

# Markets and the State

## *in the evolution of the*

# “Prebisch manifesto”

Edgar Dosman\*

### 1. Introduction

When Raúl Prebisch died in 1986 his ideas were out of fashion in Ronald Reagan’s Washington and Latin American capitals, dismissed by most Western economists as *passé* –or even dangerously misguided in the new crusade for globalization. Only United Nations circles and a narrowing band of supporters insisted on his permanent contribution. It was as if his life had merely reflected the turbulence of the “short, violent century” (as Hobsbawm termed it); now that it was over, with the Cold War consigned to history, so too (it appeared) was Prebisch’s legacy.<sup>1</sup>

Exactly the reverse has occurred. Prebisch’s life and work retains a remarkable contemporary significance. Instead of diminishing, his stature as economist and policy-maker has grown, and the recognition of the magnitude of Prebisch’s contribution continues to expand as previously unpublished sources and unpublished manuscripts are assembled by scholars. Prebisch, it turns out, wears very well. The

central theme which preoccupied him from the 1920s to the North-South Dialogue was the relationship between markets and the State; today globalization and its unpopular aspects (or “civilizing globalization” as some authors have termed it) remains the central challenge for both Latin America and most of humanity. For this reason, it is worth revisiting Prebisch’s immense contribution –both the challenges he faced, and the concepts and policy tools he evolved through trial and error to meet the development challenges of Argentina, Latin America and the world.<sup>2</sup>

No person of his stature has been as neglected or misunderstood in the literature as Raúl Prebisch. This is not to claim that important contributions by senior scholars regarding individual segments of his life are unavailable; indeed a rich bibliography exists and continues to expand.<sup>3</sup> Instead, the obstacle which has

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<sup>1</sup> A special note of appreciation is extended to Doña Adelita Prebisch for giving me access to the Prebisch Papers in Santiago, Chile; for her permission to quote from these papers; and for her unlimited personal assistance in researching the life and work of Raúl Prebisch. I wish also to thank Eliana Prebisch and the Prebisch Foundation in Buenos Aires for their kind collaboration; Adolfo Gurrieri and David H. Pollock for their comments on the manuscript; and ECLAC in general for its cooperation over the years.

<sup>2</sup> For further references to the passions which Prebisch aroused, see Dosman and Pollock, 1993, pp. 11-43. For a telling example of the continuing vilification of Prebisch for allegedly misleading Third World leaders, see Crossette (1999): the ex-Premier of Singapore, Lee Kwan Yew, claimed to have read and heard out all the arguments of writers such as Argentine economist Raúl Prebisch and said they were rubbish, but that other leaders believed them because it was “emotionally satisfying”.

<sup>3</sup> The numerous works by Prebisch scholars include the exceptional contributions of Joseph L. Love, Carlos Mallorquín, Ronald Sprout, Octavio Rodríguez, Kathryn Sikkink, Cristobal Kay, Adolfo Gurrieri, Leopoldo Solís, Manuel Fernando López, and many others. For recent assessments see Ocampo (2001) and Rodrik (1997 and 2000).

handicapped Prebisch studies from the beginning has been the persistent inability to integrate the academic and policy dimensions of his life. There is an apparent dichotomy in don Raúl's life and work, with the mainstream historical record projecting a dual image, almost a split personality, between his Argentine and United Nations periods. There is first the international Raúl Prebisch of ECLA, UNCTAD and beyond –radical thinker and founder of structuralism; innovator and institution-builder; tireless fighter for justice in regional and global relations; the *bête noire* of Washington during the ECLA years; vibrant, elegant, with charisma and compassion– a true and rare leader from the moment in 1949 when he presented his Manifesto to ECLA's second conference in Havana. The "other" Prebisch, when he served the Argentine State, is associated with the Argentine oligarchy and Conservative Restoration between 1930-1943, also known as the "infamous decade". Indeed, he was a beneficiary of the September 6, 1930 military coup of General Uriburu which opened this period. He was appointed Under-Secretary of Finance at the age of 29, and his responsibilities continually expanded until 1943, culminating in his designing and running the Central Bank of Argentina as General Manager until his dismissal at the end of the Conservative Restoration.<sup>4</sup>

In reality, there is a fundamental unity to Prebisch's life and work –there is no split personality, dichotomy, or dual image– and the key to understanding his permanent legacy as a thinker lies in linking his Argentine and United Nations periods. The reasons why systematic biographical research has been limited for so long have been the complexity of don Raúl's life as both actor and thinker, on the one hand, and the exceptional turbulence afflicting Argentina and the global system during and after the Second World War on the other. Above all, there has been little attention to his years between his dismissal from office in October 1943 and his presentation of *The economic development of Latin America and its principal problems* at the ECLA conference in Havana in June 1949 (Prebisch, 1949). The Prebisch Papers, now available in Santiago, include a wealth of new material, including many previously unpublished manuscripts and items of correspondence, covering the whole period from his early years up to his time at ECLA, which document the progress of his thinking on markets and the State as he moved forward

from his dismissal in 1943 to the Havana "Manifesto" in 1949. The present paper offers a first step in this broader task of deepening the scholarly literature on the origins of the "ECLA Thesis".<sup>5</sup>

## 2. Inward-looking development (1943)

There can be no doubt that October 18, 1943, the day he was fired from the Central Bank, was the most painful experience of his life. The Central Bank had been a remarkable achievement, an adaptation of a Niemeyer model in such a way that it could play the role of a central agency in monetary and financial policy, growing in responsibilities and powers after 1935, while remaining autonomous from the political game as a mixed private-public sector enterprise. The manner in which he was sacked –paid only to the day, blackballed for other employment, with the university on strike and in disarray, and with the burden of being an honest man in a corrupt State– added to the sense of rupture. From being the busiest executive in Argentina, he had become an isolated intellectual, condemned to the sidelines in Mar del Plata to observe the post-war transformation of the international system under United States leadership, as well as the political and economic closing of Argentina under Peronism.

Prebisch decided to use this time to write a book on his experiences as General Manager of the Central Bank and also address Argentina's post-war challenges with recommendations on the actions required in order to prepare the country for a successful post-war transition. If he was no longer welcome inside the government, and if no-one else would give him a job, he could at least present his views to the public in a book. For fifteen years, beginning in 1928 in the Banco de la Nación Argentina and then in the Ministry of Finance and Central Bank, he had accumulated important insights in managing the world's leading emerging economy; however small a consolation, his forced resignation certainly gave him the luxury of spare time for reflection. He had managed large institutions without adequate time for academic research; especially since the outbreak of war in 1939 his work had been so overwhelmingly hectic that he was barely in the Faculty of Economics even to direct seminars. He had directed official publications such as the Central Bank *Annual Reports*, or ghost-written articles in *La Nacion* where he was identified as "a senior government official," but he had been a practitioner

<sup>4</sup> Dosman and Pollock (1993), pp. 16-26. For more recent assessments see Dosman and Pollock (2001) and Lorenzutti (1996).

<sup>5</sup> See Toye and Toye (forthcoming) for a lucid and valuable contribution to this subject.

rather than a scholar –a technocrat in the governing establishment.<sup>6</sup> He was now free to think through the lessons of his experience since arriving in Buenos Aires as a student in 1918; essentially it meant integrating his personal experiences between 1928 and 1943 with his writings and lecture material in the Faculty. He knew he could offer an unmatched assessment of Argentina's response to the Great Depression and the successes and failures of policies evolved by trial and error during the 1930s. No detailed publication existed on the origins and workings of the Argentine Central Bank, and he knew that he could provide an unparalleled account of the role it had played as a central agency since its creation in 1935.

