse et des recommandations de politiques concernant la distribution des revenus. Il s'agit d'un exercice intéressant car la CEPAL n'avait pas encore accordé beaucoup d'importance à ce sujet, Prebisch considérant qu'il était « naturellement » résolu par l'industrialisation (Prebisch, 1980) (voir également Sprout 1992).

Le rapport officiel sur le Brésil a été l'un des premiers rapports résultant de l'assistance technique et de la coopération de la CEPAL avec une institution nationale, en l'occurrence la Banque nationale brésilienne pour le développement économique (BNDE) (Nations unies, 1956). Il s'agit d'un exemple d'analyse approfondie des économies nationales latino-américaines, que la CEPAL a menée à l'époque, et qui a contribué à identifier des défis spécifiques en matière de développement et à mieux concevoir des politiques appropriées. Ce rapport est d'une grande importance parce que Celso Furtado était le chef de ce groupe conjoint CEPAL-BNDE (Furtado 1997, p. 11), et parce qu'il a été « la base du Plano de Metas du

gouvernement Jucelino Kubitschek » (ibid ; voir aussi Kathryn Sikkink, 1989). Il est également mentionné dans *Introducción a la técnica de programación* (Nations unies 1955, chapitre 3 rédigé par Furtado), un texte que l'on retrouve également dans *Cincuenta años de pensamiento en la CEPAL*, une sélection des travaux les plus importants produits par la CEPAL les 50 premières années suivant sa création (Bielschowsky, 1998). Nous cherchons à comprendre pourquoi, malgré ses nombreuses contributions, les propositions politiques de ce rapport sur la distribution des revenus n'étaient pas pleinement satisfaisantes et étaient, dans une certaine mesure, contradictoires. Pour cela nous relierons ces lacunes à la nature du rapport, à la difficulté de critiquer un pays membre ou de coopérer avec une institution différente.

En effet, ce chapitre souligne la complexité de la production de connaissances au sein d'une organisation internationale. D'une part, la CEPAL a favorisé l'élaboration d'une pensée originale, bénéficiant de la contribution d'économistes de différents pays et de la possibilité de coopérer directement avec les administrations de ses pays membres. Ce dernier aspect était important, car il a contribué à l'élaboration de meilleures statistiques sur l'Amérique latine. D'un autre côté, il limitait ce que les membres du personnel pouvaient écrire au nom de l'institution. Le degré de liberté intellectuelle à la CEPAL dépendait fortement du type de document produit.

La plupart des documents officiels de la CEPAL étaient anonymes et véhiculaient donc un point de vue institutionnel. C'est le cas du rapport conjoint de la CEPAL et de la BNDE, et des rapports dirigés par Furtado sur le Mexique et le Venezuela. Ceux-ci impliquent directement l'institution et peuvent poser des problèmes diplomatiques avec les pays membres. Le récit de Celso Furtado dans son autobiographie sur son expérience au sein des missions d'assistance technique de la CEPAL au Mexique et au Venezuela (1956-1957) met en exergue les limites auxquelles il fut confronté. Furtado fit face à la désapprobation des gouvernements mexicain et

vénézuélien, ainsi qu'aux restrictions de Prebisch. Par conséquent, il modifia le rapport sur le Mexique, et le rapport sur le Venezuela ne circula pas.

Il semble que les documents signés bénéficiaient d'une plus grande liberté, puisqu'ils n'engageaient pas la position officielle de l'institution. Ce fut le cas de la plupart des documents signés par Nicholas Kaldor, ainsi que du premier travail de Prebisch pour la Commission en 1949. C'est peut-être la raison pour laquelle les écrits de Kaldor sur l'Amérique latine entre 1959 et 1965 contrastent avec le rapport conjoint CEPAL-BNDE, car ils fournissent une analyse plus claire de la concentration des revenus au Chili et des propositions concrètes pour une réforme fiscale. Ces travaux résultent en partie du séjour de Kaldor à la CEPAL en 1956, et certains d'entre eux y ont été publiés. Il s'agissait de textes non anonymes rédigés par un consultant externe, ce qui pourrait expliquer que Kaldor ait bénéficié d'une plus grande liberté. Cependant, cette liberté n'était pas sans limites : après que son travail sur le Chili ait fuité et suscité une controverse en 1958, il ne fut pas publié dans le Bulletin économique de la CEPAL (Palma et Marcel, 1989). Le travail semblait toujours soutenu par Prebisch, mais nous ne pouvons pas savoir s'il aurait été publié par la CEPAL s'il n'avait pas été divulgué. D'autre part, il proposait des mesures politiques concrètes contre la concentration des revenus, ce dont le rapport conjoint de la CEPAL et de la BNDE manquait. Il semble que sur des sujets similaires, les possibilités d'expression différaient grandement selon la nature du document et le statut de l'auteur.

