



Raúl Prebisch

Power, Principle and the Ethics of Development

ESSAYS IN HONOUR OF DAVID H. POLLOCK MARKING THE CENTENNIAL
CELEBRATIONS OF THE BIRTH OF RAÚL PREBISCH

(EDITED BY EDGAR. J. DOSMAN)



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AND THE ETHICS
OF DEVELOPMENT



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DEDICATION

DAVID H. POLLOCK (1922 - 2001)

Edgar J. Dosman

David H. Pollock was "Mr. Latin America" in Canada until his death in 2001. He was first drawn toward Latin America when he was hired by Raúl Prebisch in 1951 to strengthen the new Economic Commission for Latin American and the Caribbean (ECLAC) office in Washington. It marked the beginning of a long and cherished friendship which would deepen over the next 35 years. During this period David was involved intimately with Prebisch's projects, which encompassed ECLAC in its formative years, the creation of United Nations Conference on Trade and Development (UNCTAD), and Latin American Institute for Social and Economic Planning (*Instituto Latinoamericano de Planificación Económica y Social* -ILPES-).

After undergraduate work in Canada and graduate school at the University of Chicago, Pollock was attracted to Washington by the World Bank. However, when exposed to Prebisch he was unable to resist his gravitational pull, and he eagerly became part of the exceptional group of young economists in the first ECLAC team. At that time, Washington was gripped by Cold War anti-communist hysteria; Prebisch's developmentalism was suspect. The challenge of managing the relationship with the United States (US) deepened when Republican Administrations were elected in 1952 and 1956. Pollock's task was to represent ECLAC in Washington: to present the actual policies and projects of Santiago, to confront myth-making and willful distortion of fact, and to be Prebisch's eyes and ears in heading off potential disputes which constantly threatened to undermine US-ECLAC relations during the 1950s. True to the bridge-building vocation of his country, Pollock proved an agile interlocutor, and his unusual talents were not lost on Prebisch: the Washington Office, in which Pollock became Director, became his home away from home outside Santiago after President Kennedy's Alliance for Progress in 1961 signaled a change for the better in US-Latin American relations.

When Raúl was appointed as Secretary-General of the newly created UNCTAD in January 1963, he immediately asked Pollock to be his Special Assistant in preparing for its founding conference, set to be held in Geneva in April 1964. The two men now became increasingly close professionally and personally. It was a relationship of both hearts and minds, one of affection and mutual respect symbolic of Prebisch's commitment to his younger collaborators.

When Prebisch retired from UNCTAD in 1968 he returned to his roots in the Americas, undertaking a major Inter-American Development Bank (IDB) review of Latin American development policy in collaboration with Enrique V. Iglesias, among other projects. At this time Pollock's office became Raúl's official anchor in the US capital until he returned to Argentina in 1983 for the final three years of his life. During the 1970s the two men were inseparable, and even David's return to Canada, when he retired in 1980, to teach International Relations at Carleton University in Ottawa, did not weaken their long-established friendship. Instead Prebisch became a regular visitor to Canada, while David remained an ECLAC activist and consultant. Raúl was a guest of David and Sheila Pollock at their Ottawa home in April 1986, a week before he died - a final memorable flourish to a vital relationship.

David Pollock revered Prebisch and his leadership role as a theorist and an institution-builder. Like Prebisch, he devoted his entire life to public service; in recognition of his contribution he was awarded the UN Medal of Honor by the Government of Canada in 1995. His teaching and writing nurtured a generation of young Canadian scholars in Latin American and development studies, and he was a constant source of advice to Canadian officials and agencies in fashioning a new Latin American strategy.

Raúl Prebisch's quest for a more just international economic order resonated with David because it reflected his own values forged from his early years. Born June 14, 1922 in the northern farming community of Kinistino, a small market town of 500 in Saskatchewan (a provincial name which tantalized Prebisch) to which his parents had immigrated from Poland, Pollock grew up during the Great Depression. He witnessed the collapse of the local economy as the bottom fell out of the international wheat market. He observed hardship and collective vulnerability in practice, not merely in theory, and the experience determined his choice of economics and public service as his future career. Prebisch's concept of 'center-periphery' expressed a reality as applicable to the Canadian heartland as to Argentina and Latin America.

In 1943, David enlisted in the Royal Canadian Air Force (RCAF) for service in Europe. This proved to be as formative an experience as growing up in Kinistino during the Great Depression, and it further deepened his commitment to international justice. During the Allied advance into Germany in 1945, he was one of the first servicemen to see Buchenwald; photographs he took there would later be included in the Holocaust Museum in Washington.

Prebisch's vision of international solidarity and development offered the ethical call to arms for which David had searched since demobilization in 1945 and the resumption of

graduate school. His decision to join Prebisch's team in 1951 brought another gifted and committed economist into ECLAC, further enriching a remarkable team without precedent in Latin America. 1951 also marked his marriage to his life-partner Sheila Pollock, creating a loving home base and three sons, the personal counterpoint to a distinguished UN and academic career. Rich in family and friends after a life of accomplishment, David will be remembered and admired in North and South. As a close associate and collaborator over many years I was a beneficiary of his kindness, and a witness to his immense capacity for changing the lives of those around him.

RAÚL PREBISCH AND DAVID POLLOCK: THE CAUSE OF DEVELOPMENT

Enrique V. Iglesias

Raúl Prebisch was one of the great figures in Latin America, a dominant regional and international personality since the 1930s, and it is therefore fitting to honor the centenary of his birth in Tucumán, Argentina in 1901 with a special lecture and conference on his life and work. Moreover, it is equally appropriate that this Prebisch Lecture be delivered by David H. Pollock, one of his closest and most distinguished collaborators over many years. Linked by a close friendship and a commitment to Latin America, Professor Pollock both witnessed and documented the Prebisch legacy as banker, thinker, institutional-builder and international diplomat.

It is difficult to describe or interpret the economic history of Latin America without reference to the enormous contribution of Raúl Prebisch. He stands astride the region as a giant of thought and action, and the footprint of his legacy continues to be unmistakably relevant in the current debates regarding the future directions of Latin American economic development and international governance. Always controversial, at times vilified, Prebisch's work has withstood the ebb and flow of fashion in development theory even as his unflagging dedication to improving the prevailing imbalance among nations and people remains an ethical benchmark.

Prebisch's work expanded spatially as it moved from service to his native country, Argentina, to the regional, and finally, global levels. Each stage was identified by a key idea joined to the creation of a new institution for its implementation: the Central Bank in Buenos Aires, ECLAC which he transformed and UNCTAD in Geneva. In this sense there was a unity of approach in Prebisch's work: the grasping of a historical moment at each level with both concept and agency.

In Argentina Prebisch was a great man of his times. Indeed it is difficult to write the Republic's history without recognition of his role during the inter-war years in particular. Argentina

was the crucible in which he conceived and developed his ideas, immersing himself in the rich cultural life of Buenos Aires after his arrival in the capital in 1918; it was here that the young economist decided on a career in the public service. During the relative stability of the 1920s Prebisch traveled widely, absorbing the experiences of Europe and the US, but also studying the more comparable economies of Canada and New Zealand. Recruited as Deputy Minister of Finance in 1930, at the onset of the Great Depression, he recognized the need for policy innovation beyond the prevailing classical orthodoxy imported from England and the United States, and from then until his departure from Argentine public service in 1943 Raúl was in the forefront of new ideas and policies which helped his country adjust successfully to the challenges of the times. As elaborated by Professor Love, Prebisch's tenure in finance, followed by a year abroad in Geneva and London (where he attended the disastrous World Economic Conference in 1933), prepared him for his most significant initiative - the creation of a Central Bank in 1935, with himself as General Manager. Until his dismissal by the military government in October, 1943 this position made him the key manager in the public sector, while the Central Bank was recognized as one of the leading banking institutions in the world. Prebisch's directing role in the national economy was characterized by an unorthodox policy mix specific to the needs of Argentina in the inter-war years, which both promoted industrialization and maintained close international linkages with key institutions including the US Federal Reserve and the Bank of England. Despite the growing turbulence of the 1930s and the gathering clouds of war, the Central Bank maintained stability and growth, and Argentina was the regional exception in honoring rather than defaulting on its national debt. Prebisch's dismissal was an act of unprecedented folly, precipitating the marginalization of the Central Bank and the onset of secular economic decline.

ECLAC was the beneficiary of Prebisch's immense experience in Argentina, and he came to Santiago as the region's foremost economist. I cannot exaggerate ECLAC's impact on my generation: I remember the reaction at the university when the Prebisch *Manifesto* (Prebisch [1949]) was published and the first copies arrived in Montevideo: our professor dropped everything to concentrate on this new material which was a revelation to us - as controversial then as it is today. Under Prebisch's direction, ECLAC became the leading intellectual center of Latin America, dominating economic debates throughout the region, and it is no exaggeration to say that ECLAC created the economic and social identity of the region. With the passing of time observers tend to forget the many levels of ECLAC's achievements which are now taken for granted. Beyond the "ECLAC Thesis," Prebisch promoted essential regional infrastructure: industry associations such as Iron and Steel or Pulp and Paper; pioneering country and statistical studies; training and planning services; efforts to rationalize transportation links, and so forth. For me his most noteworthy contribution in this period was regional integration, to which he was organically committed. Prebisch could not conceive of a Latin America without integration, and it remained a touchstone of his vision for our region. The Central America Common Market (CACM) and the Treaty of Montevideo creating Latin American Free Trade Association (LAFTA) were first and prescient steps in this direction. President Kennedy's Alliance for Progress adopted Raúl's language on integration and development. He set the agenda: if today there are disagreements about instruments, the necessity of regional integration is now mainstream thinking.

As the founding Secretary General of UNCTAD, Prebisch moved to the global level, although he was never far from the regional agenda. His appointment by Secretary General U Thant was a mark of his UN and international reputation. UNCTAD, not originally planned as a permanent organization, was an enormous challenge. Internationalizing the message of ECLAC, he argued that a new trade regime was required for accelerating development in the South rather than continuing to concentrate benefits in the North; and he argued that the countries of both North and South shared a long-term interest in a more just and prosperous world. Collectively the principles Prebisch elaborated in UNCTAD came to be known as the New International Economic Order (NIEO). While he succeeded in making UNCTAD a permanent secretariat, and while its first meeting in April 1964 created an agenda and platform for change, his dream of creating a true negotiating forum did not prevail against the entrenched opposition to major institutional change.

Prebisch returned from Geneva in 1968 to live in Washington, where he resumed his work with a landmark study commissioned by the IDB entitled *The Challenge of Development* (Prebisch [1971]). This document diagnosed a declining dynamism in the region relative to the Asian experience. As usual the report underscored an active and provocative mind with the ability to encapsulate ideas in unforgettable images and phrases, and projected with a magnificent Spanish. As his concern about the future of Latin American development grew, his thought evolved beyond economic theory to include social and political dimensions. The triumph of neo-conservative governments in the US and the United Kingdom (UK) and the concomitant rejection of a North South Dialogue saddened him, and he was convinced that the new language of liberalization and globalization would accentuate cleavages in the international economy. Even worse, its servile endorsement throughout Latin America signaled capitulation rather than an instinct for autonomous theorizing in the region. In the end he observed that his approach to economic development had been understood and applied in Asia, but not in Latin America.

Prebisch's heart was in Buenos Aires and he longed to return from Washington. The restoration of democracy under President Raúl Alfonsín in 1983 finally offered this opportunity and he became an advisor to the new government. To mark his return Raúl was offered an office in the Central Bank. A saying went about that he was like elephants which returned to their place of birth when they became old. An Argentine to the core despite all the moves of his life, he delighted in these final years at home.

David Pollock was one of Don Raúl's most trusted advisors and friends, and perhaps the best witness to his capacity to both inspire and challenge the people who worked with him. He became the silent figure accompanying Prebisch and Latin America in the following decades, as generous and committed as his great leader, and the only North American to achieve this level of personal closeness and confidence. Thus the IDB was pleased that he accepted its invitation to deliver a special commemorative lecture celebrating the centenary of Prebisch's birth in 1901. Their special relationship underlined another quality of Raúl's leadership - his capacity to attract the best minds and to forge teams of exceptional quality and loyalty. In Argentina, ECLAC and UNCTAD, these teams were decisive for his success, and he rewarded

their work with recognition and reciprocal respect. Prebisch's great gift was an ability to combine a new concept and institution with committed developmentalists at the regional and global levels. David was perhaps the closest to him of all.

David Pollock's last public event before his death in 2001 would be his Prebisch lecture; the present volume, therefore, honors him as a tribute from old friends and collaborators who had the privilege of working with him over the past decades. The collection of original essays by leading Prebisch scholars span the various phases of his life and work and offer new insights regarding his legacy. Building on the Pollock lecture dealing with Prebisch's early views on markets and the state, John and Richard Toye and Nancy Birdsall provide a reassessment of central controversies regarding industrialization and globalization. Professor Joseph Love follows with a discussion of Prebisch and UNCTAD, using Pollock interview with don Raúl as context for his analysis. Since Prebisch's five years prior to joining ECLAC remain largely unresearched, the volume benefits from an entirely new interpretation of his theorizing after dismissal from the Argentine Central Bank in 1943 by Professor Carlos Mallorquin. Edgar Dosman addresses Prebisch's promotion of regional integration during his years at the helm of the Argentine Central Bank, another unknown chapter of his life which sheds considerable light on ECLAC's approach to integration during the 1950s. Enrique Iglesias concludes the volume with an overview of the main points and final observations.

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RAÚL PREBISCH: THE ESSENCE OF LEADERSHIP

David H. Pollock

We have gathered today to celebrate the memory of Doctor Raúl Prebisch, distinguished economist that worked in the United Nations for more than four decades. Don Raúl was one of the most prestigious Latin Americans from the Post-World War II period and I am sure that you will accompany me to honor his remarkable professional career, not only within his country, Argentina, but also at the hemispheric and international level.

It is virtually impossible, and probably misleading, to try and separate the personal characteristics of Raúl Prebisch, the man from the substantive characteristics of Raúl Prebisch, one of the central pioneers of post-World War II development theories and policies.

He was, first and foremost, a leader of people. The term "charisma" is much used and abused, but Prebisch had it in abundance. His personal charm and magnetism captured the attention of every audience he addressed and he would hold that audience-whether a few people or a roomful, whether students or professional bureaucrats-in the palm of his hand for as long as he cared to speak. Many times, in my years with him, I witnessed him facing a hostile individual or a crowd of disbelievers and skeptics and then *-mirabile dictu-* within minutes he had them listening intently to his arguments and as often as not eventually lending him full or grudging support. What was fascinating to me was that, when asked to speak for an hour, he would end his discourse within minutes of that goal. If asked to speak for 15 minutes, he would end up equally close to his timing target. He was an orator of unusual power, not only in his native Spanish but in English and French as well, invariably speaking without notes and without hesitation. As I stand before you this morning, how I wish I possessed those capabilities!

I was one of very few members of the UN Secretariat who was privileged to work closely with Dr. Prebisch in all three of the UN entities that he helped to establish and direct during his long and influential career, namely ECLAC, ILPES and UNCTAD. Certainly I was the only North American who worked with him in all three. As a result, and since our paths converged

so often and so closely during the final quarter century of his life, I was able to know him as a friend as well as an internationally renowned economist and prominent UN official. It is this personal side that I would like to single out for special attention in this initial portion of my talk.

Don Raúl, as he was known to his wide circle of personal acquaintances, was a warm-hearted and gregarious man: one of the few UN Under-Secretaries General who quickly developed a close personal relationship with his colleagues at both the junior and senior levels. His staff members were exceptionally loyal to him, not only because he treated each person as an individual but also because he worked as hard as anyone else, arriving at the office early each morning and remaining there until close of work at night. He was one of those rare senior UN functionaries who always wrote his own drafts, even though he would give careful attention and credit to key inputs from his advisors. I was fascinated by his Socratic technique of assembling information-asking questions, soliciting inputs from his associates, and then synthesizing everything into a final organic text while still putting his own individual imprint onto that text. He loved to walk while working, and we often referred to the lawns and walkways around his various UN buildings as his "outside offices."

I would not, however, wish to leave the impression that his working style was loose, casual or based excessively on personal friendship or anecdotal accounts. On the contrary, substance always came first. If a staff member or friend began to waste time with extraneous or superficial presentations, or if a written submission was deficient in its substantive content, Dr. Prebisch would say so, courteously but unequivocally. There was never any doubt where he stood on issues, especially contentious ones.