It was apparent, however, that the book he proposed to write, entitled "La moneda y el ritmo de la actividad económica" (*Money and the Rate of Economic Activity*), must go beyond the Central Bank experience to address theory as well as practice. By the time he completed his draft on December 13, Prebisch had decided on the need for innovation. "My long involvement with the practice of monetary policy over the last fifteen years," he noted, "has constantly persuaded me of the need to return to the theoretical foundations of the system to improve our understanding and management of concrete problems," and he considered that "a distinctive theoretical explanation" was required to understand and explain Argentina's position within the international economic system. Financial and monetary policy were of fundamental importance to Argentina; the Central Bank had been created because the alternatives had failed. It had initiated "a period of experiments and guesswork, successes and errors" from which "lessons for future policy could and should be extracted." But to be credible the book could not only look backward from past experience: it also had to look to the future. The challenges faced by Argentina in the Great Depression and the war would be followed by new problems after the peace; and solutions would be just as difficult to achieve. Traditional liberal economic theory offered Argentine governments an inadequate framework of analysis from which to draw the relevant policy prescriptions, and an alternative approach was therefore required in order to interpret Argentina's place and role in the international economic system.<sup>7</sup>

<sup>6</sup> The Prebisch Papers represent an indispensable source for this work, since much of the material in them is not included in the four-volume compilation *Raúl Prebisch: Obras 1919-1949* (Prebisch, 1991a).

<sup>7</sup> Raúl Prebisch, "La moneda y el ritmo de la actividad económica," unpublished manuscript, December 13, 1943, located in the

*Question 1: What were the national purposes of financial and monetary policy?* Prebisch saw three: avoiding a boom and bust cycle by controlling the violent ups-and-downs in agricultural prices and other foreign trade impacts on the economy; strengthening development and maintaining full employment; and stimulating the fastest possible rate of economic growth. There was no going back. Industrialization had unleashed national creativity, and growth must continue to harness that "enormous potential."

*Question 2: What should be the role of international trade?* Raúl underlined the need to restore an open trading system. "It is essential to avoid what happened after the First World War," he noted, when exports of the rest of the world to the United States were blocked, leading to a vicious circle of trade restrictions and controls, and the eventual breakdown of the world economy into "water-tight compartments" during the 1930s. Globalization, therefore, with a soundly-based multilateral trade and credit system, was a precondition for Argentine success after the war –but it was not enough. Harry Dexter White and John M. Keynes were preparing a Conference for July, 1944 to devise a post-war plan to revive trade and stabilize the international economy. White and Keynes's work was vital for all countries, including Argentina, Prebisch concluded, but Argentina's policies had to reflect its own needs within this evolving system.

*Question 3: Why must Argentine pursue industrialization?* Because neither the doctrine of comparative advantage, nor the workings of the business cycle, automatically work for emerging economies such as Argentina. Raúl concluded from his experience that the terms of trade for agricultural commodity producers like Argentina were in historical decline. He called it a "persistent fall in the international prices for our exports." But declining terms of trade only accentuated a deeper structural imbalance, or embedded equilibrium, in the international system. According to liberal Western economists, the market mechanism automatically benefited all countries, the large industrialized as well as the agricultural economies, and the business cycle regulated the periodic ebbs and flows in the international economy. He disagreed with this, however, arguing instead that the international economic system functioned in permanent disequilibrium because the business cycle operates with

Prebisch Papers. Subsequent quotations in the text are taken from this important document (Prebisch, 1943).

different rules for industrial and agricultural countries like Argentina, which have “such distinct characteristics in our economic life that their explanation requires an alternative theoretical approach.” Prebisch had already concluded in his 1921 “Anotaciones sobre nuestro medio circulante” (*Notes on the Money Supply*) (where he first used “centre” and “periphery,” a metaphor developed locally in the national debate on the concentration of wealth and power in the coastal metropolis of Buenos Aires, which drew wealth from the underpopulated pampas) that the business cycle in Argentina created an atypical boom and bust phenomenon because it lacked the self-correcting mechanisms characteristic of industrial economies (Prebisch, 1991b). Since then he had lived through the post-1918 crash, the boom of the 1920s, the Great Depression, the post-1934 recovery, and now the Second World War.

No country had aspired to trade and monetary orthodoxy more than Argentina in the illusive search for a restoration of “normalcy.” It had suspended the gold standard on August 20, 1914 for 30 days, believing that a return to convertibility was imminent—then again, and repeatedly again for 30 day intervals, until December 1927, when the gold standard was finally restored. After two disastrous years it was suspended again, and remained so in 1943. In 29 years the system hadn’t functioned “normally” at all, and in more than three-quarters of a century convertibility was in place for only 23 years.

*Question 4: Why promote development?* In practice, Argentina had been forced to abandon free trade and evolve the tools for an activist state led by the Central Bank. Now that the war was coming to an end, the Argentine State would have to retain that role because national development would not happen automatically. According to Prebisch, only an activist State could shield it from a permanent vulnerability relative to the industrial countries, with the primordial role of building on the type of calculated interventions devised by the Central Bank since 1935 to manage turbulence, and thereby ensuring that Argentina would remain a full partner rather than a marginal dependent country in the emerging global economy. A new period had opened because Argentina had to manage itself out of this problem or face marginalization. “To resist subordination of the national economy to foreign movements and contingencies, we must develop inward (“desarrollo hacia adentro”), strengthen our internal structure, and achieve autonomous functioning of our economy”.

Prebisch’s early views on free trade are well-documented. As late as 1927, in a polemic with Spanish visiting professor Luis Olariaga, he rejected protectionism with the argument that Argentina had benefited as much as the United States, Canada or Australia by specializing in commodity trade (Prebisch, 1991c). Nor is there a need to repeat the details of his gradual shift toward interventionism while Under-Secretary of Finance, with the National Recovery Plan of late 1933.<sup>8</sup> Simply stated, it was experience which changed Prebisch’s approach to markets. In practice, Argentina had been forced to abandon free trade and develop a more activist State in the first National Recovery Plan; the creation of the Central Bank in 1935 had in fact reduced Argentina’s vulnerability during depression and war by taming the business cycle. Major public works had created employment. Raúl was an intuitive economist rather than a typical academic pursuing scholarly debate via learned journals. In the balance between engagement and reflection, he had chosen public service in the 1920s, notwithstanding his commitment to economics and his tenure of a coveted Chair in the Faculty of Economic Sciences since 1925. Fundamentally a man of action, his theory-building derived as much from experience as scholarly research.

*Question 5: What should be the role of the State in promoting industrialization?* Prebisch called for “an intelligent regime,” or “smart State.” While the State must support industrialization, the economy as a whole must remain private sector-led in order to prosper. Excessive State intervention was therefore as damaging as a naive acceptance of the doctrine of comparative advantage. “Don’t stifle the private sector”, Prebisch warned. A healthy private sector and investment climate were essential for economic success and a wise investment strategy. Argentina required an active State, but within a judicious private-public sector partnership. “Monetary policy is little or no use if it suffocates private initiative and the spirit of enterprise, which absolutely require the profit motive and an overall climate of confidence.”