La CEPAL avait un mandat spécifique et était dépendante de ses gouvernements membres. On voit donc que la réflexion d'une institution est déterminée dans une certaine mesure par ses contraintes. Cependant, le cadre fourni par la CEPAL a également stimulé la recherche. L'institution a renforcé et a donné une portée aux écrits produits en son sein. Par ailleurs, elle offrait un cadre particulier qui permettait à des intellectuels de diverses nationalités de coopérer et d'échanger, ce qui a constitué un terrain fertile pour les contributions théoriques.

Ce fut notamment le cas de la théorie structuraliste de l'inflation, qui est un exemple de la pensée de la CEPAL en tant qu'institution et qui a constitué une contribution importante à la théorie économique, comme nous le montrons dans le dernier chapitre.

Chapitre 6. La théorie structuraliste de l'inflation : élaboration et portée de la pensée d'une institution

Dans ce chapitre, nous examinons comment la CEPAL, en tant qu'institution, a élaboré une théorie économique originale : la théorie structuraliste de l'inflation. Nous replaçons cette théorie dans son contexte économique, l'inflation persistante étant un problème commun à la plupart des pays d'Amérique latine depuis les années 1940. Partant de niveaux très bas dans les années 1930, le taux d'inflation annuel moyen est passé à 21 % au Mexique en 1940-1945, à environ 20 % en Argentine, au Chili et au Pérou en 1946-1950, a atteint 49 % au Chili en 1951-1955, 43 % en Argentine et 23 % en Uruguay en 1956-1960, et 65 % au Brésil en 1961-1965. Nous plaçons également cette théorie dans son contexte intellectuel et politique : elle était le résultat de l'opposition des auteurs aux plans de stabilisation proposés par le FMI (1955-1956), qui entraient en conflit avec les recommandations de la CEPAL en matière de développement.

En effet, dans une série d'écrits s'étalant essentiellement de 1956 à 1961, Noyola, Pinto, Prebisch et Sunkel ont élaboré une théorie structuraliste de l'inflation qui allait à l'encontre du programme de stabilisation du FMI. Cette théorie explique essentiellement que l'inflation découle de l'incapacité des pays en développement à fournir des biens suffisants pour répondre à la demande à un prix bas. Il s'agit d'un phénomène complexe qui peut avoir différentes causes et différents degrés en fonction de la structure socio-économique d'un pays et de ses tensions sociales et économiques. Dans ce chapitre, je reconstruis la théorie structuraliste de l'inflation à travers les différents écrits des économistes précédemment cités et à travers des travaux institutionnels officiels, en intégrant leurs analyses principalement sous les catégories définies

par Noyola en 1956 : « pressions inflationnistes de base » et « mécanismes de propagation ». Les « pressions inflationnistes de base » désignaient les sources de l'inflation et devaient être identifiées par une analyse du contexte économique de chaque pays. À travers les différents textes, les principales pressions inflationnistes de base sont la vulnérabilité externe, la faible productivité et les rigidités structurelles dans le processus de développement. Les « mécanismes de propagation » sont les réactions de groupes sociaux ou des politiques gouvernementales visant à contrebalancer les effets de l'inflation. Ces réactions pouvaient soit mitiger, soit au contraire (et paradoxalement) accélérer le processus inflationniste. Parmi ces mécanismes, j'ai identifié la course entre les salaires et les prix, les politiques fiscales et monétaires expansionnistes et les dévaluations. Cet exercice de reconstruction a permis de mettre en évidence la convergence entre les analyses de Noyola, Pinto, Prebisch et Sunkel, montrant la production d'une pensée institutionnelle.