In writing about Dr. Prebisch after his death, one must be careful not to think solely in terms of a eulogy. It is easy to be hagiographic, especially for someone with such attractive personal characteristics. In reality, however, he was often a tough, hard-driving leader, one who could use biting phrases to criticize or castigate an errant or incompetent colleague. I remember, for instance, his use of the word "viejo" when calling one of his close working associates in Santiago. The term clearly was being used in a pejorative way, and was touching a sensitive nerve in the person on the receiving end, who was nearly at retirement age and whose working capabilities had slowed down noticeably with the passage of time.

Yet it was almost always a pleasure to work near him. Rarely have I found a professional relationship that was so intellectually stimulating and at the same time so personally enjoyable. Don Raúl loved good wines, as he did good conversation. On his last visit to Canada - in April 1986, at an academic conference I had helped to organize - he and I had dinner in an elegant nineteenth-century hotel, after which we continued our conversation until well beyond midnight. On leaving, he took his last glass of red wine and made a gallant toast to Canada and to me. So I take advantage of this address, today, to reciprocate by toasting Don Raúl and his manifold contributions to international development. His memory continues to warm me today, like the good red wine of that evening long ago.



Prebisch was a complex figure and personality.¹ Each segment of his life can be readily identified—the formative years of the 1920s when he left Tucumán for Buenos Aires; the thirteen years from 1930 to 1943 culminating in his creation of the Argentine Central Bank; the following five years as professor and consultant; his work for the UN, first with ECLAC and then with UNCTAD; and finally a busy retirement until his death in April, 1986. Prebisch arrived in Buenos Aires, the hub of South America, in 1918 when the fate of the First World War was still undecided.; he died as the final Cold War years were ending. In short, his active life spanned nearly the whole Twentieth Century, the short but violent period of 1914-1989 as described by Eric Hobsbawm [1995].²

At the same time Prebisch's life projects have a dual image—almost a split personality. There is first the international Prebisch of ECLAC, UNCTAD and beyond: the well-known UN personality; the founder of structuralism, the innovator and institution-builder; the proponent of Latin American regional integration; the tireless fighter for justice in regional and global relations. Vibrant, elegant, charismatic and compassionate, he was a true leader from the moment in May 1949 when he presented his Manifesto to ECLAC's Second Session in Havana (Prebisch [1949]). The other Prebisch, during the years of public service in Argentina prior to his expulsion from the Central Bank in October 1943 is unrecognizable. In this period, the image of Raúl was different. Anything but the reformer, he was instead associated with the Argentine oligarchy and Conservative Restoration between 1930-1943, a period rather dubiously known as the "infamous decade." He is projected as the beneficiary of the September 6, 1930 military coup led by General Uriburu, who appointed him Undersecretary of Finance at the age of 29, and his responsibilities in the Argentine state continued to expand thereafter to his leadership role in creating and directing the Central Bank as its founding General Manager, until another military government terminated his role in public life in October 1943. Even in personal style he seemed different in the years before 1943 from the well-known public figure in the UN after 1949. He was seen as a powerful insider behind the scenes—indeed the most important economic manager in the Republic—but was socially invisible by choice.

Which was the "real" Raúl Prebisch? I contend that there is a fundamental unity to his work which has been missed, and that the key to understanding his life and thought lies in bridging the Argentine and UN periods. Obviously I do not claim the transposition of time-bound elements from one historical period to the other - this would be unworthy of his memory. But several of the key values and assumptions which guided Prebisch's work in

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¹ A special note of gratitude is extended to Eliana Prebisch and the Prebisch Foundation in Buenos Aires, and to Adelita Prebisch in Santiago. In particular, access to the *Prebisch Papers* in Santiago permitted the perusal of valuable unpublished correspondence and manuscripts which offer new insights into Prebisch's work and thinking during his pre-UN period.

² The numerous Prebisch scholarships include the exceptional contributions of Joseph L. Love, Carlos Mallorquin, Ronald Sprout, Octavio Rodríguez, Kathryn Sikkink, Cristobal Kay, Adolfo Gurrieri, Leopoldo Solís, Manuel Fernando López, and many others. For recent assessments see Campos [2001], Rodrik [1997] and Helleiner [2000].

ECLAC and UNCTAD also animated his earlier efforts in Argentina, and previously unpublished materials now available in the Prebisch Papers are particularly helpful in understanding his thought in this period before the better known regional and global periods of his career. For purposes of illustration I have chosen four topics: vocation and leadership style; markets and the state; core and periphery; and finally Prebisch's concept of ethics and development.



Prebisch's choice of public service as his vocation stemmed directly from his upbringing in Tucumán and the Post-War turmoil he witnessed during 1918-1921 as a student at the Faculty of Economic Sciences. In Tucumán he witnessed the migrant labour in the cane fields of the sugar barons; arriving in Buenos Aires to begin his university life he encountered Post-War turmoil, class politics and mob-violence. He studied Marxism in the context of the new Bolshevik Revolution and rejected Marxism on both economic and political grounds. Like others in this gifted generation, Prebisch was committed to serve his country. Without fortune or family advantages beyond a provincial middle-class upbringing - his mother came from a distinguished Salta family, but she had married a German immigrant - Raúl had few options beyond a career in the Argentine public service. He loathed the military, was distrusted by the oligarchy, and married so entirely out of Buenos Aires elite that his rich relatives refused to invite Adelita to their house. In these circumstances there was no prospect for entering politics.

The question was how to make an impact. He faced the dilemma of being an honest man in a corrupt system. Raúl recognized the weaknesses which threatened the prosperity and stability of Argentina: like Italy and France, it was a failing democracy with a flabby, underperforming state. The social structure and political parties lagged behind Argentina's great economic promise or those of comparable countries such as Australia, which he visited in 1924. Raúl's solution was to form an administrative team based strictly on merit, and occupy a strategic location where it could function as a development elite in the heart of the state. His ability to recruit teams of professionals and motivate them forms one of the most recognizable features of his ECLAC and UNCTAD period, but it was already evident during his university years and reached its highest point after the creation of the Central Bank in 1935. As a mixed enterprise the Bank had enough autonomy from the state to become an anchor of stability during the difficult years of the 1930s.

The teams he recruited for the Central Bank, ECLAC and UNCTAD also informed Prebisch's style of leadership. In each case he insisted on intellectual autonomy, and each case was centered not merely on a concept, but also an agenda, platform and institution. It was a distinctive leadership style. Throughout his life, Prebisch was driven by a search for "historical moments" in which the timing of a new concept could transform an organization into a movement. Theory, machinery and policy: this powerful "trinity" - linking an idea to an institutional mechanism in order to implement policy-comprised the core of the Prebisch

vision. The Central Bank had offered one such opportunity, in the mid-1930s, and the correctness of his intuition at that time deeply affected Prebisch after his forced departure from the Bank in 1943. During the following half-decade in the wilderness he had sought another opportunity for leadership, finally finding it in the UN and ECLAC. The triumphant reception of the Prebisch Manifesto - personally signed at UN request - and his first-hand experience with the newly established ECLAC, opened a new period of his life. At Havana he saw another potential breakthrough - a second "historical moment." ECLAC's office in Santiago became a centre of excitement and creativity, with the region's most gifted economists working themselves to exhaustion for "the great heresiarch." It was the Central Bank model all over again - a chosen elite working within the system, but this time united behind a crusading regional development ethic. The "trinity" of doctrine, institution and policy all converged behind a magnetic and forceful personality, this time with a regional, not national, optic. If the Central Bank was designed as the backbone of the Argentine state, ECLAC became the instrument to project a regional vision. Prebisch offered an indigenous economic paradigm and vocabulary for viewing Latin America within a single conceptual and policy framework. In this sense he "created" Latin America.



The second topic of this paper concerns markets and the state, and looking over the life of Raúl Prebisch one cannot help but note a remarkable continuity or common theme. Managing globalization was clearly a core thread linking the periods of Prebisch's long life. The Argentina into which he was born was one of the most successful countries in the global order which took shape after 1880, using its great export wealth under the Pax Britannica to achieve the second highest per capita income in the world. But Prebisch's arrival in the capital in 1918 coincided with the playing out of this model, even though a fragile prosperity was revived in the 1920s before the onset of the Great Depression. When the global trading order collapsed in 1930, and he became a leading policy insider, he moved away from classical theory to protect his country in this new and hostile climate. While he headed the Central Bank he continued his work on the two fronts of equity and development: first, to search for institutions and policies to deflect the worst consequences of the depression; and second to restore and expand Argentine prosperity within a new industrial model which could match Canada and Australia in a "second jump" after the exhaustion of commodities production for export. The term "civilizing globalization" would describe this part of his career, while Argentina provided one of the most interesting countries in the world for analyzing the flow of power in international relations. By 1943 when he left the Argentine Central Bank his views on markets and the state were fully formed, and he was the best-known economist in Latin America. After 1949 Prebisch addressed globalization at the regional level, and within the conceptual framework of structuralism presented in his Havana Manifesto; when he moved from ECLAC to UNCTAD in 1963 he moved to the global level, pioneering the NIEO.

Prebisch's early views on free trade are well-known; as late as 1927 he endorsed free trade with the argument that Argentina had benefitted as much as the US, Canada or Australia by specializing in commodity trade (Prebisch [1991] pp. 460-480). But experience changed his approach to state and markets after the onset of the Great Depression. In practice Argentina had been forced to abandon free trade and develop a more activist state in the first National Recovery Plan; and it was undeniable that the creation of the Central Bank was a key factor in reducing vulnerability by taming the business cycle, or that industrialization which accounted for nearly half of national Gross Domestic Product (GDP) had been successful in replacing imports unavailable during depression and war. Prebisch unequivocally rejected the doctrine of comparative advantage, arguing that while it had served Argentina well in the past, commodity exports alone were inadequate to provide the necessary jobs and opportunities for Argentina. Only industrialization could provide this future; monetary and industrial policy had to serve the national purpose of "strengthening development and maintaining full employment; and stimulating the fastest possible rate of growth." In short, Argentina had to take responsibility for its future with a deliberate policy - it could not rely on the market or other countries. The option was marginalization. "To resist subordination of the national economy to foreign movements and contingencies," he wrote, "we must develop inwardly, strengthen our internal structure and achieve an autonomous functioning of our economy" (Prebisch [1943]).

But "develop inwardly" (*hacia adentro*) did not mean withdrawal from the international economy or hostility toward the great powers. Nor did it imply a command economy, and he warned against excessive state interference. "A policy of autarchy is as absurd as free trade, with noxious consequences," he noted. "This country must export, and therefore has to import (...) To the measure that imports grow, particularly essential materials and durable and capital goods, they will permit exports and attract permanent foreign investment." Development required what he termed an "intelligent regime," which combined the wealth-creating function of the market with the policy framework and regulatory role of the state. It therefore required strong national institutions like the Central Bank, but also a strong private sector and investment climate. He warned against stifling the private sector: "Monetary policy serves little or no purpose if it suffocates private initiative and the spirit of enterprise which absolutely requires the profit motive and an overall climate of confidence."

In short, Prebisch's model of "inward development" was modern. The challenge was to find the right balance between opposing tendencies in Argentina - between free trade and industrialization; between external forces and the national economy; and between inflation and development. A "reasonable equilibrium" had to be maintained between the role of the state and the play of individual interests in economic life; and social policy had to be linked with productivity for sustainable growth. The market had to be encouraged within the social interest; a compromise had to be found between the benefits of liberalization and the protection of national values. The later Prebisch is recognizably there already in 1943 - a unique combination of theorist, policy reformer and conservative banker. His views also have a strikingly contemporary ring - for example his call for an "intelligent regime" with administrative

coherence, pursuing an export mix beyond commodity trade, and understanding the need to combine open markets with calculated interventions and deliberate process.

It is therefore simply wrong to believe that Prebisch was hostile to international trade. By his dismissal in 1943, an allied victory in the Second World War was certain, although the shape of the new international system to take its place remained unclear. Harry Dexter White and John Maynard Keynes were preparing the Bretton Woods Conference for July 1944 and the Atlantic Charter offered a vision of international cooperation to revive trade and ensure financial stability after the war. Argentina was isolated from the Allied camp by its neutrality, but Prebisch strongly endorsed the work of White and Keynes. "It is essential to avoid what happened after the First World War," he wrote in December 1943. He had closely followed the failure of peace-making to revive Post-War growth in the 1920s. He saw that even the Dawes Plan, introduced in 1924, provided only a temporary and elusive stability which abruptly collapsed in 1929. The result, according to him, was the retreat into what he called "water-tight compartments." Argentina needed the return of a stable multilateral trading system. "The participation of our country in the international economy must be as intensive as possible," he concluded, and therefore the primary task of the Allied coalition was to recreate an open trading system.



If Prebisch's views on markets and the state suggest his long preoccupation with political economy, his early interest in theories of development should come as no surprise. By 1943 he noted the need for "a distinctive theoretical explanation" to understand Argentina's position within the international economic system, and his writings already challenged some of the most hallowed principles of classical economic theory and foreshadowed the structuralism in his Havana Manifesto (1949) (Prebisch [1943]).

Prebisch reversed the assumption of equilibrium in the international economy because it failed the empirical test. He had researched the history of Argentine monetary policy since independence in his 1921 Notes on the Money Supply, where he had first used the words "centre" and "periphery" (Prebisch [1991] pp. 93-175). This terminology appears not to have been imported from European thinkers, but rather developed locally in the context of the national debate on the concentration of wealth and power in the coastal metropolis of Buenos Aires at the expense of the neglected and underpopulated pampas. For Raúl the issue was not the words, but rather the nature of the relationship between what the literature had long called "agricultural" and "industrial" countries. In the Notes he had concluded that the business cycle in Argentina functioned differently than in industrial countries: the boom and bust cycle which reflected factors like weak capital markets and psychological differences were specific to Argentina and unlike Europe - so that self - correcting mechanisms characteristic of the cyclical flow in industrial markets could not

function in the same way. Since this early research Raúl had observed trade patterns for more than twenty years, and witnessed what he termed a "persistent decline" in agricultural prices. The slight improvement of terms of trade in 1937 was the product of international recession in Europe and the US rather than a trend.

Prebisch therefore proposed a major theoretical challenge. According to classical theorists the business cycle produced periodic instability but equilibrium was the assumption and the norm. Observation and his own research suggested the reverse - an embedded disequilibrium between agricultural countries (Argentina) and the industrial centres. The business cycles, he argued, "produce such distinct characteristics in our economic life that their explanation calls for an alternative theoretical explanation than that appropriate for industrial countries." Such equilibrium "can be provoked or accentuated by the persistent fall in the international prices for our exports." The notion of disequilibrium, he hypothesized, might bring theory into line with intuition, observation and experience. No country had aspired more to trade and monetary orthodoxy than Argentina in its elusive search for a restoration of "normalcy" during the 1920s; despite all these efforts, the Great Depression swept aside these older verities from classical theory, demanding new approaches.

The 1949 Havana Manifesto was still some distance away, but the book he proposed in 1943 already contained the theoretical underpinnings of Prebisch's work on core and periphery. During the five intervening years - when Prebisch was outside the circles of power - he nevertheless was able to develop and consolidate these ideas. Traveling throughout Latin America as a banking consultant and teaching in the Faculty of Economic Sciences in Buenos Aires, he came in contact with the work of scholars in the international trade field, and met a new generation of Latin leaders - Carlos Lleras Restrepo, Victor Urquidi and others - who were equally committed to beginning a new era in the region. Finally, Hans Singer's work on terms of trade, which he received in the midst of writing the 1949 report, confirmed his own intuition and experience, and provided the final burst of confidence needed to complete the Havana Manifesto.

I have left for last what is to me most important. The 'essential Prebisch,' I would argue, lies in his uncompromising ethical standards. His decision to study economics-at that time a new and not particularly prestigious discipline in Argentina, promising few financial or political rewards - reflected a desire to understand markets in order to improve the social conditions he found so wanting in his country. The same idealism infused his choice of career in the Argentine public service when he recognized the modernization of the state as his future path. During the war Prebisch came to the conclusion that a pro-Allied stance was essential whatever the risk, and he paid for expressing this unpopular view by being dismissed as General Manager of the Central Bank, a position to which he was enormously attached.