An example of an industry support initiative in 1941 was the Export Promotion Corporation (also called the Argentine Institute for the Promotion of Trade (IAPI), but quite different from Peron’s 1946 creation), with offices in the United States, for developing new and non-traditional export products to replace European products locked out by the German occupation. Managed by a private-sector board, it was ultimately

<sup>8</sup> The authoritative work is Love, 1994, pp. 393-601.

accountable to the Central Bank.<sup>9</sup> But the corollary of openness to the private sector was the latter's responsibility for remaining competitive. From the last Central Bank *Annual Report* prepared under Prebisch's direction, which dealt with the preparations for the post-war period, it is clear that his support for industrialization did not imply the wholesale protection of inefficient and uncompetitive businesses which had sprung up since the Depression.<sup>10</sup>

*Question 6: What about post-war policy?* In Prebisch's view the imperative post-war trade and industrialization policy required a judicious combination of import substitution and export promotion rather than blanket protectionism. "A policy of autarky is as absurd as free trade," Prebisch concluded, "with 'noxious' consequences... This possibility of increasing imports under an intelligent regime, and a policy of prudent monetary stimulation where indispensable, will favour intensive industrial development, with the natural effect of attracting immigration to other economic sectors, as in earlier days of economic and demographic growth." According to Prebisch, a competitive private sector after the war implied sanitizing the economy by building on the viable industrial sectors created during the war while eliminating the inefficient and uncompetitive industries which had emerged during the enforced protectionism of the World War. The same caution applied to State expenditures, which must remain prudent and non-inflationary. "There must be a reasonable equilibrium between the role of the State and the play of individual interests in economic life." Furthermore Prebisch warned against the politics of extremes. A balance had to be ensured between productivity and social policy to maintain growth, rather than engaging in excessive public expenditure. Inflation was a constant danger. The Argentine economy already had full employment and was in danger of overheating, and the government should

therefore resist political pressures for inflationary expenditures. Although Argentina had to improve conditions among the poor, Prebisch appealed for a social policy coordinated with national economic productivity in order to prevent deficits and inflation. "One must bear in mind that the common denominator of social policy is the increase in production. Without this a stable increase in the level of income of the masses cannot be sustained." Argentina could only maintain its high prestige if the government adopted the correct policy mix; domestic policy must encourage sustained growth because Argentina depended as much on the State as on industrial activity to shape the conditions for prosperity. Despite the many uncertainties, Prebisch forecast a positive future for Argentina. Obviously its prosperity was not automatically guaranteed by its relative success during the last decade, but Argentina had the policy tools needed to achieve stability and growth. Argentina's success in handling the Great Depression and the war experience had given it new confidence and international ranking; it had made great strides since 1930 and could look forward to the post-war era with confidence, rather than with fear, as a powerful young New World actor on the international scene.

*Question 7: What defines Prebisch's theoretical challenge?* Prebisch's approach promised a unique and prophetic blend of theoretical radicalism and Keynesian State activism, but within a banker's concern for sound money and the private sector. At the theoretical level, he challenged conventional Western liberal economists on holy ground by reversing the assumptions of equilibrium and comparative advantage in the international economy; since they had failed the empirical test he proposed developing a theoretical approach more in line with intuition, observation and Argentina's experience. But Prebisch was anything but a revolutionary critic of Western capitalism. He rejected communism, and was confident that Argentina could develop the tools it needed to meet the post-war challenge. Instead, Prebisch's book advocated an approach which could be called "civilizing globalization"; he felt that Argentina had no choice but to embrace globalization, strengthen trade links with its neighbours, recognize the decline of Britain, and accept that United States leadership was inevitable in the emerging international system. But he insisted that the Argentine State, private sector and society both could and should assume responsibility for policy choices to guarantee sustainable development.

<sup>9</sup> *United States, Department of State*, Memorandum from the United States Embassy in Argentina to Washington, November 29, 1940, which outlines the objectives and structure of the new IAPI, as well as Prebisch's discussions with Embassy and State Department officials. Under-Secretary of State Sumner Wells noted on January 7, 1941 (during Prebisch's extended visit to the United States capital) that the project "involves both policy and practical questions of some importance."

<sup>10</sup> This is also clear from the text Prebisch wrote for General Agustín P. Justo's Address to the British Chamber of Commerce on November 22, 1942 (Source: the Prebisch Papers).

### 3. Towards the “Manifesto”

One can only speculate on the impact of this book, had it been written and published. Prebisch’s tantalizing outline in December 1943 regarding the decline in the global terms of trade; his hypothesis of structural disequilibrium in the international economic system and the projection of a new theoretical framework for development; his call for industrialization and an export mix going beyond commodities; and his notion of the “smart State” with administrative coherence to combine open markets with calculated interventions and deliberate processes, were of extraordinary scholarly promise. Already by 1943 Prebisch had proposed his conceptual leap forward that would challenge Western economists on their own ground. The manuscript is an essential reference point indicating his thinking in 1943 at the immediate close of his Central Bank career, demonstrating that he had elaborated his concept of “inward development” long before the formation of ECLAC, and that his theoretical development was more advanced than anticipated.

But his proposal was rejected by Argentine publishers, and he therefore had no option but to continue the project while teaching in the Faculty in order to make a living. He hoped to get it out quickly – friends like Robert Triffin were already asking for it in 1945 – but as it turned out, the Havana “manifesto” was still some distance away in 1943. Life in Buenos Aires was depressing for him as Peronism took hold in 1946 and he observed Argentina’s growing isolation and cultural decline. He also had to act as a consultant in order to survive, and this also hampered his work, although his discovery of the wealth, beauty and potential of Latin America beyond the Southern Cone in his visits to Mexico, Colombia and Peru in 1944 and his subsequent travels in Paraguay, Venezuela, Guatemala and other countries were fundamental to the evolution of his regional vision. The lack of resources for research, and above all the problem of working in isolation without associates, also slowed down his work. On many occasions he envied scholars in North American and European universities who could devote themselves fully to their academic work.<sup>11</sup>

After 1946 it became increasingly difficult for Prebisch to continue teaching in the Faculty, and he

<sup>11</sup> For example, in a letter to Eugenio Castillo dated 23 November 1948 (The Prebisch Papers, Correspondence), he described his situation in Argentina as “the thankless position of a solitary researcher”.

was finally forced out of the university on 15 November 1948 with his book project still incomplete.<sup>12</sup> After 1943 he had travelled and worked extensively throughout Latin America, but he had always resisted opportunities to move abroad to the United States or Mexico. Now he had to reconsider, and the options came down to heading ECLAC in Santiago as its first Executive Secretary, or taking up a senior position with the IMF in Washington. Of the two, Prebisch infinitely preferred the latter. Camille Gutt, the IMF Managing Director, accompanied by his deputy, Edward M. Bernstein, had visited Buenos Aires on November 25, ten days after Prebisch’s departure from the university, and made an offer which Raúl accepted. An actual contract had not been signed, pending approval by the Fund’s Executive Board, but Mr. Gutt had dismissed this as a formality. However a disturbing silence from Washington after this visit suggested problems, and Prebisch’s humiliating and painful rejection by the IMF provided the essential personal backdrop for the emergence of the Havana “manifesto”.