Ce chapitre montre ainsi que cette contribution s'inscrivait dans un débat théorique et politique, qui a poussé la Commission à adopter une position officielle basée sur la théorie élaborée par ses fonctionnaires en opposition au FMI. En effet, les politiques de stabilisation proposées par le FMI, et appliquées par certains gouvernements latino-américains tels que le Chili, ont suscité une forte réaction chez les économistes de la CEPAL, qui ne se sont pas limités à critiquer ces politiques. Leur réponse a été constructive puisqu'ils ont formulé une théorie alternative pour prouver que l'inflation en Amérique latine avait une pluralité de causes, qu'elle était différente de celle des pays développés et qu'elle différait même entre les pays latino-américains. Ils rejetaient ainsi l'universalité des théories dans le temps et dans l'espace, même la leur. Ils s'opposaient également à l'application d'un même ensemble de politiques qui ne tiendraient pas compte des spécificités et des besoins de développement des pays. Par conséquent, l'inflation dans chaque pays d'Amérique latine devrait être étudiée en fonction de ses spécificités et les politiques pour y répondre devraient probablement être différentes.

Dans les textes étudiés les économistes de la CEPAL n'ont pas proposé des politiques concrètes à court terme pour mettre fin à l'inflation, mais ils ont proposé des politiques à plus long terme. Ils estimaient que les politiques à court terme mises en avant par le FMI (ou les monétaristes) pouvaient atténuer les symptômes de l'inflation, mais ne résolvaient pas le problème : elles en aggravaient même les causes fondamentales. Toutefois, l'absence de propositions à court terme pour gérer les processus inflationnistes peut avoir limité l'utilité de la théorie structuraliste aux yeux des décideurs politiques. En fait, les politiques proposées par les structuralistes pour lutter contre l'inflation étaient les mêmes que celles recommandées par la CEPAL tout au long des années 50 pour soutenir le développement socio-économique. Aussi, bien qu'elle puisse être considérée comme une théorie à part entière, la théorie structuraliste de l'inflation fait partie intégrante de la théorie structuraliste du développement de la CEPAL.

Le cadre unique de la CEPAL était central dans l'élaboration d'une telle théorie. Il rassemblait des économistes d'Amérique latine qui partageaient des points de vue similaires sur l'économie et le développement. Ces économistes ont pu comparer l'expérience de leur pays avec celle d'autres pays, et ont pu identifier de nombreux points communs entre eux ainsi que leurs particularités. Cela a permis d'avoir une vision régionale de l'inflation et de mettre en évidence les spécificités du phénomène dans certains pays. Ces économistes travaillant en étroite collaboration ont permis la diffusion de la théorie, au point que Prebisch, en tant que chef de la CEPAL, a fini par l'adopter et que l'institution dans son ensemble y a souscrit. Cette théorie a également reçu l'influence d'auteurs étrangers comme Kalecki, et les échanges intellectuels avec des chercheurs étrangers comme Seers et Kaldor ont élargi sa portée et renforcé ses liens avec d'autres théories convergentes. Les convergences avec Kalecki soulèvent la question d'un dialogue possible entre des voix non conventionnelles. Elles montrent que la théorie structuraliste de l'inflation, mais aussi du développement, s'inscrivait dans un contexte

intellectuel où des économistes comme Kalecki, en cherchant des réponses alternatives aux problèmes de développement, ont trouvé des réponses théoriques similaires.

La théorie structuraliste de l'inflation proposait ainsi une compréhension alternative de l'inflation comme un phénomène structurel qui devait être combattu par des politiques de développement à long terme. Elle contredisait la conception « monétariste » de l'inflation défendue par le FMI et ses recommandations politiques qu'elle considérait comme néfastes pour l'Amérique latine. Une fois de plus, on retrouve à travers cette théorie la volonté de la CEPAL de maintenir l'indépendance intellectuelle, économique et politique de l'Amérique latine. L'originalité et la force de la théorie structuraliste de l'inflation résident dans ses contextes politiques, institutionnels et intellectuels pris dans leur ensemble.

La théorie structuraliste de l'inflation est ainsi le fruit d'un débat théorique et politique sur l'inflation, d'un cadre institutionnel particulier et d'un contexte intellectuel plus large. Bien que cette théorie était enracinée dans la réalité économique, sociale, historique et politique de l'Amérique latine, elle avait également, grâce à sa méthodologie, une portée plus large.