In all his projects Raúl insisted on thinking big rather than losing vision in detail, and he insisted equally on independence of mind. Development was a just cause before which protagonists could be "impartial but never neutral." Inherently difficult, it required discipline for success and he called for both North and South to accept reciprocal responsibilities-for

developing countries to pursue structural reforms required for growth, and for the core countries to support them with converging measures in the common long-term interest. He believed in multilateralism and consensus - building as the foundation for a new world order, but he had no illusions about easy success, either in Argentina, Latin America or North-South relations. Nor would he justify succumbing to despair when met by disappointments.

Recalling the life of Prebisch serves as a call to action, for his most enduring legacy as a man is the ethical integrity which marks his work from beginning to end and which resonates today with equal and perhaps greater urgency in the new era of globalization. His life reminds us that hard choices - social, political and economic - cannot be avoided if the global system is to be made equitable for the poor, the marginalized and the powerless. It also underlines the difficult tasks which lie ahead for business, civil society and governments within countries, and within international organizations struggling to advance global governance and to harness markets for a just order.

The essence of Raúl Prebisch, in short, was that he was not content to merely understand the world. Rather he set his sights much higher, continuously seeking new ways and means of improving it.

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RAÚL PREBISCH AND THE LIMITS OF INDUSTRIALIZATION

John Toye and Richard Toye

Fifty years on, the mainstream economics literature still recognizes Raúl Prebisch as an advocate, a very powerful and important advocate, of import substituting industrialization as a development strategy for Latin America (Edwards [1993]). So he was. He did believe in import substitution industrializing (ISI), and he was persuasive in advocating it, and he also knew that he was persuasive—he even compared his literary style to that of George Bernard Shaw! (Magariños [1991]) However, this advocacy was only a part of his legacy to the region, and perhaps not the most important part. A greater contribution, and one that should be more clearly discernable today, was his exploration of the limits of industrialization, and of the ways in which excessive industrialization can reduce economic welfare.

There is something odd in the view that Prebisch's fame rests solely on his advocacy of ISI. After all, the process itself was well under way by the time that he joined ECLAC, and was hardly in need of advocacy. It had been a spontaneous response to the circumstances of depression and world war. Nor did industrialization lack theoreticians; numerous writers - from Simonsen to Manoilescu - had argued its merits in the 1930s. To make the case again in the economic conjuncture of the late 1940s was indeed necessary, but this did not mark the extent of Prebisch's contribution.



The arguments for industrialization in the 1948 ECLAC Survey of Latin America and in *The Economic Development of Latin America and its Principal Problems*, published under Prebisch's name, were in many ways similar. In *Economic Development*, he added the point that industrialization did not depend on the reduction of mass consumption, which he

considered to be too low. He thought that "an immediate increase in productivity per man could be brought about by well-directed foreign investments added to present savings." Once this had been accomplished, much of the increase in output could be dedicated to additional capital formation. Further, industrialization would transfer workers from low productivity primary production and other low-paid occupations to industrial employment, considerably improving productivity and raising net national income (Prebisch [1950] p. 5).

For all that, Prebisch insisted that the welfare purpose of industrialization must mean that the process faced economic limits.

If industrialization is considered to be the means of attaining an autarchic ideal in which economic considerations are of secondary importance, any industry that can produce substitutes for imports is justifiable. If, however, the aim is to increase the measurable well-being of the masses, the limits beyond which more intensive industrialization might mean a decrease in productivity must be borne in mind (Prebisch [1950] p. 6).

Prebisch's analyses were always intellectually controversial; as Celso Furtado noted, his contributions were all implied criticisms of laissez-faire (Furtado [1988] p. 87). The Economic Survey of Latin America 1949, written under his direction, justified ISI as an inevitable response to the dramatic decline in the import coefficients of both the UK and the USA over the previous twenty-five years, which compelled Latin America to lower its own import coefficient. The Survey also tackled a related problem, which had been left open in the previous year's study: the balance of payments problems likely to be caused by the spread of technical progress. It was argued that the fundamental economic problem of Latin America lay in increasing its real per capita income by virtue of an increase in productivity, since the possibility of raising the living standards of the masses by redistributing income was strictly limited. However, when this occurred, imports likewise tended to increase at a greater rate than the population. If exports did not follow suit, balance of payments disequilibrium followed (ECLA [1951] pp. 26-34, p. 39). Latin America was therefore caught in a scissors trap, between low external demand for its primary products, and its own increased demand for imports as it tried to raise average productivity by industrializing (Prebisch [1950a] pp. 2-3). This trap was tightened further by the deterioration of the terms of trade (ECLA [1951] p. 18). Prebisch conceded that in some countries inflation was another aggravation, but saw the imbalance as the result of the "much deeper and more fundamental forces" mentioned above (UN [1950a] p. 3). "The organic phenomenon of economic development must be distinguished from the circumstantial phenomenon of inflation... disequilibrium... will inevitably have monetary consequences whether inflation is present or not" (ECLA [1951a] p. 11).

How, then, could disequilibrium be countered? Prebisch knew that exchange control, import quotas, currency depreciation and tariffs were mere improvised measures that might suppress an existing imbalance, but not remove it. He proposed, not to reduce imports, but to alter their composition "in such a way that the contraction of certain imports will allow the expansion of others which are indispensable to economic development" (UN [1950a]

pp. 3-4). What was new was not the advocacy of import substitution itself - which in this analysis was already happening spontaneously because of Latin America's declining capacity to import. Rather, it was the insight that the ISI process should be planned, a point he made still more explicit in later ECLAC studies (Furtado [1988] p. 107).

For Prebisch, industrialization had to be planned because the process had limits. He saw that "one of the essential conditions which must prevail in order that primary production in the Latin American countries may retain for itself the benefits of technical progress is that the surplus of active population resulting from such progress be absorbed into industry and other activities." Yet he also saw that this labour transfer, if taken too far, would become detrimental to agriculture. "Without tariff protection it would have been impossible to reach the stage of industrial progress achieved in many good Latin American countries" (UN [1950a] pp. 7-8 and ECLA [1951] p. 85). Yet in many countries the levels of protection were already excessive, and driven more by political than economic considerations.

ISI ought to have a regional dimension. Prebisch noted that when tariffs had been raised against goods from the industrial centres, not only have imports from such centres been reduced but imports of manufactured goods from other Latin American countries have been obstructed. Consequently, we are faced with industries established on either side of a frontier, each having a relatively limited market which could be expanded by a more rational distribution of the industrial efforts of the Latin American countries. Certain forms of specialization would thus be encouraged with evident advantages to be gained in productivity.

He therefore proposed that "the industrial development of the Latin American countries also requires the development of reciprocal trade in manufactured goods," in addition to trade in foodstuffs and raw materials (UN [1950a] p. 8). The need for regional integration - admittedly recognized at ECLAC's inception, before Prebisch's arrival - would become one of the Commission's key themes in the years that followed. On this basis, it seems difficult to accept the argument that ECLAC's doctrines under Prebisch were ever narrowly inward orientated.



The arguments of the 1949 Survey seemed too abstract to the majority of readers, but to specialists they seemed to lack conceptual precision (Furtado [1988] p. 84). Perhaps predictably, the Latin American countries welcomed them, whereas the US delegate commented sceptically (UN [1950b] p. 3). Despite this, US attitudes towards ECLAC at this time were not as unremittingly hostile as Prebisch believed (Magariños [1951] p. 142; Furtado [1988] pp. 123-128; Pollock [1988] pp. 121-129; Pollock [1978] pp. 57-80). He was slowly winning the US government's respect. At its 1951 meeting in Mexico, a US proposal to close the Commission down was narrowly averted after Prebisch offered a stout defense of its work (and after a timely intervention from President Vargas of Brazil) (Magariños

[1991] pp. 138-141; Furtado [1988] p. 94; UN [1951]). This appears to have diminished American doubts about the value of the commission (UN Archive [1951]). The US delegation reported that it was "much impressed with the work of ECLAC and of its Secretariat, and particularly with Dr. Prebisch himself." Moreover, "the Delegation felt that ECLAC is building up a body of Latin American thought in the fields of economic development and trade which is essentially realistic and useful (...) it was felt that Dr. Prebisch is in a position to bring home to Latin American officials economic truths which they would not accept on the basis of any statement made by US representatives" (FRUS [1951]).

Prebisch's robust style served him well. Göran Ohlin observed of him that "if he was 51 per cent convinced of something, [he] went for it one hundred per cent and left it for others to argue the final points and to continue the discussion long after he had left the scene" (UNCTAD [1989] p. 31). This gave colleagues, such as José Antonio Mayobre, Juan Noyola Vazquez and Celso Furtado, an important role in testing and refining his hypotheses.³ It is Prebisch, however, who concerns us here, given his later and wider international role; for the ECLAC ideas of the 1950s later animated UNCTAD's thinking, and gained a worldwide audience.



By the early 1950s, the more industrially advanced Latin American countries, such as Mexico, Brazil and Argentina, appeared to have passed through the first 'easy' stage of ISI, when imports of non-durable consumer goods such as clothing and shoes are substituted by domestic production. They therefore faced a choice between undertaking a second stage of ISI, substituting, for example, imports of cars and refrigerators, or turning to the export of manufactures. Bela Balassa argued that Prebisch adopted the former course, favouring the expansion of manufacturing industries oriented towards domestic markets. The truth is quite different. Prebisch realized that the ISI process was like squeezing a lemon; the first squeeze would yield a great deal of juice, but subsequent squeezes would yield progressively less and less. In retirement, he emphasized this. "To say we had an 'import-substituting model' when we were the first to talk of reciprocal trade between the Latin American countries and of the export of manufactures to the rest of the world, is to twist, to disfigure, the thinking that we had" (Magariños [1991] pp. 149-150).

Indeed, he was not even sanguine about the prospects for countries in the 'easy' phase of ISI. In 1951, he noted that Cuba had just raised its tariffs in order to protect its infant textile

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³ The latter, notably, felt that Prebisch's designation "peripheral" did not adequately describe the economy of his (Furtado's) native Brazil. This, he felt, should properly be described as "colonial," which would allow the question to be reintroduced into its historical setting; and he applied this analysis to the cyclical relationship between Brazil's textile industry and its primary export sector (Furtado [1988] pp. 74-77).

industry. He observed that the reductions in textile imports thus obtained might well be more than offset by larger imports of other goods, as had happened in other countries. On this occasion, he refused "the common attitude of condemning inflation," although he was "convinced of its serious evils," as any meaningful anti-inflationary policy needed to be coupled with recommendations which permitted acceleration of the rate of investment (ECLA [1952]). The next year, by contrast, he spoke of the Commission's "perplexity" and "great anxiety" over the incompatibility "between the wish to intensify investments and the equally praiseworthy desire to raise the standard of living of the masses." He argued that "in order to attain these goals simultaneously, some countries have allowed inflation to reach a very dangerous stage: namely, that of cost inflation." This resulted from such countries' inability to raise productivity sufficiently to absorb higher wages and social security charges, and the consequent economic dislocation tended to lower productivity in turn (ECLA [1952] p. 26) Prebisch, though he continued to argue that inflation was not purely a monetary phenomenon, was, as an old central banker, well aware of its dangers.

In the same speech, he warned explicitly of the problems that could be associated with inward-oriented development. Speaking of Central America, he said that "with the tendency to develop inwards, through industrialization, a very serious difficulty arises ... namely, the incompatibility between the need to develop certain forms of industrialization and the small size of the [domestic] markets." In order to overcome this, he advocated Central American regional economic integration, with particular countries specializing in particular industries and exporting manufactures to one another: "We envisage the possibility of a profitable industrial trade, complemented by trade in agricultural products and raw materials among these countries" (ECLA [1952] p. 26). He would later see the failure of Latin America as a whole to undertake such integration as the region's key developmental failure.



Not sensing, perhaps, that his warnings would go unheeded, by 1953 Prebisch was riding high. Support for the Commission within Latin America itself was growing; its 1953 Rio Conference was the first at which all the countries of the region were represented. Colombia, one of the few countries that had previously been rather doubtful about ECLAC, offered its capital for the next meeting (UN Archive [1953]). The Commission itself was also evolving. Its early work had been of a largely theoretical character. Prebisch now emphasized that, although it had been "necessary to elaborate certain principles for practical guidance," the time for "concrete action" had arrived (ECLA [1953] p. 45).

This change in direction resulted in the production of sectoral studies, studies of particular industries, and country studies. There was a particular focus on the technique of development "programming." In his memoirs, Furtado summarized the philosophy behind this kind of planning, which he distinguished from Soviet planning, Keynesian-style full employment

planning, and French-style indicative planning. The aim was to increase the transparency and rationality of the decision-making process. By forecasting rates and trends of development on the basis of varying hypotheses, countries could in effect be told, "here are your possibilities; everything has a price, each that is chosen must be paid for by the renunciation of something else" (Furtado [1988] pp. 142-144).

The growing flurry of reports helped bolster the Commission's influence. Even the US State Department, whose interest in Latin America now focused on rallying the hemisphere against the Soviet threat, was forced to acknowledge this. Its report on the tenth Inter-American Conference in March 1954 noted that at no previous such conference did the Latin American Delegations come so well prepared with statements of economic problems and aspirations of their countries. Delegate after delegate presented lengthy and in many cases well-prepared documents... In much of this was evident the work (...) of the secretariat of the United Nations Economic Commission for Latin America, under the direction of Raúl Prebisch. The various Latin American countries had available from ECLAC a very considerable number of studies of their economic problems on which they could draw for material, and in many cases the delegates had picked up technical economic jargon learned from Prebisch (FRUS [1954] p. 306).

The Commission had helped increase the sophistication of the Latin American governments' economic arguments, and this went some way to strengthening the region's political power in its relations with the United States. ECLAC's influence on the Latin American countries' own economic policies was, however, far more limited (Furtado [1988] p. 105). Prebisch's own later frustration with the way that the industrialization process evolved is eloquent testimony to this.



In the 1960s, Prebisch reflected on several different occasions about what, in his view, had gone wrong. He used these reflections as a guide to future development, not only in Latin America, but also elsewhere in the world. In his 1964 report to the first UNCTAD Conference, he looked back as far as the 1930s. Talking mainly about Latin America, he commented: "in the developing countries which undertook to industrialize at that time, industrialization proceeded piecemeal in a large number of watertight compartments with little inter-communication, to the serious detriment of productivity. World War II, he argued, "gave this form of inward-looking industrialization still further impetus, and nothing happened thereafter to alter this characteristic trend." While "industrialization based on import substitution has certainly been of great assistance in raising income in those developing countries ... it has done so to a much lesser extent than would have been the case had there been a rational policy judiciously combining import substitution with industrial exports."

Once more he rehearsed the theme of limits. "There are limits to import substitution in the developing countries which cannot be exceeded without a frequent and considerable waste of capital." Second, the relatively small size of national markets "has often made the cost of industries excessive and necessitated recourse to very high protective tariffs;" such tariffs encouraged the establishment of uneconomical plants, weakened incentives to modernization, and slowed down the rise in productivity. Third, industrialization had generally not taken place as the result of a planned development program, but had been dictated by adverse external circumstances; this tended to lead to sub-optimal forms of import-substitution. Finally, Prebisch argued, "excessive protectionism has generally insulated national markets from external competition, weakening and even destroying the incentive necessary for improving the quality of output and lowering costs under the private-enterprise system. It has thus tended to stifle the initiative of enterprises as regards both the external market and exports." As he put it yet more strikingly in 1967, the Latin American experience had shown that this was "a bad type of industrialization" (UNCTAD Archive [1967]).

He still believed that a more rational process of import-substitution, based on regional integration, could lead to a considerable lowering of costs, and that some exports to developed countries might even become possible (UNCTAD Archive [1965]). He still believed that because the agricultural sector in the developing countries was too small to provide adequate employment for the increment in the economically active population, these countries "must become industrialized, come what may."

Prebisch in ECLAC contributed to a long-established, dominant regional discourse around the belief that industrialization would be the decisive factor in escaping underdevelopment. Yet ECLAC's contribution was by no means restricted to rationalising a process of economic change that had already begun. Rather, under Prebisch's leadership, the Commission's key policy insight was that, unless governments took corrective action, the existing form of "spontaneous," inward-oriented industrialization would have negative welfare effects. It would exacerbate the very forms of disequilibrium that less critical advocates of ISI confidently expected it to overcome. The remedy for this was regional integration -preferably on the basis of a uniform and moderate external tariff - aimed, to an important degree, at the export of manufactures. Indeed, as Sidney Dell later pointed out, Prebisch, in his criticisms of inward-orientation based on excessive protectionism, "was criticizing the Latin American countries for precisely the policies that, according to Balassa and others, he was supposed to be advocating."