A first sign of internal opposition appeared early, on December 23, when Gutt cabled to announce that the terms of his appointment would have to be changed. “I have reviewed our recent talks with department heads. They feel that an adviser outside departmental lines is not feasible. Prepared to recommend appointment in Operations Department at proposed salary.”<sup>13</sup> But Prebisch was assured that the change was simply to avoid setting a precedent within the Fund and that the offer would soon be confirmed. M. H. Parsons of the Operations Department told him that the delay in approval was merely technical – the January flu in Washington had decimated the Executive Board; he expected a meeting before the end of January. “We are looking forward to having you here and taking advantage of your great experience, particularly in our dealings with Latin America.”<sup>14</sup>

<sup>12</sup> Prebisch eventually declined an offer in 1945, brokered by Robert Triffin, to visit Harvard and teach in the United States; both the Guggenheim and Rockefeller Foundations became involved, and Assistant Secretary of State Nelson Rockefeller noted that he was “very interested in Raúl Prebisch’s proposed trip to Harvard...I am delighted to hear that plans are progressing and as soon as you have definite word, I would appreciate your letting me know when he is coming” (Memorandum, United States Department of State, February 9, 1945). Prebisch also turned down an offer of a senior appointment in the Bank of Mexico after the election of Perón in 1946.

<sup>13</sup> The Prebisch Papers: Correspondence, June Eckard to Raúl Prebisch, March 22, 1949.

<sup>14</sup> The Prebisch Papers: Correspondence, M.H. Parsons to Raúl Prebisch, January 19, 1949.

So, strongly reassured, Raúl and Adelita Prebisch continued preparations for their departure, with Urquidí and other friends combing the real estate market in and around the United States capital. Farewells were held, and Raúl prepared his lectures to be given in Mexico from February 16 on. Just before his departure Raúl received more good news from the IMF: Parsons suggested that they meet in Mexico during Prebisch's seminar at the National Autonomous University of Mexico (UNAM) to discuss a work plan. Executive Board approval was now imminent, he said. It was a busy month which augured well for the future, despite the emotional let-down of leaving Buenos Aires.<sup>15</sup> However, Adelita was confined to bed in Mar del Plata and unable to accompany him to Mexico when he left on February 15; on his arrival at the *Hotel Reforma* he cabled his affection.

But when Prebisch opened his seminar on February 16, it was clear that the hold-up of his much-discussed appointment at the IMF had little to do with illness on the Executive Board. Parsons failed to arrive; he heard nothing from Washington. To his mortification, rumours of United States Treasury opposition to his appointment became corridor gossip in Mexico. After the Mexican seminar ended, Prebisch decided to force the issue with the IMF and sent a cable to Gutt on March 6 demanding a definitive response. The Managing Director first procrastinated with a message asking for more time, but then confirmed that the Executive Board had indeed rejected his appointment. Parsons wrote a personal letter of apology on March 11. "We have behaved intolerably... I am not sure which is worse –to feel ashamed of oneself, or to feel ashamed of the organization for which one works. We shall pay heavily for our folly in losing your services and the prestige which you would have brought to the Fund in its relations with Latin America. I don't ask you to be tolerant with us because I think we have behaved intolerably, but I do ask that you pity us that we should add this kind of folly to what is already a heavy enough burden. Whom the gods wish to destroy they first make mad."<sup>16</sup> He signed it with "Keenest regrets." Raúl shared his disappointment by telephone with Adelita, who was now recovering. She said that she was happy not to go to Washington and have to deal with such dishonorable people. Some day, she predicted, the tables would be

turned.<sup>17</sup> Robert Triffin and other friends in Washington provided the inside story of his rejection by the IMF.<sup>18</sup> The issue had developed into an internal *cause célèbre* because the United States had reversed its position and now opposed his candidacy even though the Treasury had originally supported Prebisch. It was embarrassing and unpleasant; the Fund had sought him out in Buenos Aires, rather than the other way around, and so firm a commitment would never have been given had the United States not been on board. Moreover Prebisch was Latin America's best-known economist and central banker; there was no way the sudden rejection could be explained by questioning his competence. The fight over Prebisch in the Fund was therefore lengthy and bitter.

A complex set of factors lay behind Washington's refusal to accept his appointment in early 1949, and it had nothing to do with a rumor that old Washington hands remembered Raúl's toughness during the 1930's in bilateral negotiations with the United States and were getting back at him now for favouring Britain after the Roca-Runciman Treaty. Instead the United States decision reflected the new opening in US-Argentine diplomatic relations, Brazilian opposition to Prebisch's appointment, and the changing political climate in Washington. Perón vigorously opposed Prebisch for any influential position in the IMF, even though Argentina was not a member of the Fund; while he had agreed six months earlier to support him for ECLA (presumably to ease him out of Buenos Aires into a marginal position in Santiago), the Argentine President did not want a domestic opponent in a key position in Washington. Considering the deep-freeze in US-Argentine relations since Pearl Harbour, however, such expected opposition should not have concerned Washington –quite the reverse. The United States Embassy had campaigned openly against Perón in 1946, who later had denounced the Marshall Plan as a scourge and disaster for Argentina.<sup>19</sup> On January 19, 1949, however, Perón fired the economic team led by Miguel Miranda and Washington saw an opening to improve bilateral relations. A bilateral Joint Committee was established to review economic issues, including the potential opening of United States petroleum investment; Washington sought to restore its pre-war position in

<sup>15</sup> The Prebisch Papers: Correspondence, M.H. Parsons to Raúl Prebisch, February 10, 1949.

<sup>16</sup> The Prebisch Papers: Correspondence, M.H. Parsons to Raúl Prebisch, March 11, 1949.

<sup>17</sup> The Prebisch Papers: Correspondence, Adela Prebisch to Raúl Prebisch, March 13, and March 30, 1949.

<sup>18</sup> The Prebisch Papers: Correspondence, June Eckard to Raúl Prebisch, March 22, 1949.

<sup>19</sup> Lewis, 1990, pp. 191-192.

Argentina, then the most important market in Latin America, with assets in 1943 greater than all other countries except Cuba and Canada, and “now threatened by European expansion of bilateral trade and the dollar shortage.”<sup>20</sup> The Prebisch appointment was thus caught up in a bilateral diplomatic reorientation, with the State Department arguing that United States support for Prebisch in the IMF could preempt this promising development with Perón. Thrown out of the Central Bank by the Perón-backed military government in 1943 against United States protests, a man who had risked and lost his career for the allied cause and who had continued to work closely with the Federal Reserve after 1945 was thus sacrificed six years later on the altar of US-Perón rapprochement.