Conclusions générales

J'ai choisi d'étudier dans cette thèse Prebisch et son équipe de la CEPAL car ils étaient un exemple d'économistes « pragmatiques » qui ont adapté leur pensée à une réalité changeante. En ce sens, le contexte actuel pose un défi similaire à notre profession. La crise de 2008 avait semblé être l'occasion de remettre en cause les dogmes de l'économie néoclassique en raison de l'échec flagrant des marchés non régulés, en particulier dans le secteur financier. Toutefois, il semblerait que le statu quo soit resté largement inchangé (Philip Mirowski, 2013). Avec la récente pandémie de Covid-19, une nouvelle dépression est arrivée. Elle a soulevé la question de savoir comment les économies capitalistes allaient faire face à la pandémie et à la dépression

économique qui en a résulté. La hausse des inégalités dans le monde avec la pandémie (CNUCED 2020 ; « How the pandemic is worsening inequality » par Valentina Romei, The Financial Times, 31 décembre 2020 ; CEPAL 2021), soulève à nouveau la question des mesures de redistribution des richesses au sein des pays. Cette pandémie nous oblige également à repenser les relations entre le Nord et le Sud, avec l'effondrement du commerce international et des IDE mais aussi avec l'accroissement des inégalités entre pays riches et pauvres.

Les deux crises, financière et pandémique, soulèvent des questions fondamentales sur le rôle de l'État dans l'économie, en particulier dans le fonctionnement des marchés financiers, l'augmentation des inégalités et les problèmes environnementaux (de plus en plus évidents non seulement en raison du changement climatique, mais aussi des épidémies récentes). Elles posent également des questions globales sur le régime de croissance économique et les relations centre-périphérie. Il est donc pertinent d'examiner les expériences passées dans lesquelles des crises profondes ont marqué la fin d'un régime de croissance et la nécessité d'en concevoir un nouveau.

Cette thèse a examiné l'élaboration de la théorie structuraliste du développement, « sans doute les idées les plus influentes jamais apparues en Amérique latine » (Love 1994, p.393). Elle est le fruit du regard critique de quelques économistes qui ont compris à quel point les théories dominantes étaient inexactes pour expliquer les problèmes régionaux et pour fournir une ligne directrice au développement économique. Deux grandes crises (la Grande Dépression des années 1930 et la Seconde Guerre mondiale) ont agi comme des déclencheurs intellectuels, montrant la nécessité d'une nouvelle théorie et de nouvelles politiques. La question n'était plus d'adapter des idées étrangères aux problèmes de l'Amérique latine, mais d'élaborer des idées et des politiques originales adaptées aux situations et aux objectifs de l'Amérique latine. La percée intellectuelle réalisée par Prebisch et l'équipe de la CEPAL a consisté à comprendre que ces crises marquaient la fin du régime de croissance précédent et qu'il fallait désormais une nouvelle

stratégie de développement, dans laquelle l'État, le secteur industriel et la demande interne joueraient un rôle de premier plan. Cette thèse souligne que la méthodologie historico-structuraliste de Prebisch et la CEPAL pourrait être utile pour comprendre les causes des crises, pour concevoir des solutions et peut-être pour réfléchir à de nouvelles formes ou de nouvelles organisations de la vie sociale et économique - au niveau national et international.

La théorie structuraliste du développement a émergé chez Prebisch à partir de son expérience en tant que responsable politique à une époque cruciale pour l'Argentine. Il a constaté directement les vulnérabilités d'une économie exportatrice de produits primaires, dépendante de la situation économique des pays du centre et des conditions du commerce international. Pour remédier à ces vulnérabilités, Prebisch a élaboré des politiques nationales, des institutions nationales et enfin une théorie adaptée à la structure de l'Argentine. Une fois devenu secrétaire exécutif de la CEPAL, il a poursuivi ses efforts pour compléter et élargir cette théorie qui devait s'adapter aux différents pays d'Amérique latine. Si la théorie structuraliste du développement devait être suffisamment large pour s'appliquer à des pays similaires mais différents, l'analyse des phénomènes économiques et les politiques recommandées par la CEPAL n'étaient pas nécessairement toutes les mêmes. La théorie structuraliste de l'inflation n'identifiant pas les mêmes causes d'inflation dans tous les pays d'Amérique latine, les solutions ne pouvaient pas être les mêmes. La Commission a offert un cadre stimulant à des économistes partageant une approche commune du développement et de l'économie. Elle a bénéficié, dans les années 1950 et 1960, de conditions idéales pour développer cette théorie, car elle était en accord avec les gouvernements développementalistes de la région.