Why, then, the misinterpretation? ECLAC's influence on Latin American governments was exaggerated. As Prebisch later pointed out, the ideologies of Peronism, ECLA-ism and Latin American developmentalism more generally had a common denominator in the belief that it was necessary to industrialize. In his opinion, ECLAC succeeded in proving that this was the theoretically correct course, but this did not mean that the zeal for industrialization could be wholly attributed to ECLAC (Sikkink [1988] pp. 91-114). Yet because of the surface similarities between different pro-industrialization ideologies, the Commission has tended to

be blamed unfairly for the consequences of policies key aspects of which in fact opposed. The political influence of UN bodies, even when successful, does not include the power to implement their ideas. This rests with national governments. Governments might appropriate those ideas for their own purposes, but would not necessarily implement them in the way that their originators intended. In short, although Prebisch never intended to legitimise all existing practices of ISI, to some degree that was what happened, to his own subsequent frustration. Prebisch's later UNCTAD statement is more indicative of the intention behind his work at ECLAC, both in emphasizing the necessity of industrialization, and in pointing out the likely pitfalls of a chaotic industrialization process.

Prebisch's ECLAC experience had more positive outcomes, too. Not only was the Commission one of the most fertile grounds for new and challenging development ideas in the UN system; and not only did Prebisch's leadership of it help propel him to greater international prominence in the 1960s; but also, the ideas that ECLAC helped to generate, in reaction to the Latin American experience of industrialization, provided the intellectual basis of Prebisch's subsequent work at UNCTAD, uniting the whole of the developing world (UNCTAD Archive [1967]). Let us conclude by hoping that it will not take another fifty years before the true nature of his contribution to trade and development theory is absorbed into mainstream economics.

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LATIN AMERICA AND GLOBALIZATION: PREBISCH HAD A POINT

Nancy Birdsall

The genius of Prebisch was that he saw Latin America's economies as inexorably embedded in and vulnerable to external economic forces, what we today call the global economy. Much of his thinking was built on the central idea, popular in the initial Post-War decades, that in the international system there is a center and a periphery; because the periphery faces certain inherent disadvantages, economies can benefit from sensible planning and coping strategies. There is a certain irony in his close association with the related 'closed' policies of protection and ISI, which are today viewed in opposition to the 'openness' of export-oriented 'globalizing' economies. In fact, Prebisch's recurring theme was not to favor a closed escape from the global economy, but to focus on policies that would take dependence on the global economy into account - minimizing the costs and building on the potential gains of the region's embeddedness. Embeddedness for Prebisch implied both potential advantages and grave risks. In that sense he foresaw today's centrist view of globalization - as both an opportunity and a risk for developing countries.

The 1980s and Early 1990s: Prebisch Forgotten

Framed this way, the financial crises of the 1990s were a harsh reminder that Prebisch had a point. But for almost two decades following the debt crisis of the early 1980s, his vision of Latin America as embedded in and vulnerable to global economic realities was for all practical purposes forgotten. In the 1980s and much of the 1990s in Latin America, external vulnerability was not on the agenda at all. The economic policy focus was on eliminating domestic policy distortions. The lack of external capital to finance investment, the success of Chile's market-driven policies of adjustment and openness, the collapse of the statist economies of Eastern Europe and the former Soviet Union, the rapid growth of

the export-driven East Asian "tigers" (Korea, Taiwan, Hong Kong and Singapore) - all of these encouraged Latin American policymakers to emphasize domestic adjustment and market reforms: openness to international trade, strict fiscal discipline, and privatization of state-owned enterprises. This emphasis on the domestic market-driven policy agenda was encouraged and supported by the international financial institutions, whose loans were tied to internal reforms. The consensus on these reforms, because of the support of the Washington - based institutions, was eventually labeled the "Washington Consensus,"⁴ a nomenclature that should not obscure the point that the single-minded emphasis on domestic reform was very much embraced by the leading policy makers in the region itself.⁵

A good indication of the post-Prebisch sentiment at the time came in the 1992 report of the Inter-American Development Bank (IADB): "The progress of the Latin American economies during the coming years is likely to be driven more by the success of domestic reform processes than by the performance of the world economy" (IDB [1992] p. 19). Similarly the World Bank's 1991 World Development Report (referring to all developing countries) said: "The future of the developing countries is largely in their own hands (...) The right strategy for the developing countries, whether external conditions are supportive or not, is to invest in people (...); help domestic markets to work well by fostering competition and investing in infrastructure; liberalize trade and foreign investment; avoid excessive fiscal deficits and high inflation" (World Bank [1991] pp. 148-149).

The Mexican peso crisis of 1994 - 1995 was a reminder that external forces could not be ignored. In early 1994 Mexico had joined with the United States and Canada in the North American Free Trade Agreement (NAFTA), reinforcing and locking in its prior decade of open market domestic reforms. At the time it seemed like the beginning of a new era in which Mexico would follow Chile in demonstrating the benefits of those reforms. But less than a year later Mexico was the first emerging market to be hit by what became a series of costly financial crises in the latter part of the 1990s. Few would disagree that domestic policy shortcomings contributed in some measure to the crisis. But in retrospect it is also clear that foreign capital flows - first a dangerous surfeit and then a sudden catastrophic deficit - played a central role, in Mexico and then elsewhere.

Though not the same as the trade and commodity price concerns which concerned Prebisch, the fundamental point would surely not have surprised him: that smaller and poorer economies embedded in the international system are particularly vulnerable to external forces. The Mexican crisis could be described as a 1990s version of Prebisch's center-periphery distinction,

⁴ The phrase was coined by John Williamson [1990] to refer to the consensus in Latin America on the set of policies necessary to recover growth; the support of the Washington-based international financial institutions led to the misleading title.

⁵ The policies also reflected the growing influence of US-trained Latin American economists at the technical and political level in several countries - but it would be misleading to consider them to have been largely "imported."

in which regional vulnerability to volatile capital flows from the center played a crucial role in transforming the currency devaluation of late 1994 into a full-blown financial crisis with ramifications stretching throughout the region (with Argentina only barely surviving that round without a crisis) and beyond.⁶

Behind the crisis in Mexico, and those that occurred subsequently in Asia in 1997-1998, Russia in 1998, Brazil in 1999, and Argentina in 2001-2002, was the increasing volume of international capital flows, in turn associated with the liberalization of capital markets in developing countries and the rapidly declining costs of moving capital across borders with the revolution in information technology. In the case of Latin America, net capital inflows, which had reached a then-high in 1981 of 6% of regional GDP, fell to virtually zero from 1983-1990. They then grew dramatically, to 4% of GDP in 1991 and to 6% in 1993-1994. Adjusted for inflation, flows to Latin America in the early 1990s were larger than in the 1970s. Following a brief decline in 1995, capital flows to the region peaked in 1996-1997, reaching 7% of GDP, and declined again to 4.5% in 1999.

The size and direction of capital flows to the region in the 1990s largely reflected external factors, exogenous to the regional economy. (Differences among countries in domestic policy stance and prospects for growth affected the allocation of net capital inflows but not their overall volume to the region. Thus in 1995, in the aftermath of the Mexican crisis, and similarly during the flight of capital from all emerging markets following Russia's debt default in 1998, capital flows to Chile fell, but less than to other countries in the region). For example, net capital inflows to Latin America in the last three decades have shown a strong inverse correlation with interest rates in the industrialized world. World interest rates were low in the 1970s, rose and stayed relatively high in the 1980s, and fell in the early 1990s, remaining relatively low until the end of the global boom in 2000-2001. A rise in interest rates in the US in 1994 from what had been low levels contributed to the decline in flows to Mexico that year. (The impact of changes in US rates was partially obscured at the time by contemporaneous events in Mexico, including the uncertainty generated by the upcoming presidential election and the assassination of the Attorney General in September). Similarly, capital flows to Latin America tended to be low when the industrial nations were running large current account deficits, as in the 1980s, and increased when current account deficits declined in the early 1990s. When current account deficits began to rise again at the end of the decade in industrial nations, capital flows to Latin America started to decline.

In Brazil the 1999 decision to allow the currency to float was catalyzed by the drying up of capital flows when emerging market investors were hit by the shortage of liquidity following the Russian default. In the case of Argentina, beginning in 2000 and culminating in abandonment of its currency board in late 2001, the Brazilian devaluation, the continuing strength of the dollar, and weak world commodity prices all contributed to the crisis. As in

⁶ See Birdsall and Lozada [1998] in which this comparison is made to the center-right paradigm of Prebisch in describing the peso crisis.

Mexico, no one would claim that domestic policy shortcomings did not also matter. Still as in Mexico, in both these cases the punishment in loss of income and human suffering far exceeded the domestic policy crimes. Brazil suffered once again in the run-up to its 2002 presidential election, as nervousness about the policy stance of the front - runner, Luis Inácio Lula da Silva of the leftist Worker's Party, on the part of external (and internal) creditors drove up interest rates, stifling job creation and growth.

It is generally agreed that the reliance of Latin America on external borrowing, associated with fiscal deficits and resulting low savings rates, is at the heart of its vulnerability to volatile capital. But that surely was part of Prebisch's point - the need for a growth strategy that did not rely so heavily on external borrowing. In his landmark 1971 report to the IADB, *Change and Development: Latin America's Great Task*, Prebisch cautioned that "if the next few years are to witness a transition to a satisfactory rate of development, investment with domestic resources will have to increase (...) To allow a considerable external debt to pile up, without energetically promoting the mobilization of the region's own resources (...) would be to invite deplorable consequences" (Prebisch [1971] p. 11).

Today's Global Realities: Prebisch's Lessons Revisited

Latin American economic history in the Post-War period can be construed as a recurring exercise in vulnerability to economic shocks. The declining terms of trade for primary goods, exacerbated by the Great Depression, served as the basis for the import-substitution policies in the 1950s and 1960s identified with Prebisch's leadership of ECLAC. The availability of cheap petrodollar credit in the international system during the 1970s, in conjunction with the oil shocks and the subsequent international recession, sparked the Latin American debt crisis and the lost decade of the 1980s. Then, despite over a decade of economic reforms, the volatility of international capital flows provoked the series of financial crises - in Mexico, and later elsewhere in the region.

This vulnerability to shocks has been present regardless of which economic paradigm was dominant in the region. The debt crisis hit when Latin America was committed to state-led systems. The financial crises of the 1990s followed a period of liberalizing market reforms. Neither framework insulated the region from the harsh realities of being in the "periphery." In the early Post-War period, the international marketplace was considered the heart of the problem and import substitution and state-led intervention the solution. In the aftermath of the debt crisis, import substitution was considered the problem and the market became the panacea.

And today? The financial crises and the all - too - modest growth of the last decade have led to a search for new policy solutions. These emphasize strengthening of the financial sector (to better absorb financial shocks), reform of budgetary institutions (to bring transparency

and accountability to fiscal decisions), fiscal savings (to allow countercyclical financing of social safety nets), export diversification and greater regional integration (to reduce dependence on commodity exports and increase manufacturing exports), expenditure and tax reform (including to address the region's distributive injustices). More emphasis than ever goes to coping with volatility and attacking poverty and inequality (Kuczynski and Williamson [2003])⁷. In fact, Prebisch foresaw all of these decades ago (Prebisch [1963]).

⁷ In reflecting on the Washington Consensus, advocate more attention to volatility, poverty and inequality (see Birdsall and Szekely therein).

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PREBISCH AT UNCTAD

David Pollock, Joseph L. Love and Daniel Kerner

The dangers of dependence on a small number of traditional exports in unregulated international markets was one of the bitter lessons policymakers from Latin America learned during the Great Depression, and at Bretton Woods in 1944, delegates from the region sponsored resolutions to obtain remunerative and stable prices for their commodities (USA Department of State [1948]). Unsuccessful in that endeavor, Latin American delegations took a similar position on commodities at the United Nations' Conference on Trade and Employment at Havana, Cuba, in March 1948. Representatives of UN member states met at Havana to establish an International Trade Organization (ITO), a complement to the World Bank and International Monetary Fund (IMF), created at Bretton Woods. The General Agreement on Tariffs and Trade (GATT) had been established at Geneva in 1947, but Latin American delegates at Havana saw its "most-favored-nation" (MFN) provision as inadequate for their needs, as they sought both to industrialize and to defend their commodity exports (Wilcox [1949] p. 26, 49, 120). The free-trade inspired project prevailed, but the ITO was never approved by enough member-states to come into effect, leaving GATT to define a broad program of international trade liberalization.

Consequently, the creation in 1964 of the UNCTAD seemed to fulfill the longstanding Latin American aspiration for an international trading agency devoted to commodity protection and development through trade.

UNCTAD's initial program did promise the realization of those hopes. The organization was established at the highest level of the UN. Its director held the title of Secretary General, the same as that of U Thant, the leader of the UN, who chose Raúl Prebisch to head UNCTAD. The Argentine economist had previously directed the ECLAC, and had raised his agency from the realm of technical assistance to a dynamic research institution, idea factory, and policy

formulator. ECLAC had developed a set of theories and a program based on them, announced in Prebisch's 1949 manifesto, *Latin America and its Principal Problems* (Prebisch [1950]).

The number of Third World nations represented at the UN was expanding rapidly in the 1960s, as nations on the African continent gained their independence. Together, the nations of the "South" successfully promoted the creation of UNCTAD in the General Assembly in 1962. The first UNCTAD meeting took place in Geneva, the seat of the new Secretariat, from March to June 1964. A permanent structure to deal with trade issues was approved, and the link between trade and development was recognized. This organization, in Prebisch's view, was to be "activist, not policy-neutral" (Dosman and Pollock [1998] p. 582).

The original UNCTAD program was that of ECLAC, *mutatis mutandis*, extended to the global level. Prebisch's reports to the organization, if not *ECLACism* whole cloth, were definitely international adaptations of the regional agency's program as it had evolved by the early 1960s. However, there were important modifications: as early as 1961, Prebisch had begun to doubt the validity of the original formulation of his development program, in the wake of widespread abuses of ECLAC's recommendations for ISI, and the rising import bill associated with industrialization. Therefore, he now recognized the necessity of stimulating (remunerative) exports in the development process.

Prebisch, in the previously-unpublished interview below, did not take credit for establishing UNCTAD - rather he saw as its chief architect the UN economist, Wladyslaw Malinowski, a Polish citizen who had previously been instrumental in the establishment of the UN's regional economic organizations - Economic Commission for Europe (ECE); Economic Commission for Asia and the Far East (ECAFE) and ECLAC- and had headed the (global) Economic and Social Council (ECOSOC) of the UN in the early 1960s.⁸ Together, Prebisch and Malinowski were the persons most responsible for establishing UNCTAD as a permanent UN organization, rather than a one - off conference.⁹

Prebisch's reports on the two UNCTAD conferences that he organized, those of 1964 and 1968, contained some of the theses familiar to all those acquainted with ECLAC structuralism. First of all, the world was divided into "Centers" and "Peripheries" (Prebisch [1964] pp. 20-26; [1968a] pp. 27-28). Secondly, the secular deterioration of the terms of trade of agriculture and mineral exporters was affirmed as a fact, presumably to the displeasure of First World representatives, who doubted or denied the existence of secular deterioration (Prebisch [1964] pp. 14-17).

⁸ See interview below, conducted by David Pollock in Washington D.C., 21-23 May, 1985.

⁹ Zenon Carnapas credits Prebisch and Malinowski jointly with making UNCTAD a permanent entity of the UN. (see Carnapas [1985] p. xiii).

As noted, Prebisch had learned to emphasize the expansion of trade for underdeveloped countries in the latter 1950s, because of the need to pay for imports of capital, inputs, and fuels, as ISI proceeded in Latin America. He recognized the limits of ISI in his 1964 report to UNCTAD. But in addition he now insisted on ESI - export - substitution industrialization - a policy to replace traditional commodity exports with manufactures or semi-manufactures (*Ibid.*, pp. 20-25, 123-125). Thus commodity price supports were a basic concern of UNCTAD, but they could not be the exclusive concern.

Prebisch emphasized the "trade gap," a rather vague term which he introduced with the remark that the demand for primary products grew slowly as an element in world demand, compared to the demand for industrial products. The deterioration argument was implicit in that very observation, (*Ibid.*, pp. 11-14) a conviction that dated from the initial ECLAC manifesto of 1949, along with an even older contention of Prebisch's that the "external imbalance" of poor nations was a sustained and structural feature of underdevelopment (*Ibid.*, pp. 107-108).