There was another, less tangible factor at play in the United States rejection of Prebisch. Raúl not only lacked the support of his country, but he was also vulnerable in Washington’s changing political climate, now unrecognizably different from the circumstances surrounding his exit from the Central Bank in 1943. He had worked with the United States Federal Reserve throughout Latin America, and still knew some of its officials such as David Grove, Chief of its Latin American Section in the Research Department. In those years he could also have picked his job among United States banks: the Chase Manhattan Bank referred to him as “almost a member of the family”; Joseph C. Ravensky commented in his retirement letter to Raúl in 1945 that “you are so at home in the Chase that you will not miss me much.”<sup>21</sup> But times had changed. Prebisch was no longer very well-known in Washington, and the friends who still regarded him highly, such as Triffin and Wallich, were increasingly out of step with the gathering Cold War ideology in the Beltway. They represented the war-time generosity and innovation of United States Latin American policy; a new and tougher approach rendered Prebisch an outsider in Truman’s Washington. The United States opening to Latin America terminated after 1945 and gave way to a different era in Washington. The many invitations from leading United States universities terminated abruptly; Triffin, Williams and Hansen gave way to Gottfried Haberler, Jacob Viner and the narrowest view of markets. While not yet hysteria, a groundswell of anti-

communism in the United States capital demanded the greatest care in choosing senior people for the IMF and World Bank; while no one could possibly argue that Prebisch was pro-communist, he was a Latin American who used terms such as “centre” and “periphery.” With the revival of orthodox economics organized principally around the concept of equilibrium and rejection of the need to correct the market mechanism, he stood out like a sore thumb: by recognizing the embedded imbalances in the system and proposing an active role for the State in the economy, he challenged the dominant post-war paradigm. Prebisch, in short, was not automatically “safe.” This new caution seeping into the IMF selection process was transmitted directly from the United States Treasury, but also internally by United States officials who followed the flag. E.M. Bernstein, for example, who had made the approach to Prebisch in Buenos Aires and whose support might have made the difference in Raúl’s approval, remained silent during the affair. Even Ravndahl, who might also have influenced the State Department, chose to stand aside. In the end the IMF was an inter-governmental organization led by the great powers, and its politics could not escape the changing ideological alignment of the Washington foreign policy community. Raúl had been used by Washington while he was powerful and to their advantage; now that he was weak he could be discarded and made a laughing-stock from one end of the Americas to the other without fear of retribution. Recently-hired Latins in the Fund could do nothing but watch the spectacle in frustration and anger.

Finally, Brazilian opposition to Prebisch fortified Washington’s determination to press its veto on Prebisch’s appointment, and the diplomatic weight of Brazil in South America also made this a factor of considerable importance in the region. In this case, however, the issue was not so much politics as envy. Although Octavio Bulhões had sent Raúl a congratulatory letter from the Ministry of Finance in Rio on February 5, he also convinced the Cabinet to veto the appointment at the level of the Fund’s Executive Board.<sup>22</sup> Eugenio Gudín, who genuinely respected and supported the Prebisch appointment, was away from Rio undergoing surgery in the United States and was therefore not in a position to prevent a betrayal. Confronted by the United States and Brazil, other members of the IMF Executive Board eventually fell into line.

<sup>20</sup> United States State Department (1949), Internal Memorandum 835.5151/7-149. For background see Escudé, 1981.

<sup>21</sup> The Prebisch Papers: Correspondence, Joseph C. Ravensky to Raúl Prebisch, December 28, 1945.

<sup>22</sup> The Prebisch Papers: Correspondence, Octavio Bulhões to Raúl Prebisch, February 11, 1949.



Rejection by the IMF on top of the end of his university career in Buenos Aires meant that Prebisch was down to his last chance: ECLA. He had been approached in late 1948 by the United Nations for the position of Executive Secretary, but had turned down the offer, and Gustavo Martínez-Cabañas had eventually been selected to begin work on January 1, 1949. Nevertheless ECLA persisted, offering Raúl a consultancy to help the new organization prepare for its Second Session in Havana, scheduled to open on May 26. The problem facing Martínez Cabañas and his deputy, Eugenio Castillo, was to fulfill ECLA's main task at its First Session in June, 1948 –namely, producing the first *Economic Survey of Latin America*: a huge task never before attempted– in less than one year, and with a brand new team in Santiago which lacked depth and experience. They pleaded with Prebisch for help, even for a leave of absence from the IMF (expecting that he would be in Washington); but Prebisch did not respond until the IMF debacle was evident, finally agreeing to a short-term consultancy for the duration of the Havana conference.<sup>23</sup>

In New York, David Owen and senior officials in the United Nations Department of Economic and Social Affairs were also increasingly anxious about the future of ECLA, realizing that they too could not afford a failure at Havana. The *Economic Survey* promised for Havana had to be presentable, and they hired Francisco Croire, another former employee in the Argentine Central Bank whom Raúl had sent to Harvard for graduate training, to head the Latin American section of the Stability and Development Section and provide a New York anchor for the *Economic Survey*. Arriving in December, 1948 he found that little had been done during the preceding six months and that the two staff members he inherited were of doubtful quality and acculturated to permanent paid holidays. United Nations morale and staff competence in New York contrasted badly with the old Central Bank in Buenos Aires, Croire sniffed.<sup>24</sup>

Croire poured out his concerns to Prebisch in a stream of long personal letters.<sup>25</sup> He discovered that the *Economic Survey* had taken on a heavy symbolic value for the United Nations system as a whole –or at least for Latin America within the United Nations. There was, he reported, a growing *Schadenfreude* among the skeptics in New York who doubted that Latin economists were competent enough to deliver unless supervised by United States and European superiors. Since the *Economic Survey* was the single most important work of ECOSOC relating to Latin America, it had therefore become a test of Latin American economists themselves. The *Economic Survey* was unique in that Latin Americans themselves were in charge; it was the first major international report on the region to be directed and written by Latin Americans rather than foreign consultants, for in the IMF or World Bank Latin Americans were members of teams led by senior North American or European economists. Croire and other Latin Americans like himself in New York therefore felt on trial; failure in Havana would confirm a New York perception that they were second-raters. This situation made Prebisch's role doubly important. New York would mobilize all available resources to pull together the individual components into an acceptable document, including sending headquarters staff to Santiago on short assignments. A great deal of data were being collected; a more realistic work-plan and *Economic Survey* outline were now accepted in Santiago. Other agencies such as the FAO and the IMF were being helpful, and the World Bank had just completed a study *The Pattern of Latin American Trade Payments with ERP Europe and the US*, which was helpful for ECLA's own report on "*Prospects for Trade Expansion*" being prepared for Havana. Dorfman and Alfonso Santa Cruz were working overtime on it; Louis Shapiro from New York Headquarters arrived in Santiago on December 17 to work with Regino Boti on regional foreign trade statistics. The problem, however, was overall leadership: although the *Economic Survey* had to be a team effort, one person, finally, had to draft a framework document laying out a theoretical approach and rationale. Croire was relieved by Prebisch's acceptance of this role; had he not agreed to write the report, the United Nations would have gone outside Latin America, probably to Sweden's Gunnar Myrdal, thereby demonstrating to the world the bankruptcy of

<sup>23</sup> United Nations, Correspondence: Eugenio Gudín to Harold Caustin, New York, July 13, 1948, reviewing the efforts to attract Prebisch, including Juan Perón's approval for the United Nations to approach him. Also in the Prebisch Papers, Correspondence: Eugenio Castillo to Raúl Prebisch, November 19, 1948 and February 5, 1949; Raúl Prebisch to Eugenio Castillo, January 10, 1949; and Martínez-Cabañas to Raúl Prebisch, February 3, 1949.

<sup>24</sup> The Prebisch Papers: Correspondence, Francisco Croire to Raúl Prebisch, December 24, 1948.

<sup>25</sup> The Prebisch Papers: Correspondence, Francisco Croire to Raúl Prebisch, February 28 and April 8, 1949.