Comprendre l'apparition et la consolidation d'une théorie originale qui prend ses racines dans des problèmes socio-économiques concrets a nécessité la combinaison de deux disciplines : l'histoire de la pensée économique et l'histoire économique. La théorie structuraliste du

développement a été élaborée par un groupe d'économistes et de spécialistes des sciences sociales latino-américains, socialement et politiquement engagés, qui partageaient un diagnostic sur les problèmes (historiquement déterminés) de cette région et voulaient transformer cette réalité par une stratégie de développement commune. Combiner les deux disciplines est à mon avis la bonne façon d'étudier l'évolution de la pensée de Prebisch. En tant qu'économiste et décideur politique pragmatique, Prebisch est parti d'une situation socio-économique évoluant dans un contexte changeant. Son objectif était de transformer la structure économique pour la rendre moins vulnérable et plus résistante. Cela signifiait que l'évolution du contexte affecterait inévitablement sa production théorique. Cette approche de l'économie et de la politique était cohérente avec sa vision selon laquelle les théories économiques devaient toutes être dynamiques. Il était ancré dans son esprit qu'étant donné que le contexte est toujours sujet à des cycles, des crises, des changements structurels, etc., l'étude d'un point statique n'avait aucun sens ; et il était encore moins logique de considérer une théorie comme universelle et ahistorique, un état d'équilibre donné comme la normalité. Pour comprendre la pensée de Prebisch, il est donc important de la replacer dans son contexte historique et de ne pas tomber dans des concepts abstraits qui pourraient être considérés comme ahistoriques et universels.

Cette méthodologie était également appropriée pour étudier l'émergence et le renforcement de la théorie structuraliste du développement : elle doit être comprise dans le cadre de la tentative historique d'industrialisation de l'Amérique latine, poussée par les événements sans précédent de la crise de 1929 et de la Seconde Guerre mondiale et par les gouvernements développementalistes qui ont dominé la région. L'établissement de la CEPAL en tant qu'organisme influent en Amérique latine peut également être compris à l'aide de cette méthodologie hybride. La relation historique de tensions avec les États-Unis explique pourquoi les Latino-Américains ont voulu former une organisation aussi indépendante que possible de l'hégémon ; la prédominance des théories économiques européennes malgré leur inadéquation

à la région explique pourquoi les Latino-Américains ont voulu créer leurs propres théories. Le point de départ étant l'Amérique latine (pour Prebisch, d'abord l'Argentine), la théorie structuraliste du développement ne visait pas à être générale, mais à être historiquement déterminée et adaptée aux structures de la région à l'époque.

J'ai également abordé l'économie comme une science sociale qui est aussi éminemment politique, car ça m'a permis de réfléchir aux intérêts qui sous-tendent les théories de Prebisch et de la CEPAL. En effet, il s'agissait d'économistes et de chercheurs en sciences sociales engagés dans le développement de la région. Pour Prebisch, la réaffirmation de l'indépendance et de la souveraineté des pays d'Amérique latine était essentielle pour les politiques de développement proposées et, avant cela, pour les stratégies de redressement national après la Grande Dépression. Lors des négociations qui ont abouti à la création de la Banque centrale argentine et de la CEPAL, il a toujours cherché à réaffirmer l'indépendance des pays latino-américains vis-à-vis des pays développés. Il a donc conçu une Banque centrale qui défendrait avant tout les intérêts de l'Argentine : la Banque serait plus importante que les intérêts étrangers, mais aussi plus importante qu'une certaine conception théorique de ce que devraient être les Banques centrales. Cela prouve l'indépendance d'esprit de Prebisch, qui contredit les visions consensuelles des banques centrales telles que celles de Kemmerer, de Niemeyer et de la Société des Nations. De même, la volonté de défendre les intérêts régionaux par le biais de la théorie structuraliste du développement et des recommandations de politiques qui en découlent explique pourquoi la CEPAL devait être aussi indépendante que possible des États-Unis (et de l'Europe). En effet, ces régions ne partageaient pas les mêmes intérêts que l'Amérique latine, et l'objectif de la CEPAL était de suivre les intérêts de ses gouvernements membres. Les contributions théoriques de la CEPAL visaient donc à modifier la situation des pays latino-américains en ce qui concerne leur propre structure socio-économique et leur place sur le marché international ; elle n'élaborait pas de théories pour justifier les conditions existantes.