What was *not* part of previous ECLAC policy in the UNCTAD program was an appeal for a Generalized System of Preferences (GSP) whereby the industrialized countries would make tariff and other trade concessions to low-income countries for their new industrial products, without requiring reciprocity (*Ibid.*, pp. 117-122).

In a confidential report to U Thant on the UNCTAD's first conference in 1964, Prebisch was optimistic about the prospects of the new organization, reiterating his view that the underdeveloped countries could close the "trade gap" through future industrial exports. Perhaps the greatest reason for optimism, thought Prebisch, was the constitution of a new Third World force at the first meeting of UNCTAD - the "Group of 77" (*Ibid.*, p. 15). This political alliance, he believed, could exercise real pressure in pursuit of its members' interests in the years to come. In fact, the G77 soon became a permanent entity. Yet Prebisch also noted the conference's insistence in its resolutions on "stable, equitable and remunerative" prices for staple commodities produced by low-income countries, coupled with the need for greater access to the markets of developed countries (e.g., the lifting of quantitative restrictions on imports) and, in the Less Developed Countries (LDCs), export diversification, facilitated by state planning of industrialization. The conference established three permanent committees - one on commodities, another on manufactures, and a third on invisibles and financing.

As a practical politician, Prebisch realized that resolutions could only be effective if they were translatable into meaningful agreements. Crucial, of course, was the support of the UN and other rich countries, which could exercise a veto over the programs of all three committees; invisibles and financing were almost totally under the control of the high-income nations. Advancing the Secretary General's agenda within UNCTAD meant the development of "conciliation machinery," and inside and outside the organization, it meant long and hard bargaining.

Encouraged by initial Third World victories in principle - and there had been few concessions to Third World interests, even in principle, at Bretton Woods and Havana - Prebisch became

an itinerant preacher to spread the UNCTAD evangel. He took his message on unequal exchange, the Trade Gap, concessionary financing and export-substitution industrialization to Africa and Asia, as well as to Latin America. Between 1964 and 1969 he logged 600,000 miles giving speeches and meeting heads of government and their ministers (Dosman and Pollock [1998] p. 584). On the force of his ideas and personality, Prebisch attempted to strengthen and expand the Group of 77 as an effective voice on trade and development. In this he succeeded, and the considerable majority of the G77 nations supported Prebisch's Generalized System of Preferences, whereby the industrialized nations would suspend the most favored nation provisions of GATT to lower tariffs on new industrial exports from the countries of the South.

In a statement at that meeting in New Delhi in February, 1968, Secretary General Prebisch reiterated his message of persistent external disequilibrium (Prebisch [1968b] pp. 70-76); he pointed to the "savings gap" - the difference between mounting investment requirements and the domestic savings of the developing nations; and he referred to developing countries' "external vulnerability" to sudden changes in the Centers' economic performance and signals, such as interest rates. In his final report on UNCTAD's Second Conference, Prebisch criticized the industrialized countries for dallying on meaningful agreements for the GSP, for not agreeing to finance export shortfalls (supplementary financing), and for raising non-tariff barriers against Third World manufactures (*Ibid.*, pp. 70-76).

Secretary General Prebisch further criticized the machinery of UNCTAD as far too complex. In the interview below, Prebisch remarks that "New Delhi was unmanageable. I could not see what was going on, notwithstanding that every sector had a responsible man." In fact, 137 countries were represented at the Conference, along with 44 international organizations. There were 965 separate working meetings, occurring over the eight weeks of the meeting (Dosman and Pollock [1998] p. 596).

Though unwieldy, the huge and sprawling organization did have the merit of being relatively transparent, while its bureaucratic rival GATT was shrouded from public view (Krishnamurti [1985] p. 66). GATT officials liked to think of UNCTAD as the "General Assembly" of UN trade-related agencies, where rhetoric was produced, while GATT was the "Security Council," where all the consequential decisions were made. GATT tried to woo away members of the G77 from loyalty to UNCTAD by setting up a Committee on Trade and Development in 1965 (Dosman and Pollock [1998] p. 594). Meanwhile, the IMF, another non-transparent organization, would not provide UNCTAD with sufficient data to study if and how the former entity's policies harmed developing countries' interests (Haji [1985] p. 164).

The most basic cleavage in UNCTAD, of course, was the rich against the poor, obfuscated in part by the lip service that the former were willing to render to the aspirations of the poor. Another problem was divisions among the commodity-exporting countries, of which the most obvious was that of the OPEC countries against the petroleum-poor members of the G77 after crude oil prices quadrupled in the wake of the 1973 Arab-Israeli war (Williams [1991] p. 148-151). A further example was a resistance to the GSP by African countries that

had special trading privileges from the European Economic Community; according to one researcher, Prebisch played a critical role in defending the GSP against regional schemes to benefit former colonial areas (*Ibid.*, p. 121). One harsh judgment on the organization was that UNCTAD stood for "Under No Circumstances, Take Any Decisions."¹⁰

Nonetheless, getting UNCTAD II to approve the principle of a GSP was a victory for Prebisch and the Third World interests he championed (Dosman and Pollock [1998] p. 595). In an effort to make the GSP effective, Prebisch deployed Latin American diplomats and trade experts to try to reverse the UN' initially negative attitude toward the policy, and they succeeded in 1967, one year ahead of UNCTAD II (Williams [1991] p. 121).

But the GSP could not yet be implemented, and the world was changing rapidly in the 1960s, while Prebisch's own views on the problem of development were also quickly evolving; he was moving toward a dependency perspective, and at UNCTAD he was criticizing the role of Third World elites - African politicians, he thought, were abusing the "trade gap" concept to cover up their own corruption. In fact, by the late 1960s Prebisch already favored "conditionality" for Third World regimes, *i.e.*, that international lending agencies should make their loans to such governments conditional on the achievement of certain fiscal, financial, and commercial reforms (Dosman and Pollock [1998] pp. 599-601). For all these reasons - and the fact that Prebisch did not want to preside over a "forum," as he now considered UNCTAD to be - he announced his resignation from the organization in November, 1968, effective the following March.

The oil crisis of the seventies and the debt crisis of the eighties severely weakened Third World unity. Furthermore, the First World nations strongly resisted the G77's demands for a New International Economic Order, based on a General Assembly resolution in 1974 calling for commodity price supports, regulation of international corporations, and greatly expanded development assistance. However, the G77 did push the Prebisch program beyond the Generalized System of Preferences in further bending the GATT rules. The Ministerial Meeting of the G77 at Arusha, Tanzania, in 1979, in preparation of UNCTAD V, produced the "Arusha Program for Collective Self-Reliance." After its adoption by UNCTAD at the Manila meeting the same year, this manifesto, contrary to many others, had a positive outcome. Its force secured the permission of developed countries during the Tokyo Round of GATT negotiations to permit Third World nations to offer tariff concessions to one another, thereby obviating the MFN provisions of GATT, leading to the creation of a "Global System of Trade Preferences," not to be confused with the Generalized System of Preferences, which referred to concessions to low-income countries by developed countries.

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¹⁰ On the politics of UNCTAD, see Nye [1973] pp. 334-370; quotation on p. 334. But UNCTAD was not the only UN agency criticized for its inaction; the glacial pace of GATT negotiations has prompted critics to suggest the organization's acronym stands for "General Agreement to Talk and Talk" (see Babai [1993] pp. 342-348).

In the interview that follows, Prebisch expresses disappointment at the gap between what UNCTAD might have achieved, and what it actually succeeded in doing.

Yet Prebisch says he never harbored illusions about the organization's assuming the functions of the International Monetary Fund (IMF) or the World Bank. Rather, he expected UNCTAD to continually generate new ideas and to critique "conditionality" in IMF and World Bank lending, though he believed this attribute was both legitimate and necessary.

In Prebisch's own words: (...) governments of developed countries would never accept transferring power from (...) (the World Bank, the IMF and the IADB) to UNCTAD. And rightly so. It is one thing to create the proper political atmosphere for the discussion and elaboration of programs, and for the guidance, if you wish, of these institutions. But these institutions are executive institutions. And you cannot suppose that the Bank - be it the World Bank or the Inter-American Development Bank - would be managed by debtors (...). The most that UNCTAD could get (and this could have been very important) was to be the center of elaboration of new ideas and the transformation of these new ideas into political moving forces. Not to try to manage the Bank or the Fund, but rather to examine what they were doing. To criticize, for instance, in the case of the Fund, its policy of conditionality. One of the most important roles of UNCTAD could have been a severe criticism of the policy of conditionality. Not to say, "We do not like conditionality," but how conditionality could be held.¹¹

In the text below, David Pollock also elicits Prebisch's views on the political process that resulted in locating UNCTAD's headquarters in Geneva; on leading personalities of the institution, and how they were chosen; and on problems Prebisch faced in dealing with the Great Powers, especially the UN. In the following pages, Prebisch acknowledges the role of ECLAC in preparing the way for UNCTAD, and considers the Latin American delegations as the critical players in launching it. He provides details on the first attempt to implement the Integrated Commodity Program, with cocoa as the test commodity, and explains why the UN failed to support it. Internally, Prebisch criticizes UNCTAD's sprawling and complex machinery and judges that UNCTAD's achievements in its first two decades were modest: Essentially, they amounted to small reductions in the trade barriers that commodity exporters faced (through the GSP), plus concessions on the international transfer of technology.

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¹¹ Prebisch, interview with David Pollock, Washington D.C., 21-23 May, 1985.

Prebisch lived long enough to see the implementation of an International Cocoa Agreement [1981], and it was the first to use buffer stocks. The program was not notably successful, however, in raising world prices (van Meerhaeghe [1991] p. 147). The Generalized System of Preferences was a more obvious success, in that every year \$70 billions' worth of LDC exports were receiving preferential treatment by 1994. More modest gains had been scored by an agreement on a Global System of Trade Preferences among Third World countries, finally achieved in 1989. In addition, by the mid - 1990s, a half-dozen international commodity agreements were in effect, and the Common Fund had begun to support buffer stocks in 1988 (UNCTAD [1994] p. 5).

Yet in 1985, the year before his death, Prebisch still held that very little had been achieved concretely, other than the GSP. Prebisch principally faulted the developed countries for the ineffectiveness of international development policies - and not so much for preventing the implementation of UNCTAD - negotiated agreements, as for increasingly imposing trade barriers to Third World manufactures in the form of non-tariff restrictions (Prebisch [1985] pp. 3-9). Blocking the path of reform, from the Third World perspective, was the policy of the UN, which, as a general principle, has consistently preferred liberalization of trade from Bretton Woods to the present.¹²

Perhaps the chief achievement of Prebisch was the mobilization of Third World governments to take common action on commodity and trade issues of mutual concern. One hundred and sixty nations attended the tenth UNCTAD conference in Bangkok in the year 2000, at which occasion LDCs were still demanding better access to rich countries' markets while they charged that the World Trade Organization (WTO) -formed in 1995 to replace GATT- was as much a rich man's club as GATT had been. In 2004 according to its website, UNCTAD has 192 member states, and its goal remains that of a partisan body, to promote the welfare of developing countries. Within UNCTAD, the Group of 77 now includes 135 member states.

Given the growth of the GSP, the existence of a modest Common Fund to support commodity prices, several commodity agreements, and the continued mobilization of the G77, Prebisch today might evaluate UNCTAD's experience differently than he did in 1985. One can imagine his pronouncing the same judgment he did for Latin American regional integration in the 1980s: "It was not a failure. It was not a success. It was a mediocrity. A typical Latin American mediocrity" (Pollock, Kerner and Love [2001] p. 21).

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¹² Of course the UN does not necessarily practice what it preaches, as George W. Bush's actions to protect American steel showed in 2002.

In the pages below, the words are those of Raúl Prebisch and his interlocutor, David Pollock, except for a few connecting words and phrases indicated by brackets. The conversations have been edited to eliminate digressions and repetitions without indicating ellipsis (...), to facilitate the flow of the text. Footnotes have been supplied to identify persons and institutions mentioned in the conversations.



David Pollock: How and why was your name put forward to head UNCTAD?

Raúl Prebisch: I don't know. Probably my good old friend Wladek Malinowski¹³ had a strong hand in this matter. He said that members of different delegations from developing countries were interested in supporting or proposing my name to U Thant as Secretary General of the Preparatory Committee of the Conference. And Wladek, with his characteristic vigor, insisted the post be offered to me and I accepted. [On this matter, you may] see the volume (Zammit-Cutajar [1985]) that has just appeared, dedicated to Wladek. I was pushed by Wladek to go to Cairo.¹⁴ Wladek was a man of long- term views (laughs). He [thought] that I should become involved in what was, in his mind, the creation of UNCTAD. Wladek was a very important factor, not only in the creation of UNCTAD, but in deploying the activities of UNCTAD.

D.P.: Really? Was he the man behind UNCTAD?

R.P.: Yes.

D.P.: Well, I thought it was more the governments of the Third World.

R.P.: No, no, no. Wladek is largely responsible for UNCTAD. I would not say that he is the only person. And nothing would have pleased me more than to have had Wladek as my Deputy. But there was very strong resistance from the UN to have Wladek in the staff of UNCTAD. And he had no support whatsoever of the socialist countries.

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¹³ Wladek (or Wladyslaw) Malinowski (1909-1975): native of Poland, former advisor to the Secretary General and Director of the Division for Invisibles at UNCTAD.

¹⁴ Cairo Conference on Economic Development (1962): Prebisch attended as a representative of the UN.

D.P.: How come?

R.P.: The socialist countries had another candidate. One of them came to see me, and I said "My candidate is Wladek Malinowski." They were upset. Why? Because he was an independent fellow. They knew that he would not receive orders from them. They knew that he would not go after 6 o'clock to the Embassy to tell what he did and to receive their guidelines. This was Wladek. And when Wladek died, the Polish delegation was absent, [despite the fact that] Wladek was a member of the Social Democratic Party.

D.P.: Not the Communist Party?

R.P.: That was absorbed by the Communist Party. At that time Wladek was an international civil servant. But opposition of the US was persistent. Do you remember Richard Gardner?¹⁵

R.P.: Yes, Gardner. An intelligent young man. But he hates [Wladek]. Once he told me, "Why don't you get rid of that guy?" Wladek was very influential in delegations of developing countries. He could not dissimulate or hide his influence. He had great influence. As for Philippe de Seynes,¹⁶ the two would not see eye to eye.

D.P.: Cat and dog.

R.P.: Yes. And Philippe told me: "Use Wladek in a technical function, because he's an intelligent man. But don't put him in a position of political prominence." That was good advice. Believe me, I would have been extremely happy to have had Wladek as my second. But the fact was that his own group deserted him. And that (with the exception of a few Latins) he was not supported made the situation untenable. [But many groups had candidates] so I said to U Thant, "Mr. U Thant, I think that to avoid the problem, it's better for the time being not to have any Deputy."

D.P.: You haven't mentioned the US. I thought that the central opposition to Wladek as your Deputy came from the US.

R.P.: Yes. Through Dick Gardner. He hated - and the whole State Department hated - Wladek. So I became the single Secretary General. And that was very burdensome for me.

¹⁵ Richard Gardner (1927): Former US Ambassador to Italy (1977-1981) and Spain (1993-1997); Professor of Law and International Organization at Columbia University Law School.

¹⁶ Philippe de Seynes (1910-2003): French national who headed the ECOSOC of the United Nations Secretariat as Under-Secretary for Economic and Social Affairs, 1955-1968, and as Under-Secretary General for Economic and Social Affairs, 1968-1975.

Because I had to attend all the meetings, and in order not to discriminate I had to listen to both the United Kingdom (UK) and Uganda!

D.P.: Yes. I remember.

R.P.: And I formed [a committee of directors of UNCTAD]. And there Wladek enjoyed all my confidence. Everybody knew that Wladek was helping me in every important matter.

D.P.: I vaguely recollect a trip to the State Department in Washington after UNCTAD I, where the State Department said they would support you as Secretary General, provided that Wladek was not number two.

R.P.: Well, [Gardner and I] became good friends. You remember that session we had in New York, to consider how the system of majority voting could be tempered down, in order to leave room for conciliation, and so forth? This was a very important and long meeting. We finished that night at 3 am. I walked for many blocks with Richard Gardner, and he told me, "Well, I admired your behavior in this meeting. I understand you better now than ever. I had some prejudices against you." And we became good friends.

D.P.: Going back [to Wladek] I hadn't realized that he was so influential in designating you [as head of UNCTAD]. Tell me, why did you ask me, so suddenly, to work with you? I had never done anything with you until 1962.