Latin economists and spelling the certain demise of ECLA.<sup>26</sup>

Even more, Havana was unexpectedly emerging as an important meeting in US-Latin American relations. In part this reflected the old theme of dashed expectations of United States recognition and post-war cooperation. By 1949 and the beginning of Truman's second Administration, a sense of injustice was boiling up again as Washington's priorities focused on Europe and Asia. During the Second World War, Latin countries had sold their commodities to the United States at prices fixed by the OPA (Office of Price Administration), but they had been unable to convert their dollar earnings into goods during the war, with consequent inflation. Now they found that when United States goods were finally available for purchase, there were no price controls on these industrial exports, even though the prices for their own primary and agricultural products had declined.<sup>27</sup> With the end of the war, single-commodity countries such as Venezuela, Cuba, Chile and Bolivia faced an inevitable downturn in trade, and were on the verge of serious economic crisis. Yet the Truman Administration had failed to implement most of its war-time promises of economic partnership made during the war. Washington now opposed the creation of an Inter-American Development Bank, continued to postpone a much-heralded Inter-American Economic Conference, and rejected multilateral efforts to stabilize commodity prices. Worst of all, the United States Congress had killed the proposal for the ITO (International Trade Organization) put forward in 1948, also in Havana, placing an additional strain on US-Latin American relations. Conceived during the Second World War, Keynes had seen the ITO as the trade counterpart to the IMF and World Bank; its failure left Latin Americans disappointed and frustrated. The sequence of the Great Depression, the Second World War and the post-war challenge of adjustment to *Pax Americana* had created an incipient regionalism in Latin America—a consciousness of shared experiences, and even greater needs, carried by a new generation of better-trained and travelled professionals. Young Latins ached for recognition, for leadership and for definition

all in one; there was an opening for new ideas and change. *Does Latin America exist?* Mexican author Luis Alberto Sánchez had asked a few years earlier in the 1940s. Latin America was a region ready to be created, and this idea and opportunity built on perceived grievances to give the 1949 ECLA Conference in Havana a symbolic significance out of all proportion to the actual agenda of the meeting.<sup>28</sup>

The additional burden of evident ECLA, United Nations and Latin American anxiety and expectations added to Raúl's agony as he began his work in an upstairs office at the end of a corridor somewhat apart from the rest of the ECLA staff, pausing only for his daily lunch with Adelita in Providencia. He needed a breakthrough, but he felt flat—as flat as during his last lectures in the Faculty in 1948 and a set of seminars he had recently completed in Mexico. He now fully understood the cost of his years in the wilderness. When he left the Central Bank in 1943 and drafted his outline for “La moneda y el ritmo de la actividad económica” he had been well ahead of the pack in his theoretical development. His central concept of a structural rift in the international economy between industrial and agricultural countries in which market forces tended to accentuate inequalities had been novel and exciting. But that was more than five years ago. He had seemed on the verge of major innovation; so much had seemed possible, but he had not been able to deliver. He had certainly made progress; since 1945 he had grafted the centre-periphery terminology, first used in 1921, into his analysis to accent the dualism present in the international economy, and this was now a permanent fixture in his writing. Work on the business cycle had also advanced significantly. But the discipline was not standing still either, and younger economists were moving into development economics; the argument, for example, that agricultural exporters were at a disadvantage compared with industrialized exporters in international trade was becoming commonplace (Love, 1994). While no other scholar had yet presented an answer to Prebisch's hypothesis set out in “La moneda y el ritmo de la actividad económica” in 1943, it was only a matter of time before he would lose this race as well to scholars in Europe and North America.

Raúl felt close to a new synthesis, but the days went by in Santiago and his frustration grew as the Havana deadline approached. In early April he circulated some

<sup>26</sup> The Prebisch Papers: Correspondence, Francisco Croire to Raúl Prebisch, December 24, 1948. See also United Nations, Memorandum from W.R. Malinowski to Harold Caustin, November 12, 1948.

<sup>27</sup> United States State Department, “Latin American Policy Statement,” Memorandum from E. Miller to Louis J. Halle, November 14, 1950.

<sup>28</sup> The Prebisch Papers, Correspondence: Francisco Croire to Raúl Prebisch, February 24, 1949.

draft text to ECLA colleagues for comments. Furtado read the manuscript and was disappointed. The style was academic and defensive, dealing with familiar topics such as the declining United States import coefficient, capital controls, foreign trade, savings and inflation, and the importance of industrialization.<sup>29</sup> The paper seemed more a digest of his lectures in the Faculty and in Mexico than a policy document, and while it was enlivened by his “centre-periphery” terminology, his explanation for this lop-sided capitalism was not complete, and unlike his 1943 study “La moneda y el ritmo de la actividad económica” it apparently did not refer to declining terms of trade. Prebisch was clearly struggling as he faced the approaching deadline, aware that his work fell short of what he knew he could achieve.<sup>30</sup>

What happened next has been masterfully related by Furtado in his autobiography (Furtado, 1985, p. 60). While Prebisch struggled in Santiago, Croire in New York received a copy of a draft report which Dr. Hans Singer had written for the United Nations Sub-Commission on Economic Development entitled *Post-war Price Relations Between Under-developed and Industrialized Countries*.<sup>31</sup> Incredibly, Castillo had also received an advance copy of Singer’s document as early as December 17 when United Nations statistician Louis Shapiro arrived from New York to work on the *Economic Survey*, but he had not shared it with Prebisch.<sup>32</sup> Croire noted a reluctance by senior staff to allow its circulation, because Singer’s report challenged conventional wisdom and would therefore likely be rejected by the United Nations Sub-Commission, but he sent it immediately to Raúl in Mexico along with another IMF paper on foreign trade.

Prebisch had never met Singer, a German-born scholar who left Germany in 1933 and obtained a PhD

at Cambridge University. Recruited by David Owen to work in the Department of Economic and Social Affairs at the United Nations, he had arrived in New York in April 1947 on a two-year leave of absence from the University of Glasgow. He began his work in the trade section of the Department of Economic and Social Affairs with an interesting group of economists who quickly drew his attention to the terms of trade issue (Singer, 1984, pp. 275-311). Singer argued that historical statistics demonstrated a decline in the terms of trade of developing countries. “From the latter part of the nineteenth century to the eve of the Second World War, a period of over half a century, there was a secular downward trend in the prices of primary goods relative to the prices of manufactured goods” (Toye and Toye (forthcoming), p. 25). Such a decline provided an “added incentive towards industrialization” in developing countries, since they would otherwise lose resources for development relative to their industrialized counterparts (United Nations, 1949, pp. 16-17).

But Singer’s paper was the stimulus Prebisch needed to escape his mounting frustration and fear of failure. In his 1943 draft “La moneda y el ritmo de la actividad económica”, Raúl had already assumed a secular decline in the international terms of trade for agricultural countries, and both Kindleberger and Samuelson had written articles based on this hypothesis.<sup>33</sup> But Singer not only demonstrated it statistically within a rigorous historical study; he also articulated the ethical implications of declining terms of trade in the global economy, which created a divide between rich and poor countries. Prebisch therefore recognized a kindred spirit in the British economist; Singer’s work not only corroborated his assumptions on trade, but also gave him the confidence to recast his work with a new structure and style.<sup>34</sup> Raúl’s energy returned, and he began again, ensuring that all copies of his earlier text were collected and discarded. Then in three days and nights he wrote *The economic development of Latin America and its principal problems* (Prebisch, 1949), in which the laboured prose

<sup>29</sup> Both Furtado (1985) and Toye and Toye (forthcoming) are important sources of information on this episode. The author’s extensive interview with Celso Furtado in 1990 provided additional insights for writing the present paper.