La théorie structuraliste du développement souhaitait avoir un impact sur les politiques économiques, avoir une influence sur le cours de l'histoire. Ainsi, le public principalement visé par la CEPAL et Prebisch n'était pas le monde universitaire, et encore moins les universitaires américains ou européens. Le public qu'ils voulaient atteindre était les gouvernements et la société civile, principalement en Amérique latine, dans le but de les convaincre des politiques à suivre. La communauté internationale faisait également partie du public ciblé, puisque l'un des principaux objectifs était de modifier l'ordre économique international. Par conséquent, si la CEPAL entrait dans des débats théoriques comme dans le cas du débat avec le FMI sur l'inflation et les programmes récessifs, ce n'était pas pour convaincre les universitaires ou le FMI. Il s'agissait de convaincre les gouvernements latino-américains et la société civile que le FMI avait tort. Les enjeux du débat étaient plus politiques que théoriques, mais le champ théorique était important car il déterminait aussi les orientations politiques. Nous avons vu que Prebisch vantait les mérites d'une formation à la fois théorique et pratique pour les économistes ; il n'aimait pas trop les théories déconnectées de la réalité. Ainsi, les écrits de Prebisch ne portaient pas d'un certain nombre d'hypothèses invérifiables telles que des agents rationnels qui maximisent leur utilité ; ils portaient de questions concrètes.

En outre, en raison de son public et de son pragmatisme, ses conclusions politiques et théoriques n'étaient pas radicales. Contrairement à certains de ses détracteurs, qui l'ont qualifié d'autarcique ou lui ont reproché d'abandonner le secteur agricole (Dosman 2001), les propositions de Prebisch étaient équilibrées. Tout en recommandant l'industrialisation et la substitution des importations, il gardait à l'esprit la nécessité de moderniser le secteur primaire afin d'accroître ses exportations (Prebisch 1949, 1963). De même, bien qu'il ait plaidé en faveur de changements structurels pour s'attaquer aux racines de l'inflation, il n'a pas rejeté l'utilisation d'« outils monétaires orthodoxes » (Prebisch 1961, p. 25). Tout en recommandant des barrières douanières pour protéger les industries latino-américaines, il les considérait comme une mesure

temporaire pour renforcer les industries avant d'intégrer un commerce international plus libre dans lequel la concurrence pourrait avoir des effets positifs sur l'industrialisation (Prebisch 1963). Ces positions nuancées sont liées à son rôle de décideur politique qui cherche à proposer des politiques réalisables, qui prend les problèmes de développement comme point de départ et qui souhaite avoir une influence sur sa région. Le point de départ de Prebisch et de la CEPAL n'est jamais un concept abstrait ni un débat académique abstrait.

Dans cette thèse, nous avons pu voir comment la combinaison de Prebisch et d'une institution comme la CEPAL a permis d'importantes élaborations théoriques qui ont eu une grande influence en Amérique latine et au-delà. Une influence qui a été ressentie politiquement et théoriquement, comme ce fut le cas au Brésil, sans doute le pays le plus influencé par les théories et les conseils politiques de la CEPAL (Couto 2007 ; Sikkink 1988), et au Chili sous le gouvernement de Frei Montalva (1964-1970) (Calcagno 1989). Nous avons également vu comment il était possible de construire des ponts entre le structuralisme de la CEPAL, Kaldor et Kalecki. L'analyse de la pensée de la CEPAL en tant qu'institution montre l'originalité de cette forme de travail théorique, car nous pouvons voir d'un point de vue épistémologique quelles sont les potentialités et les limites d'un tel cadre. La synergie produite au sein de l'institution par le rassemblement d'économistes ayant des objectifs communs et une perception similaire de l'économie peut être nuancée par les restrictions qui leur sont imposées par cette même institution. Ainsi, la théorie structuraliste de l'inflation est le résultat d'une telle synergie, tandis que les critiques de Furtado concernant le rejet de ses travaux sur le Mexique et le Venezuela indiquent les restrictions possibles. A travers le débat sur l'inflation entre le FMI et la CEPAL nous pouvons voir comment les organisations dans leur ensemble peuvent générer une pensée spécifique et adopter officiellement un positionnement théorique.