R.P.: Because I have many defects and some good qualities, and one of those qualities is to know men.

D.P.: I remember you sent me a cable saying, "Meet me in New York." And I sent a cable back saying, "Would you tell me what we are meeting about?" [When I got to New York] you said, "Well, I'm going to do this work for the Preparatory Commission and I need two Special Assistants - Jorge Viteri will be one and I'd like to know if you will be another." And I said, "What will my duties be?" And you replied only, "Be where I am!" The Latin Americans, how did they view the creation of UNCTAD? Were they important supporters? Or was this a Secretariat initiative?

R.P.: They were important supporters.

D.P.: Did UNCTAD just emerge in the minds of Wladek Malinowski and somebody else? Or was there...

R.P.: Oh no. ECLAC had prepared, had paved, the way for the creation of UNCTAD by presenting the problems of international trade. And then, I don't know if it was Wladek who conceived the idea, on the basis of the preaching of ECLAC, to form this institution as a

counterpart of GATT. It was not only an idea of Wladek. It was an idea that was gradually being deployed in the UN on the basis of our activities in ECLAC.

D.P.: So the Latin American countries were the major geographic actors?

R.P.: They were the major geographic actors.

D.P.: Not the Asians, not the Africans?

R.P.: [Only] after the first meeting. You remember that in the first meeting I had the applause and the ideals of members of all the regions? Because after our trips [around the world] in which we could listen to views, and detect common denominators, I could make my speech in order to show that there were common problems. And the applause lasted for more than one minute. You remember that?

D.P.: Yes indeed, I remember that. Just as a footnote, Don Raúl; you say that the Brazilians and the Argentineans were [your] strong supporters?

R.P.: And [the] Mexicans too.

D.P.: Well, how come the Argentineans supported you for the UNCTAD and not for the Alliance?¹⁷

R.P.: Probably because there was a change of government.

D.P.: The *Alianza* was 1960 and UNCTAD was 1963.

R.P.: Well, there was a new President in Argentina¹⁸ with a new group of men who attended the UNCTAD Conference. [They included] García Vasquez and [Bernardo] Grinspun. Many of the boys of that time were surrounding President Illia, whom I had met before. They were a very numerous delegation, maybe 8 or 10 of them.

D.P.: Yes. Argentina had a strong delegation at UNCTAD.

¹⁷ "Alliance for Progress," established March 1961. Through it, President Kennedy designated US\$ 20 billion in public and private funds from the UN for economic and social development in Latin America.

¹⁸ Arturo Illia (1900-1983): President of Argentina (1963-1966).

R.P.: Yes. And they gave me full support.

D.P.: You mentioned, the trip around the world you, Sidney [Dell]¹⁹ and [I made]. So the value of that trip, from your point of view, was that it enabled you to obtain points of commonality. And public relations too: that you made a point of visiting them. You didn't sit in New York. OK, the Latins supported you without qualification. The Africans and Asians got on the wagon. They never opposed you, to my knowledge.

R.P.: On the contrary, they supported me. The Indians and the Pakistanis.

D.P.: The Sri Lankans I remember.

R.P.: Yes. There was no dissidence in that respect.

D.P.: What of the USSR?

R.P.: The USSR supported me, with the expectation of transforming UNCTAD into a new World Trade Organization.

D.P.: An ITO?²⁰

R.P.: Yes: to substitute for GATT. But this was not the unanimous view. Poland continued to support GATT. So they said, as a compromise, that the creation of UNCTAD was alright.

D.P.: And in the West. Was it just the US that was cautious? Or were other western countries equally cautious?

R.P.: They were all cautious. Perhaps the best of them was the UK, especially Mr. Heath.²¹ Remember that he proposed Supplementary Finance?

D.P.: Yes.

R.P.: The great mistake was to ask the World Bank... (pauses).

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¹⁹ Sidney Dell (1918-): British economist, and Prebisch's assistant at UNCTAD I. Director of the New York office of UNCTAD, 1965-1973, subsequently serving in other UN development agencies.

²⁰ International Trade Organization (ITO): As the "third leg" for the tripod of the international trading system, the ITO was expected to complement the World Bank and IMF in the area of international commerce. For its abortive history, see the introduction above.

²¹ Edward Heath (1916-): British Prime Minister 1970-1974 and leader of the Conservative Party.

D.P.: To do a study on it.

R.P.: Yes. And the study was done by Irving Friedman²² but with so many conditions and complications that finally the matter was [dropped]. But the speech of Heath was very constructive. And I remember that, two days after the speech, he said "Well goodbye. I don't think I have a role to play now" "Yes, Mr. Prime Minister," I said. "You have a role to play. At the end of the Conference. You may have a role to play then." And indeed he sent me a message. And when matters got complicated on the matter of preferences as well as on other matters. And Heath came Saturday. We had a long talk in the morning. I explained all the difficulties, and he said to me, "I will return this afternoon to explain to the Cabinet, with a view to returning Monday." And he did. He was instrumental in finding a proper compromise.

D.P.: France was more or less alright?

R.P.: It was not negative. It was beautiful in phrases, as usual. Not very positive either. France was represented by André Philippe. He was speaking of "L'organisation du marché." Once in a small dinner he gave for me, I said, "M. Philippe, what do you mean by 'organisation du marché'? In principal I agree, but the great obstacle that we have to face is the lack of markets: the quotas and the restrictions of the Community, and of your country in particular. How do you think the organization of markets would solve such problems?" And he escaped from me. It was pure rhetoric. Pure rhetoric.

D.P.: Why did you ask me to start on buffer stocks as my first assignment in the Commodities Division? That was linked to market organization.

R.P.: Well, not so much. That was a little different. But this was a form of regulating the market: the ups and downs in the markets for primary products.

D.P.: I remember you said, "[Had] I read the Old Testament?" You asked if I read about Joseph. I didn't know what you were getting at!

R.P.: I said to ECOSOC some time before "When the Egyptians took a Jewish expert to advise them" (laughs).

D.P.: Yes, I remember when you said that. And you added "The difference is that Joseph got his buy and sell orders from God. I want some reasonable alternative." But you must have

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²² Irving Friedman: US national, Former Economic Advisor to the President International Bank for Reconstruction and Development (IBRD).

had something else in mind. Because, for the buffer stock work I was just starting, I went to London to get Alf Maizels.²³ He and I hired Jan Tinbergen,²⁴ who was then a consultant, to study a simulated buffer stock scheme for cocoa. From that emerged our study for New Delhi which was the basis for the subsequent Integrated Commodity Program. So, the ICP was "l'organisation du marché."

R.P.: Yes. In the broad sense. But whatever the merits of any scheme, the resistance was very strong.

D.P.: Oh , I remember for cocoa.

R.P.: I remember that a man from the Cocoa Manufacturers in the USA, came to see me. He said, "Look, we are against regulation of the market. Why have you not proposed a tax, in periods of descending prices, to be paid by importers to constitute a fund for promoting development of cocoa activities?" I said, "Among the ideas I presented in my report was this idea of a tax. But your government rejected everything." Naturally it would have been better (instead of all the complications) to tax.

D.P.: They didn't want US importers to pay a tax when prices were low?

R.P.: They did not want to do anything that would mean any intervention in the free play of the market.

D.P.: Well, that's an ideological objection. But I think there was another more practical problem. I was told by someone on the US cocoa delegation that the arbitrage experts made a lot of money through arbitrage actions that, in a certain sense, helped to stabilize the prices of primary products. They would lose those arbitrage profits if there was some kind of international stabilization.

R.P.: Maybe. Do you remember that Drag Avramovic²⁵ made a very careful study showing how arbitrage was justified between certain limits? While the high rates of interest prevailed, there was nothing that could be done in this matter. You think that, with 8% and 10%, it was possible to constitute stocks? But the Sugar Agreement was a very successful operation.

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²³ Alfred Maizels: British national, advisor on economic policy and research to the Secretary General of UNCTAD, subsequently Deputy Director of the Commodities Division of UNCTAD.

²⁴ Jan Tinbergen: Former member, UN Committee for Development Planning, and Chairman of the Board, UN. Research Institute for Social Development. Winner of the Nobel Prize for Economic Science, 1969.

²⁵ Dragoslav Avramovic: national of Yugoslavia. Former Chief Economist for Latin America and the Caribbean, World Bank.

D.P.: Yes. That was the only big success, wasn't it?

R.P.: You remember that the US would not join? [Members of the sugar committee] tried to agree on quotas, and they could not. So they asked me to fix quotas; not to propose, but to fix quotas. And they would accept whatever I put on the table. It was so important that I asked for a certain time-half an hour. I discussed the matter with a representative of the Sugar Council, the Director General; I also spoke to a Food and Agriculture Organization (FAO) representative and to Perce Judd.²⁶ And the three of them strongly recommended [that I] accept this initiative. So I accepted. We discussed the problem.

One of the bottlenecks was Cuba. I had many visitors that morning before the meeting. First came Cuba's Raúl Fernández, a very intelligent fellow. He's the head of the Central Bank now. He said, "Look, Dr. Prebisch, I think that you have arrived to an equitable solution. But, without rejecting it, I will reserve my position, saying that Cuba deserves more." And I had five or six visitors saying the same (laughter). I said "Alright, say so!"

D.P.: For politics? For domestic politics?

R.P.: Yes, for home consumption. And that's it. Australia - you remember that the Vice Prime Minister of Australia was there? The Australians looked at me with great deference from the beginning. And after the Conference [the Vice P.M.] said, "Dr. Prebisch, I came to say that we have a great appreciation for the way in which you have worked during this Conference. To our great satisfaction." I replied, "Mr. Prime Minister, I'm very grateful to you for coming to see me." It was a good conference.

D.P.: Tell me Don Raúl, why did you pick Geneva in the first place? Or was that a UN decision?

R.P.: I did not pick Geneva at all. The instructions of U Thant were to maintain sheer neutrality in this matter. And I did. There were many interested countries. Ghana in Africa. Italy offered a building site in Rome that Mussolini had built for the Empire. I went to Rome on the invitation of the Italian Government. Then to London. Prime Minister [Harold] Wilson himself invited me to talk with him. He said, "I offer whatever you need, including a new building if necessary." Tom Balogh²⁷ and Nicky Kaldor²⁸ were behind this. They were very enthusiastic. *The Economist* was behind this. [But this initiative] came too late. And then we had a final obstacle. The Swiss were absolutely cold. To such an extent that once, when the

²⁶ Perce Judd: Australian national. Secretary of the first UNCTAD and head of the Commodities Division.

²⁷ Thomas Balogh (1905-1985): Hungarian-born Oxford economist. Prominent theorist in development economics.

²⁸ Nicholas Kaldor (1908-1986): Hungarian-born, prominent development theorist. One of the foremost Cambridge economists in the post-war period. Developed the "Cambridge" approach to growth theory.

Republic of Geneva gave a lunch to Paul Hoffman²⁹ as an expression of appreciation for what Paul had done for them, one of the members of the group present asked me, "Where are you going to establish this new organization?" "Well," I said, "I hope in Geneva." He said, "Please don't do that. There are plenty of international organizations here and there's a great popular resistance to more international organizations in Geneva." "Alright." I said, "it's a matter that I will report." The following day I said to Ambassador Jolles, the Swiss representative: "I'm disappointed." I told him what had happened. He said "No, no, no, don't take it seriously. This is a particular view. The government has [an] interest in having UNCTAD in Geneva." Two or three days later, Dr Walling, the Minister of Foreign Affairs, invited me for lunch in Berne with Jolles and a few other high officials of the government. The purpose, as Jolles had told me before, was to speak about the establishment of UNCTAD in Switzerland. Nothing was said during the lunch. But at the end, due to the fact that I did not raise the question, he said, "Well, what do you think of the headquarters of the new organization?" He added, "I do not object to this new organization being established in Switzerland." I had known Walling in Rome. So that I took the liberty to say to him, "Mr. Minister, do you think that I would be enjoying this nice lunch with you if you had sent a message that you would not object that I be present at this lunch?" He laughed and said, "Look, I tell you frankly: There is great resistance toward a new institution in Geneva. We are studying the possibility of using another city, for instance Lausanne, which is not very far. Perhaps using part of the buildings of the [Swiss National] Exhibition and giving you every type of facility." "Excellent," I said.

What had happened? They had been dragging their feet when there was a monopoly. But when they saw that the Italians and the British were interested in UNCTAD, they moved quickly. Probably they made a representation to the Italians because, when I saw the Prime Minister of Italy, he was cool, to say the least. As to the British, I said to U Thant, "Sir, you have advised me to be neutral. But the advantages of London are such (in relation to Geneva) that in my view if they offer us facilities, we should accept." He said, "Well, maybe, maybe." The British offer came too late. Otherwise UNCTAD would have been established there.

D.P.: Who knows what it would have become if that had taken place. Tell me, in what ways did UNCTAD represent any change from ECLAC? Was there anything that UNCTAD did, with you at the helm, that in conceptual or in policy or in tactical terms was really different? Or was it just an enlargement of ECLAC?

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²⁹ Paul Gray Hoffman (1891-1974): Administrator of the Marshall Plan, subsequently U. S. delegate to the United Nations from 1956 to 1957, and managing director of the UN Special Fund (later called the UN Development Program) from 1959 to 1972.

R.P.: Well, it was a natural deployment of those ideas, with all the modifications that, over the years, were advisable to introduce. And with political support. This was the big change. Fundamentally if you make a comparison between ECLAC ideas and UNCTAD ideas, you will see a great similarity. Not equality, but similarity. A very useful development and a very wide political support. And a philosophical framework for all this.

D.P.: So that UNCTAD represented the global flowering of "Third Worldism," which ECLAC had uncorked in the Western hemisphere?

R.P.: Well, perhaps you could see in me a certain arrogance. I would say it contributed to the flowering. You have to peruse my first report and my second report with the chapters on trade. You will see the similarities.

D.P.: Yes, they are extraordinarily similar. Oh there are differences, because of a broader variety of countries and commodities and tactics. But really, the concept and the political force is a further extension of ECLAC. I would put it this way: ECLAC represented the first wave of a "North-South" Dialogue in a hemispheric context. With Latin America saying to the US, "You have to understand our different thoughts and our different problems and our need for different policies." And there were conflicts between the US and Latin America. But the next stage of the North-South Dialogue was an expansion, globally, of that same kind of intellectual struggle. Of *desarrollismo* [developmentalism].

R.P.: Don't use this bad word in Argentina. It is a Frondizi and Frigerio word!³⁰

D.P.: Which? "*Desarrollismo*"?

R.P.: Yes.³¹

D.P.: Really?

R.P.: You should make this comparison [between ECLAC and UNCTAD] and not forget the booklet *International Co-operation in a Latin American Development Policy* (ECLAC

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³⁰ Arturo Frondizi (1908-95): President of Argentina (1958-1962). Rogelio Frigerio: industrialist and editor of *Qué* magazine. Leading economic advisor to Frondizi and Secretary of Socioeconomic Relations of the Argentine Presidency (1958).

³¹ Presumably Prebisch has in mind the failure of Argentine *desarrollismo* and the populist policies associated with it.

[1954]). Remember that I wrote a basic report with Moncayo,³² Lleras Restrepo³³ and others. This is very important. In my writings, I interpreted the ways of thinking and feeling of many prominent people too. I gave [it] a scientific basis. I gave consistency to ideas that were in the air. I did not create *ex-novo*: I reflected an intellectual reality. Amorphous, if you wish, but it was an intellectual reality.

D.P.: We've been talking so far on the conceptual or policy level -but tactically too. ECLAC brought Latins together in the same room, even though the US and the UK and the French and the Canadians were there. ECLAC, for the first time, brought Latins together in a tactical sense. To caucus by themselves before moving *vis-à-vis* the US. So too UNCTAD brought the G 77³⁴ together, into one room. Not always successfully, because there were so many countries. But in fact UNCTAD provided the first tactical forum of the North-South Dialogue.

R.P.: Yes. When you were speaking, I was remembering what Daniel Cosío Villegas said in Geneva when he was President of the Council.³⁵ He was the man responsible for the shaping of Víctor Urquidí.³⁶ When Cosío was President of the Economic and Social Council, he said, "Before ECLAC, we did not know each other. We were isolated. The great merit of ECLAC was to put into written evidence the common denominators, the common problems and the differences, naturally. ECLAC was an element of Latin American cohesion. Now there is a Latin American feeling. A Latin American way of action. A Latin American way of thinking." And Daniel was a highly critical man.