<sup>30</sup> Prebisch himself never referred in subsequent interviews to this transition towards the Santiago “manifesto”. Furtado (1985), Toye and Toye (forthcoming) and the present author’s works note that early in 1949 there was an important turning point in don Raúl’s work.

<sup>31</sup> Subsequently retitled as *Relative Prices of Exports and Imports of Under-Developed Countries* (United Nations, 1949).

<sup>32</sup> The Prebisch Papers, Correspondence: Gustavo Martínez Cabañas to Raúl Prebisch, March 5, 1949 and Francisco Croire to Raúl Prebisch, April 8, 1949. This matter is also discussed at length in Toye and Toye (forthcoming).

<sup>33</sup> Kindleberger (1943) and Samuelson (1948). The Prebisch Papers (particularly Prebisch’s correspondence with Victor Urquidí, such as that of June 2, 1944, which takes up Kindleberger’s work in detail) provide important insights into the evolution of Prebisch’s reflections on emerging economic theories during the 1943-1949 period.

<sup>34</sup> Prebisch’s life-long respect for Hans Singer never wavered during the long personal friendship subsequent to Singer’s visit to Santiago in 1950. The feeling was entirely mutual.

of his earlier work disappeared in an essay which recalled the power and simplicity of Keynes. The new document may not have been scholarly, as defined by refereed journals; nor was it replete with mathematical formulas, explicit hypotheses or reams of footnotes. None of the individual components or his argument was entirely novel – it would be more correct, for example, to identify the terms of trade break-through as the “Prebisch-Singer Theory” – but the genius of Raúl’s “Manifiesto” was that it moulded these disparate components into a unique and compelling synthesis. It succeeded in re-examining the determinants of economic activity in developing countries, and represented a key event which changed the vocabulary of international development and marked a new period in Latin America.

The 1949 “manifiesto” began with an appeal to reason, paraphrasing Aristotle’s dictum that “the facts have not yet been sufficiently established. If ever they are, the credit must be given to observation rather than to theories, and to theories only in so far as they are confirmed by the observed facts.” Latin Americans must have the courage to confront their own reality to find solutions, and this meant subjecting inherited wisdom to the ultimate questions: Does it work? Who gains and loses? To understand is to be free and able to take control of one’s destiny, the *Manifiesto* implied, and Prebisch articulated an unforgettable, if deceptively simple, framework to explain why the system was not working in the mutual interests of rich and poor nations, why the industrial countries reaped the major gains, and what had to be done to restore equality for Latin America in the international economy. The 1949 study *The economic development of Latin America and its principal problems* owed much to Prebisch’s 1943 study “La moneda y el ritmo de la actividad económica”. There is the same confident tone, the same stepping back from his data to highlight the key points, and the same assurance that the dilemma facing the countries of the region could be successfully overcome.

But the “manifiesto” was different in its regional vision and call to action. The “center-periphery” conception of the world economy was much more explicitly focused on the dynamics and structure of global inequality. It began with the claim for a unified world economy in which all States, industrial and developing, were linked in a single system of exchange and affected by a common business cycle. Within this system, however, he counterposed the quite different roles of the rich industrial versus the developing agricultural countries: the latter produced primary

products for the industrial countries in return for manufactured goods, while the business cycle began in the core countries and spread to the periphery. Prebisch then argued that the distribution of benefits was unequal because the dynamics of foreign trade and the business cycle favoured the industrial countries. This was not due to the ill-will of governments, but rather the inherent functioning of the system: the fact that gains in productivity were greater in industrial than in primary goods could be documented by the declining terms of trade which he had assumed in 1943 and which Singer had now documented. This factor in turn was aggravated by the international trade cycle, in which the agricultural countries were more vulnerable than the core economies during recessions because organized labour in Europe or North America was strong enough to prevent an equivalent collapse of prices. The result of both factors – a secular decline in the terms of trade and business cycle vulnerability – explained the fundamental flaw of neo-classical trade theory, which assumed equal benefits for industrial and agricultural exporters and which was assumed to have the same validity in Latin America as in the United States or Britain. There was, in short, an inherent asymmetry in the system, understanding of which was a necessary step towards understanding Latin America’s insertion in the international economy and thereby designing a new approach appropriate to the region’s needs in the future.<sup>35</sup>

The attraction of the “manifiesto” lay in its dual thrust: not only did it offer a powerful diagnosis, but it also contained a vision which promised agricultural countries a way out of their dilemma. To be peripheral was not necessarily to be dependent; just as in “La moneda y el ritmo de la actividad económica”, he proposed that industrialization, with due care to avoid inflation and distortions, offered Latin America the prospect of reversing the dynamic of unequal exchange which otherwise doomed it to constantly diminishing benefits in the global economy. Here was a non-revolutionary, non-communist prescription for change which all governments in the region, regardless of ideological orientation, could applaud. It was a call to action which Prebisch based directly on his experience in Argentina, where import substitution had already

<sup>35</sup> Within the vast literature on this subject, note the recent work of Love (1996); Rodríguez (1998); Gurreri (1983); Mallorquín (1994) or Sprout (1992). All the articles in Iglesias, ed., (1994) are also useful. See also Spraos (1980) and Tanzi and Chu (1989).

advanced considerable even before 1914, and where the Central Bank had pursued precisely this role, to the point where industrial production equalled that of agriculture in the national economy by 1943. From a regional perspective, where most economies were less developed than Argentina, it was a truly bold departure. But once out of the bottle, his challenge to peripheral economies to move from commodity production to a more diversified economy proved durable and irresistible—so much so that today it is taken for granted to such an extent that the originality of the Prebisch “manifesto” has been obscured by its success.

The “manifesto” contained other elements which lurked below its extraordinarily elegant and flowing prose. For all its appeal to reason and measured arguments, there is an almost imperceptible but unmistakable undertone of indignation in the text. Development economics, Prebisch implied, meant taking a stand. The treatment he had just received in Washington may explain part of this tone, as well as the trade pessimism of 1949 in which the outlook for increasing Latin exports was gloomy. The United States—the region’s dominant supplier since the Second World War—had fallen into recession, with Latin America’s imports from it rising 168% while those from Western Europe fell by 15%. “Formerly, prior to the Great Depression, the Latin American countries developed outwardly, stimulated by the constant increase in exports. There is no reason to suppose, at least at present, that this will occur again to the same extent, except in very particular cases.”<sup>36</sup> Given this grim prospect, the international economic system was even less likely to stimulate development and technical progress in Latin America, and it was therefore urgent to get moving without delay.<sup>37</sup>