D.P.: That strengthens my views that UNCTAD represented a further flowering during the 1960s, in another field, of what had emerged in the 1950s in Latin America. Tell me your feelings about UNCTAD I [in 1964] and UNCTAD II [in 1968] in Geneva and New Delhi. They were very big conferences. Were you satisfied with them, in the context of the 1960s?

R.P.: No. But please get, at New York Headquarters, the confidential report that I sent to U Thant after the first UNCTAD. I said it is necessary to change. It is not possible to consider simultaneously so many matters. Indeed, we have an organization [for which] during the whole year, there are committees. There's the Trade and Development Board. Then, every

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³² Jaime Moncayo: Economist from Ecuador. Permanent Secretary of the Latin American Economic System (Sistema Económico Latinoamericano - SELA) in the period 1975-1979.

³³ Carlos Lleras Restrepo (1908-): President of Colombia (1966-1970).

³⁴ G77, established by seventy-seven developing countries at the first UNCTAD meeting in Geneva (1964).

³⁵ Daniel Cosío Villegas (1898-1976): Mexican ambassador to ECOSOC (1957-1968) and founder of the publishing house Fondo de Cultura Económica.

³⁶ Víctor Urquidí: (1919-) Professor Emeritus, El Colegio de México. Former editor of *El Trimestre Económico* and economist at ECLAC and the World Bank.

three or four years, a Conference. Why present to the Conference every program that has been considered? The Conference should be an organ for criticizing what the permanent machinery did, and a guidance for further work. I insisted on that. New Delhi was unmanageable. I could not see what was going on, notwithstanding that every sector had a responsible man. It was impossible. I (thought I could) use my time more profitably by returning to Santiago. The proliferation of committees, the number and the membership of committees, under the influence not only of developing countries, but of developed countries.

D.P.: Yes, I remember those lengthy sheets listing the meetings that would be posted on the doors every day.

R.P.: I did not want to accept the responsibility of this type again, for that reason. And every Secretary General is immersed in the complications of the machinery.

D.P.: Is that why you left UNCTAD?

R.P.: One of the reasons. The other reason was that I was anxious to return. Intellectually the challenge was over. Geneva was not a very attractive place for me.

D.P.: Alright. I'd like you to just reflect for a moment on the secretariat. I'd like to go back. We've talked about Wladek. You had a strong secretariat with Wladek and Sidney and Perce Judd and Alf Maizels and [R] Krishnamurti.³⁷

R.P.: And Mordvinov.³⁸ Sidney told me that Mordvinov is now head of the Gosplan.

D.P.: Did you pick them? How were they picked? You selected the staff?

R.P.: There was no picking for Mordvinov. He was sent.

D.P.: No, I don't mean just Mordvinov. But I mean you had a very strong secretariat. Were they given to you? Or did you select them?

R.P.: No, no. They did not allow any selection. Up to UNCTAD my impression is that Soviet members, Soviet officials, were given jobs that were not at the heart of their respective organizations. And my innovation was to give them equal status. Mordvinov was sitting with

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³⁷ R. Krishnamurti: National of India. Prebisch's Executive Assistant at UNCTAD I. Chief de cabinet to the Secretary General, Director of the Manufactures Division (1967-1977) and Director of the New York Office of UNCTAD (1977-1979).

³⁸ Y. Mordvinov: Member of the Soviet delegation to UNCTAD I.

us just like any other staff member. Mordninov was one of us. He would participate and speak just as the others. (But) Wladek was the *primus inter pares*. And what was interesting David, is that in UNCTAD, as well as in ECLAC, I broke the monopoly of the UN Administration. They had to go there and explain what they were doing. And listen to what others were doing. This was very sound. This appeared in ECLAC. But I integrated the Administration into the structure of ECLAC, as I integrated it into the UNCTAD structure. What happened is that they would not attach importance to UNCTAD at the beginning. But after that - after the success of the first Conference and the enormous support of governments - they changed. They started offering concessions in order to attract us.

D.P.: Because they could see it was going to be a big addition to their empire. Tell me, Don Raúl, did you get full support from New York? Wasn't there some trouble between you and Mosak³⁹ in some way?

R.P.: Normally there was a quarrel. Mosak was trying to establish UNCTAD as part of the Economics Department. This was the idea. And Philippe de Seynes [tended to support] that idea. Mosak perhaps put this idea into the heads of some delegations. He did not succeed. But what is worse was when I was waiting for the projections of the trade gap. At the final moment the computer failed, and they had to calculate it by hand. I put out the figures that they gave me, and the other members looked at this with critical minds. For me, the actual figure was not important - but the concept was. I don't know if this was done intentionally or by accident. But Mosak was a member of the group in the first Preparatory Committee. And he didn't go there.

D.P.: Yes. He was rarely in Geneva.

R.P.: And he did not show any interest. He considered this as a diversion.

D.P.: Yes and as competition, as a challenge to his empire. After [the UNCTAD conference in India came] Santiago, Manila, Dubrovnik, and now we are in 1985. It's true that UNCTAD seems to be withering on the vine. But if you had to say in a few words what did it achieve and what were its main weaknesses?

R.P.: The intellectual atmosphere and the very minor system of preferences. Nothing more.

D.P.: It told a story about developing countries' aspirations.

³⁹ Jacob L. Mosak: American national, Deputy to the Under-Secretary General for Statistics and Development Planning, UN.

R.P.: Yes.

D.P.: But it didn't get much. A small GSP.⁴⁰

R.P.: Well, [also] in transportation, perhaps.

D.P.: Shipping and transfer of technology.

R.P.: I don't mean to minimize this. But [UNCTAD's innovations] covered new fields, and they shaped the minds of developing countries. Now there is a body of knowledge.

D.P.: I'm afraid the emphasis on commodities was overly done. So much effort went into the Integrated Commodity Program.

R.P.: Perhaps, perhaps. That was in Manila.⁴¹ Well in Manila - after the transfer of wealth to the Arabs - I expected a gesture of generosity [from them]. To say "We will put five hundred millions [toward starting] the [Common] Fund." They did not put a single penny. The only contribution that I remember was 30 million dollars from India, and that's all.

D.P.: The OPEC countries were a big disappointment.

R.P.: So that we can't just put the blame on the developed countries. The worst types of rich are the poor that have been enriched. Poor UNCTAD - it started off with such a tremendous energy and enthusiasm.

R.P.: Many people speak detrimentally towards Gamani Correa.⁴² I don't know what kind of life Gamani had - [but] he's quite an intelligent fellow. But even if he had deployed the most intense activity, I don't think he could have changed anything.

D.P.: History wasn't right. The time wasn't appropriate.

R.P.: The same with Manolo Pérez Guerrero.⁴³

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⁴⁰ GSP, established by UNCTAD under Prebisch's leadership.

⁴¹ Site of UNCTAD's conference in 1979.

⁴² Gamani Corea (1925-): Native of Sri Lanka. Member of the team of experts that helped to prepare UNCTAD I (1963-1964) under Prebisch's leadership; Secretary-General of UNCTAD (1974-1984).

⁴³ Manuel Pérez Guerrero (1911-1985): Secretary General UNCTAD (1969-1974) and President of ECOSOC (1968).

D.P.: You wonder why Enrique [Iglesias]⁴⁴ feels that he could do something in UNCTAD.

R.P.: Well, let him try. Maybe. Maybe, if he arrives in a year or two, the situation will change and new names will be put to old things.

D.P.: Explain that last phrase "New names will be put to old things." What did you mean by that?

R.P.: If Enrique is put in charge of UNCTAD he has to enter into a new field of proposals. He cannot say that "this is the way some people think," or "this is a problem that has to be solved." He has to say how. What is the proposal of the new Secretary General of UNCTAD to deal with the debt problem, to deal with the trade problem, to deal with the instability of markets, to deal with the dollar? The agenda for a constructive Conference could be very important.

D.P.: Are you suggesting that, to be successful, Enrique (or anybody else who becomes head of UNCTAD) would have to be very short-term [oriented] and very practical? Is that what you are saying?

R.P.: No, as I told you this morning, short-term and long-term are parts of the same problem. The long term starts today. What are the ideas of Latin America for a World Monetary Conference? UNCTAD is not the instrument for dealing with this. But UNCTAD may exercise an influence. UNCTAD might say "from the point of view of developing countries, I believe that the Conference has to deal with this type of problem."

D.P.: Not theories; practical proposals?

R.P.: Practical proposals that need a theoretical basis. No practical proposal can be deprived of a theoretical basis.

D.P.: I want to come back to that in a moment, but I have a couple of other things rather specifically linked to UNCTAD. But even someone who tried to understand [like Isaiah Frank]⁴⁵ was a captive of the US government.

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⁴⁴ Enrique V. Iglesias (1930-): Executive Secretary, ECLAC (1972-1985) and President, Inter-American Development Bank (1988-2005).

⁴⁵ Isaiah Frank (1917-): Member, State Department Advisory Committee on International Economic Policy; former director of the Office of International Trade Policy and the Office of International Financial and Development Affairs at the US State Department; former deputy assistant secretary of State for Economic Affairs.

R.P.: Yes. But he, as well as other officials, had such ideological density that they rejected the new ideas.

D.P.: I remember one day when he was Deputy Under Secretary of State, and we met in his office in 1963, he said to you, "Tell me what I can do, given my position in the US government? I would like to do something, but I don't know what to do. Tell me what you would do if you were in my place?" And you gave him some sort of imagery that involved poor people going down a street carrying flags reading, "We are hungry, we are deprived." You said to Isaiah Frank, "Take one of the flags and walk with us." But it was too out of character for the State Department.

R.P.: There was such a wide divergence [between developed and developing countries] which continues more than ever now.

D.P.: Yes, with Reagan and Reaganism.

R.P.: But we have to be prepared, because this will not last forever.

D.P.: Your impact in ECLAC was very dominant. But in UNCTAD, much less so. But there must be a certain feeling of regret that nothing happened, really.

R.P.: UNCTAD had to take practical decisions as to trade, finance, technology and so forth. And there was tremendous resistance from the centers. ECLAC was different. In ECLAC, first of all, we clarified the problems. We presented some interpretations of facts that were generally accepted. Latin American minds need articulation; they need logic to be acceptable. This was the role of ECLAC.

One thing is the Latin American periphery facing the UN and other centers where the majority - the clear majority - was Latin American. With a respected institution behind it. With UNCTAD the case was different. In UNCTAD, the relation of forces was different. It is true that there was a majority of developing countries, but the developed countries were very powerful, intellectually and politically. They would resist. Every resolution was discussed. There were negative votes or abstentions. So the scene was quite different for me. And naturally the programs were not so homogeneous as in the Latin American periphery.

D.P.: Yes, I remember one session where you had, for a while, some difficulty in getting the North Africans to support you on some complex negotiation you were having with the US. The Africans were demanding much more forceful action, so that the unity of the G77 was complicated.

R.P.: Yes, there were many problems, even political problems. I think it was wise to prevent the consideration of political problems in UNCTAD. When the Africans were trying to expel South Africa, I had a private talk with some of their leaders. I said, "Look, your cause is quite

sound and very important historically. But don't weaken UNCTAD by introducing political problems. Because you are interfering with the work of the General Assembly. If UNCTAD has been created, it is because the General Assembly was not qualified, due to its nature, to deeply consider economic problems. But it was highly qualified to consider political problems. Don't try to encroach upon the responsibilities of the General Assembly." And they understood that. Look what happened afterwards in UNCTAD and UNESCO. The resistance of the US is not only the result of some specific decisions as in the New International Economic Order⁴⁶ but the fact that political problems were continuously being presented there. Problems that were for the General Assembly to consider. That was a great mistake. This added to the complexity of these organizations, and the divisions when considering fundamental problems. I think that in ECLAC we were fortunate in minimizing these problems. This was the personal action of mine in my time and of Enrique in his time, to avoid this type of problem. The diversity of problems and situations so overloaded UNCTAD that the Conference turned out to be unmanageable.

Why doesn't the Conference limit its objective to four, five, six days - no more than a week? A very simple agenda. Examination of the main objectives of the permanent machinery, and how they were fulfilled or not fulfilled. Criticism. An analysis and guidance for the future. UNCTAD should be the organ that, every three or four years, makes a proper blending of the short-term and the long-term. For instance, if UNCTAD would meet now, and if I was responsible for presenting an agenda, what would I [propose]? The nature of the world crisis and its impact on developing countries. The nature of the monetary system in the light of history. It was a very deep modification, the abandonment of the gold standard (with all its virtues and defects) and the substitution of a system in which international functions are subject to the policy of a single country. Things like this. The problems of transnational corporations. Let us select five or six key problems, very important problems, and not enter into matters pertaining to individual countries. These should be deeply considered in committees. Let the essence emerge for the Conference. This is the gist of my report after the first Conference.

D.P.: I agree with that. There were three problems of UNCTAD. One was too many issues. Secondly, too many negotiating entities. And thirdly, you ran headlong into a determined ideological opposition. The North was concerned that UNCTAD's philosophy, the analytical rationale, was too much in opposition to neoclassical theory. So you ran into obstacles at every level.

R.P.: Yes, that's true. [But the US position may change over time. At the Quintandiña meeting of ECLAC in 1954] Isaiah Frank approached me one morning and said, "Dr.

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⁴⁶ See introduction.

Prebisch, what do you think of my draft resolution?" I said, "Excellent. Industrialization appears there for the first time! It's a pity that you had not presented this in Mexico,⁴⁷ because the Soviet Union has taken from you the flag of industrialization, and you are lagging behind." And this is what I said in the President's Conciliation Group at the end of the first UNCTAD. The head of the American delegation told me, "Don't insist on the idea of preferences, because the USA will never accept preferences." I said, "Mr. Ambassador, I have seen you with firm positions that you, with flexibility, change. Perhaps lagging behind." I told him about the case of industrialization. And the Alliance for Progress. I said, "You opposed ideas that emerged in ECLAC, and finally a President of yours accepted these ideas.⁴⁸ Not only accepted, but said publicly that ECLAC was the main source of inspiration of the Alliance for Progress. Then don't be surprised if I insist on this idea, because we may get it [approved] in a few years more." And so it happened. Instead of anticipating facts and taking a role that would give them prestige, they lag behind.

D.P.: And today not only lagging behind, but actually moving some things backwards.

R.P.: This is a misfortune. I was never an enemy of the US I always had a realistic position, as a national official and as an international official. We have to get an understanding. But to get an understanding with them would not imply being subject to their conceptions, but rather to try and modify their conceptions. I told *Pepé Figueres*⁴⁹ (when he visited ECLAC after being elected President of Costa Rica): "Mr. President, our effort should be to educate the Colossus."⁵⁰ This is the situation now. They always considered me as against them. That is not the case. For Latin America, US prosperity and US political power in the world are both necessary. But our interpretation is different [as to] what they should do. And they lag behind continuously.

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⁴⁷ Prebisch is referring to the fourth session of ECLAC in Mexico City (May-June 1951).

⁴⁸ John F. Kennedy (1914-1963): President of the UN (1961-1963).

⁴⁹ José Figueres Ferrer (1906-1990) President of Costa Rica (1948-1949, 1953-1958, 1970-1974).

⁵⁰ The "Colossus of the North," i.e., the UN.

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RAÚL PREBISCH BEFORE THE ICE AGE

Carlos Mallorquín

To D. H. Pollock in memoriam

Time precedes existence. (Prigogine [1990] p. 183)

Time is the substance of which I am made. (Jorge Luis Borges [1996] p. 148)

This chapter presents an episode in the intellectual life of Raúl Prebisch, namely, the years following his dismissal in 1943 as head of Argentina's Central Bank until a few days after his departure in 1949 from Mexico City for Santiago de Chile, where he was to draw up a report as a consultant for the ECLAC, a period just prior to the *Manifesto* (Prebisch [1949]).⁵¹ On October 18, 1943, Prebisch received news that he had been fired from the Central Bank. This, as Dosman points out, was "the single most painful experience of his life" (Dosman [2001] p. 89), and one that Prebisch himself mentions repeatedly in interviews throughout the 1980s (Magariños [1991]; Pollock, *et al.* [2001]; González del Solar [1983]). By December 1943, Prebisch had already taken an important decision to seek financial backing to research and write a book entitled *La moneda y el ritmo de la actividad económica* (Prebisch [1943]).⁵² Argentina's publishers rejected his proposal, but Prebisch went ahead with his plan "while he was teaching at the faculty" (Dosman [2001] p. 94). The content of the following year's texts

⁵¹ The title of the original text, *El desarrollo económico de América Latina y sus principales problemas*, is not qualified by the term *some* when cited by many specialists. Did Prebisch himself change the title, or was it due to an error that could not be altered, given the lightning speed with which it was published everywhere? I would like to thank Dr. Víctor Urquidí for giving me a copy of the manuscript.