Prebisch’s report transformed the Havana meeting and created a sensation in the media throughout Latin America; instead of debating an important but dull *Economic Survey*, ECLA found itself with a great idea

and a potential cause. No one could possibly doubt that Prebisch had been the centerpiece of the Havana triumph, the great victor. Everyone, including he himself, realized that Havana had launched him as a regional personality, and a formal resolution of appreciation was unanimously approved on June 14 at the close of the conference. But in New York and Washington the reaction was different, and there was consternation among senior United Nations and United States officials who understood the power of the “manifesto”: Prebisch’s framework of structuralism offered a new approach to international development; he had spoken out in favour of an activist State and industrialization in a new language which challenged the old doctrine of comparative advantage. The notion that agricultural countries in Latin America could thrive in the future by remaining commodity producers was undermined, and all development experts—whether from the industrial or developing countries—knew that a new debate had been launched. The immediate and harsh reaction of mainstream economists, including Gottfried Haberler, Gerald Baldwin, Charles Kindleberger, and Gerald Meier, to *The economic development of Latin America and its principal problems* underlined the seriousness of Prebisch’s challenge to traditional economic theory.<sup>38</sup> Jacob Viner of Princeton University set the tone by dismissing the “manifesto” as a set of “malignant fantasies, distorted historical conjecture and simplistic hypotheses.” During his lectures in Brazil at the National University during July and August 1950, Viner’s arrogance astonished his audience as much as his advice: stay with free trade; don’t be wooed away from neoclassic verities by sirens promoting economic diversification; devote yourselves to agriculture and birth control.<sup>39</sup> Prebisch was a heretic—even a “grand heretic”—, to be avoided at all costs. Other United States economists were less ideological, with criticisms of aspects ranging from the empirical data underpinning the Prebisch-Singer terms of trade theory, to the neglect of shipping costs, the impact of technological innovation, and so forth.<sup>40</sup>

<sup>36</sup> Prebisch (1949), pp. 9 and 37-38. The outlook for Latin American exports was gloomy in the United States and Europe as well as in Latin America itself. Moreover, the recession in the United States coincided with a transformation in US-Latin American-European trade relations between 1937 and 1949, over which period European exports to the region had fallen 15%, compared with a 168% increase for the United States, while Latin American exports to Europe had fallen by 39% and those to the United States had increased by 38%.

<sup>37</sup> Furtado (1985, pp. 60-61) underlined this point, noting that Prebisch had moved from a critique of economic theory to international “realities”.

<sup>38</sup> See Solis (1989) for a preliminary examination of the scholarly controversies surrounding the “Prebisch Thesis”.

<sup>39</sup> Prebisch was invited to Brazil for a lengthy visit, from August 19 to September 1, 1951, much of which was spent answering the criticisms Viner had made of Prebisch a year earlier, which had been published in the *Revista Brasileira de Economia* of the Getulio Vargas Foundation.

<sup>40</sup> “El Gran Heresiarca” was the expression Furtado coined for Prebisch and ECLA at the height of his fame.

But Prebisch's critics missed the point. The "manifesto" was not a fully-developed theory of economic development, and Raúl made no claim in this direction. Indeed, the report repeatedly appeals for more research. It was not anti-trade ("The more active Latin America's foreign trade, the greater the possibilities of increasing productivity by means of intensive capital formation"). It was not anti-agriculture ("The industrialization of Latin America is not incompatible with the efficient development of primary production"). Nor was it blindly pro-industrialization (chapter VI of the report was entitled "The Limits of Industrialization" and said "Industrialization is not an end in itself, but is the only means at their disposal of obtaining a share of the benefits of technical progress and of progressively raising the standard of living of the masses").<sup>41</sup> Prebisch also believed in the market, but demanded answers to the question of "What else? What about the inequities and asymmetry in the system?". He challenged the market by itself as the great equalizer, and called for purposeful action to share the benefits of international trade. This was the cognitive leap which identified him as the father of development: he had presented a new paradigm of development within a fundamentally novel approach. Indeed the most serious –and resented– of Raúl's criticisms of neo-classical economists in American and European universities was their presumption of wisdom: "One of the conspicuous deficiencies of general economic theory, from the point of view of the periphery," he maintained, "is its false sense of universality". Viner (who once acknowledged that he was an "old-fashioned free trader") and his colleagues had no difficulty attacking the "manifesto" on specific points because it was not a fully-developed theory, and therefore vulnerable to academic criticism. But on the central issue of asymmetry, they could only fall back on the old "truths" –such as the fairness of the system if developing countries created a suitably hospitable business climate for investment.

#### 4. Conclusion: The essential Prebisch

It can be argued that Prebisch changed less than Washington and Argentina: between 1943 and 1949 the Cold War reversed policy in Washington, and Peronism transformed Argentina. The many criticisms of Prebisch –that he was a blind protectionist, or that he was anti-American, for example– obscure the record of his actual

life and work before 1943.<sup>42</sup> The ultimate irony is that he is often blamed for deforming Latin American development by advocating excessive import substitution. In fact the ethical imperative which drove him all his life derived from his boyhood years in Tucumán, where a handful of sugar barons maintained a colonial-style system of exploitation over migrant Indian labourers, because their power in the national capital could keep out cheaper Brazilian imports. Like his father, an immigrant from Saxony in Germany who married into a poorer branch of one of Argentina's most famous colonial families, he disliked the oligarchy and military; he was a charter member of Argentina's "golden generation," and he arrived in the capital committed to reform. His decision to study economics –at that time a new and non-prestigious discipline in Argentina promising few rewards– reflected a desire to understand markets to improve society in the original Adam Smith conception of the discipline. This same idealism infused his choice of a career in the Argentine public service when he recognized the modernization of the State as his future path, and he moved up quickly to become a leading technocrat by 1928. The autonomous Central Bank model he developed in 1935 was his crowning achievement in his Argentine years, capturing his vision of a modernizing elite in Argentina to oversee a coherent development process protected from political uncertainty –just as he built ECLA (and later UNCTAD) as instruments to champion equity in North-South relations. Ironically, after some 54 years, the World Bank's *World Development Report 1997* accepted Raúl's vision of a strong but "smart" State to correct market externalities, safeguard public goods, and seek competitive advantages instead of comparative advantages in trade.

In 1943, six years before the "manifesto", when Prebisch outlined his thoughts on the challenge facing Argentina, his ideas sound familiar in the current discourse on coping with globalization: especially the need to harness the market in the social interest by locating a compromise between the benefits of liberalization on the one hand and the political choices required to protect national values and public goods on the other. As we already noted, we would now view

<sup>41</sup> Prebisch, 1949, p. 52.

<sup>42</sup> See Prebisch, 1949, p. 11, for his assault on the "false universality" of general economic theory. The widespread notion that he was anti-American, which became prevalent in Washington during the 1950s, is entirely belied by his life and work. This issue is discussed at very considerable length in the author's forthcoming biography of don Raúl.

Prebisch's approach as "civilizing globalization" to ensure sustainable growth and social development. Some assumptions of the "manifesto" (such as the pessimism about exports) proved incorrect, but his enduring contribution does not lie in time-bound details. Rather its greatness lies in projecting a paradigm which restores the power factor to international economics and in demanding that theory be linked with experience in interpreting Latin America's peculiar regional insertion in the international economy. This vocation reflected

the constant interaction between the practitioner and the academic in his life, which by 1943 had abundantly demonstrated the false universality of neo-classical economic theory. The short and undistinguished trajectory of the Washington Consensus serves as a salutary reminder of ideological excess and the need for new approaches that reflect the contemporary Latin American context.

(Original: English)

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