⁵² I would like to thank Edgar Dosman for a copy of this 10-page manuscript.

and reflections such as *Conversaciones en el Banco de México S.A.* (Prebisch [1972a]), and *La moneda y los ciclos económicos en la Argentina*,⁵³ [1979] bears this out.

It is my aim here to present the development of Prebisch's critiques and reflections on economic thinking. I will touch only obliquely on his ideas about economic policy and industrialization, a subject that merits consideration but which will have to wait for another occasion. One of the assumptions of my argument is precisely that Prebisch's thinking displays a certain historical unity in this period. This can be analyzed independently of the intellectual periods immediately preceding and following our analysis.

I will not go into a comparison between the theoretical vocabulary of the period and subsequent vocabulary. However, the existential and political events that prompt the Prebisch of the *Manifiesto* familiar to many are certainly still to be deciphered and related. Given the scantiness of the existing information, this might be a highly speculative task,⁵⁴ though its results may cast more light on his theoretical and existential turn of phrase which, as I shall insist later on, can be seen when analyzing Prebisch's writings prior to his entry into the ECLAC - a period I take as "read."

In a nutshell, the Prebisch of the *Manifiesto* (Prebisch [1949]), and the theoretical reflection about the peripheral economy -and therefore the very notion of the cycle- that gradually took shape thereafter, was not predetermined by his earlier thinking. In other words, the ideas that Prebisch had been developing, and was carrying around in "his luggage" when he decided to accept the post of consultant at the ECLAC in Chile suggested a *different* theoretical path. We shall see that Prebisch had other theoretical options, and may well have gone on developing them.

Joseph Love ([1996] pp. 271) has mentioned that Prebisch read an article by Charles Kindleberger discussing the decline suffered by the primary producing countries *vis-à-vis* the industrial ones in the terms of trade, and suggesting that "production factors for agriculture and raw materials [be] transferred to industry." (Harris [1943]). Indeed, Prebisch avoids these issues in *Conversaciones* (Prebisch [1972a]; p. 531),⁵⁵ and criticizes Kindleberger for assuming that the rest of the world was predestined to buy much more from the United States than it sells, rather than the other way around, and for using Argentina as corroboration, even calling into question his own statements about Kindleberger.⁵⁶ However, we have to remember that discussion at the time was focused on the plans for international stabilization (the White

⁵³ I am grateful to Dr. Washington Ashwell, who kindly sent me a copy of the manuscript.

⁵⁴ Important progress has been made by Dosman [2001] and Toye and Toye [2003].

⁵⁵ The article by Charles Kindleberger [1943] in Harris [1943], mentioned by Love and quoted by Prebisch [1944], was in fact taken entirely from *Conversaciones* (Prebisch [1972a]); see the reference in question on p. 531 of this book.

⁵⁶ "Which does not mean he might not be right" (Prebisch [1972a] p. 531).

and the Keynes Plans were already circulating) (Mikesell [1994]) and the "scarcity of the dollar." Even more important is that, for Prebisch, the theoretical explanation for the different income elasticities was not relevant as a subject for reflection. He found himself reflecting on economic theory in general back then, and although the subject of the "worsening" of primary prices had been "reported" and "assessed" by his own pen since his youth, he had no "theory" or explanation about it other than the classical one of the cyclical rise and fall of prices.⁵⁷

Indeed it is rather "odd" -as Love puts it ([1996] p. 118)- that no paternity of any kind is granted to Kindleberger as one of the precursors of the Prebisch-Singer thesis about the worsening in the terms of trade suffered by primary exporting countries *vis-à-vis* the industrial countries. Moreover, if we assume that these issues were foremost in Prebisch's reflections on economic thought, then we can rightly talk -as do John Toye and Richard Toye ([2003] p. 445)- of a certain "confusion" in his ideas about the mechanism of the "worsening in the terms of trade."

My own interpretation differs in that, rather than talking of "confusion," I try to show that Prebisch found himself in a process of theoretical gestation, or at one of the several theoretical crossroads throughout his life, and which would in fact be frozen. But this approach fudges analysis of his reflections before the *Manifesto* in light of the *Manifesto*. In other words, at the ECLAC, there once again emerges a strategic shift in theoretical vocabulary, quite possibly the result of a crucial event, as well as the atmosphere of deep freeze, prudence and calculation produced by international organizations - especially the ECLAC, hounded by the United States.⁵⁸

This would seem to have been the case because Celso Furtado, a colleague of Prebisch's in the early days of the ECLAC, has said that prior to the famous manuscript, Prebisch circulated a "first text" and that, before discussion of it had begun, "it was abruptly taken out of circulation with no explanation." However, the text that is known was presented without further preliminaries, and reached "my hands in mimeograph in its finished form" (Furtado [1988] p. 53). In actual fact, we do not know what happened to the first text, but unlike the earlier one, the new manuscript was, in Furtado's words, no longer on the "defensive"; it was an open call for industrialization, in spite of pointing out the "limitations." According to

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⁵⁷ An example, should it be needed: here the topic discussed is the tendency to disequilibrium in the "balance of payments." "I am referring to the fall in international prices. If international prices go on falling year after year, the balance of payments, which tends to balance out after the first fall, is again unbalanced with successive falls (...) The case I am considering is different. It involves the hypothesis that price levels fall continually over a number of years. (...) setting off a new wave of gold exports. That is the characteristic feature of this phenomenon" (Prebisch [1991b] pp. 566, 569).

⁵⁸ There is no better account of these years than Celso Furtado [1988] and Burger [1998].

Furtado,⁵⁹ it is the appearance of Singer's classic article (1949)⁶⁰ that explains the turnabout and the beginning of the transformation of Prebisch's theoretical vocabulary between the two texts, as Toye [2003] has more recently corroborated.

This was when Prebisch began "skating on thin ice" (Dag Hammarskjöld's celebrated phrase about Prebisch),⁶¹ though this did not prevent him supporting Prebisch in presenting the report commissioned from him for the Quintadinha Meeting in Brazil in 1954 by the OAS's Inter-American Economic and Social Council (Prebisch [1982]). It is no secret that, aside from calling for his "head," the United States government attempted unsuccessfully to prevent the ECLAC being set up after the three-year trial period. There can be no better corroboration of this attitude and policy than when no less than Eugene Black, then President of the International Reconstruction and Development Bank, shouted from the rooftops, "Who does this man think he is coming and giving us advice?" (Santa Cruz [1984] p. 467).⁶²

Several years after leaving the Central Bank, Prebisch claimed it had been a "true theoretical liberation" (Prebisch [1993a] p. 2 and [1993c] p. 412).⁶³ It is symptomatic that right from the beginning of the *Conversaciones* he draws the limit he would be willing to reach in his critique of the "good monetary doctrine:" "Why not seek our own principles when the traditional principles themselves are undergoing a severe process of critical revision?" (Prebisch [1972a] p. 255).

Although *La moneda* -written some months after the *Conversaciones*- incorporates many of these,⁶⁴ critical positions much more fundamental to economic theory can already be perceived. These Prebisch may already have held, but not yet conceptually elaborated,

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⁵⁹ "It was the appearance of H. Singer's work on the terms of trade that enabled people to think globally about the problems of underdeveloped countries, or about the global terms of worldwide exchange between primary and industrialized products, which is translated into global terms of trade. Singer took the relationship between the developed and undeveloped countries as a central hypothesis. It was a description of imperialism under another name, shall we say. (...) Prebisch read Singer's text and it must have had a great effect on him because, after tidying up the first version, he worked intensely on a second, introducing a quote by Singer, and the system of exchange data" (Furtado [1998] pp. 85-86).

⁶⁰ On the vicissitudes of Singer's article, see Toye [2003].

⁶¹ Dag Hammarskjöld has said, "Indeed, Prebisch is skating on thin ice, but I fully support him" (Magariños [1991] p. 144).

⁶² Black did not notice that he had the headphones on, and was therefore "audible to his neighbors but not stop to himself" (Santa Cruz, *ibid.*).

⁶³ During the period under analysis, Prebisch mentioned his departure from the Central Bank several times (Prebisch [1993b] p. 242-243 and [1979] p. 9-10).

⁶⁴ Here is a list of pages in the manuscript of *Conversaciones* (Prebisch [1972a]) included in the "third part" of *La moneda* (Prebisch [1979]): p. 261; pp. 263-269; 289-333; 236-416; 435-446; 453-300; 484-485; 490-500; paragraph of p. 506; pp. 599-606. This takes up over two thirds of the "Third Part" of *La moneda*, pp. 219-312.

and they therefore did not form part of what he was ready to expound in Mexico.⁶⁵ The theoretical strategy of *La moneda* still spoke of "adaptation" and the "modification of theories," as well as "formulating new ones" about the "reality" of his "country" (Prebisch [1979] pp. 1-2). Indeed, a year later he was still trying in some way to defend the limitations of traditional doctrine regarding the periphery, referring to it in the image of "geographical charts" or "old maps" that should be put right with specific realities (Prebisch [1991d] p. 443).⁶⁶ In *La moneda* then, he does not suggest breaking with the traditional explanation of "monetary phenomena of big countries" (Prebisch [1979] pp. 1-2), since they "coincide" -albeit only "partially" - with the phenomena of peripheral countries.

I should stress that the discrepancy -not to say theoretical "ambiguity" - about the usefulness or otherwise of traditional theories, is also present in his appraisal of the gold standard. If, on one hand, this was not "about ditching the gold standard as a monetary regime in our country, but about finding a way to adapt its workings to our needs, to our economic and monetary reality" (Prebisch [1979] p. 7),⁶⁷ on the other, Prebisch also stated that the classical theory of the gold standard "is not universal." Such a regime represented the "experience of the center," of "industrial and creditor" countries, and not "the experience of the countries in the periphery" (Prebisch [1979] p. 142 and [1993a] p. 19).⁶⁸

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⁶⁵ "His own ideas and adapting to them the development of a national monetary policy" (Prebisch [1991c] p. 229).

⁶⁶ A "task of revision" accentuating "its major successes" and amending "its many errors." Prebisch [1991d] p. 444: *Introducción al curso de economía política*, and *Concepto preliminar de la circulación de ingresos*. It is necessary to note that the first of these texts is in (Prebisch [1991c]), and the second in Prebisch [1993].

⁶⁷ The stance of *Conversaciones* (Prebisch [1972a]), and *El patrón oro...* are similar: "to perfect," "to correct," "not to destroy" the gold standard in "our countries." (Prebisch [1991c] p. 233).

⁶⁸ Elsewhere Prebisch says, "As a system the gold standard has been automatic only for certain countries. It was not so for England, who managed it until the First World War. The concept of the gold standard's automatism is a dogmatic aberration of the kind so frequent in economic matters. (...) the gold standard has been a highly directed system, not by a single authority, by one government, but by a group of bankers led by the Bank of England (...) directed (...) from the standpoint of British interests, and even more so from the standpoint of a social class with great economic and political influence in Great Britain, and extremely concerned to maintain domestic monetary stability, despite the consequences that might result from it for international economic activity" (Prebisch [1979] p. 51 and [1991c] p. 317). At around the same time, Nurkse was saying something similar, but from a different theoretical perspective: "The policy of offsetting is intended not to raise total spending but to prevent it from falling. (...) Yet the amount of imports, and hence the gap in the balance of payments, will necessarily be greater than if the country allowed depression to spread to its whole domestic economy. (...) Under the gold standard, not only were things expected to take their natural course, but a country in the situation described was even expected to accelerate the spread of depression by pushing up its discount rates and contracting credit at gold flowed out. No doubt the gold standard "rules of the game" tended to reduce the loss of gold to a minimum; but they did so only by speeding up the propagation of depressions. The offsetting procedure described is precisely the opposite of that which would be called for under the gold-standard rules of the game. (...) Even in the best days of the gold standard, of course, the rules of the game were not always strictly observed. There is some statistical evidence of "neutralization," on the part of the Bank of France and the Bank of England in the nineteenth century. In the inter-war period neutralization of gold movements by central banks became, in fact, the rule rather than the exception. (...) Though neutralization by central banks was very common in the inter-war period it was nearly always frowned upon; it was widely regarded as wicked and disreputable behavior. (...) it is time to accept it as a normal and respectable procedure" (Nurkse [1945] pp. 11-13).

These discrepancies reflect an ongoing theoretical transition. It is in *La moneda* (Prebisch [1979] p. 28 and [1991c] p. 286)⁶⁹ that the impulse appears for the "first time" to expound and elaborate a theoretical explanation about the cycle while trying to leave previous elaborations behind. This also explains why his arguments against Kindleberger in *Conversaciones* are no longer found in *La moneda*. The new theoretical issues also excluded any kind of rapprochement with Kindleberger's theses, apart from the fact that Prebisch already had a new appreciation of the international level,⁷⁰ despite being aware of one of the factors pointed out by Kindleberger to explain "worsening" (Duesenberry on the low price elasticity of demand for consumer goods which he now begins to consider).⁷¹

Prebisch then was claiming he was closer to the "classics," since classical economists observed "reality," and -the parroting of formulas aside- interpreted it "scientifically" (Prebisch [1979] p. 28 and [1991c] p. 286).

There is a theory then -an explanation- of the workings of world capitalism under the influence of a conceptual element that would survive throughout the period: the economic phenomenon should give priority to the examination of money, which is the "technical yardstick for measuring values," and has an importance that is "absolutely fundamental in the life of society" (Prebisch [1979] p. 3). By the same token, the *descriptions* of the evolution of the cycle that had for some time been devised under the assumption of a "system of communicating vessels" are clearly inadequate.

For this reason, the theory is incomplete, and incorrect on fundamental points, for one part of the system could not have been theorized about while disregarding the other fundamental part. Which is why I believe that the international theory of the gold standard has to be revised to give it a general character covering the center, the countries close to the center, and the countries of the periphery (Prebisch [1979] p. 142 and [1993c] p. 19).⁷²

The first part of *La moneda* sets out under various hypothetical scenarios -rising or falling imports, domestic expansion of income, or lack of it, and so on- a series of examples

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⁶⁹ We should stress that Prebisch states that this is "a hypothesis that should be checked" in other words, "the nature of this circulatory process of income at the monetary center to and from the countries of the periphery [which] would explain by it[self] the generation of the cyclical global process, with no need for any other reasons, which is not to say no other extremely important reasons exist" (Prebisch [1979] p. 149, and [1993c] p. 30).

⁷⁰ And also the fact that the Bretton Woods Meeting and Agreements had already taken place, see Mikesell [1994].

⁷¹ "When the personal incomes of the employed population rise -especially those in the relatively high income bracket- they do not consume more food, but greater quantities of manufactured products" (Prebisch [1979] p. 16 and [1993c] p. 271).

⁷² A year later Prebisch said it was not necessary to look for "two orders of theories" -a cycle in the periphery, and another in the industrial center, "as two phases are involved, two different aspects of the same international phenomenon. But it is inadmissible to apply the interpretation of one phase to the events of the other -to the obverse, the reverse- (...) domestic and international economic activity manifested in a continuous process of circulation of income" (Prebisch [1991d] p. 446).

illustrating the development of the economy and the consequences of the circulatory process of income and its reproduction in economics. It points up the sectors' interdependence, assuming different rates of income generation and reproduction in each case. Depending on the phase of the cyclical process observed (contracting or expanding), Prebisch insists that "external or internal influences cause expansion and contraction phenomena greater in scope than the numerical significance of the initial impulse that causes them in the first place" (Prebisch [1979] p. 2 and [1991c] p. 250). In every hypothetical model he points out the shortcomings of classical theory (Prebisch [1979] pp. 18-19 and [1991c] pp. 274-275). But what he really wants to introduce into his models is the factor of time. The time it takes the various different productive sectors to generate new income means thinking about the time they need to expand or extend productive activity.⁷³

To the time issue, or that of the rate of income circulation and reproduction, Prebisch adds the thesis that "income growth" in various different countries is a function of profits. In other words, this phenomenon would explain the concentration and holding of gold crossing their borders.

One of the first phenomena to consider in explaining the serious flaws in the system of the gold standard is different countries' import coefficients. In other words, gold holdings does not depend on a country's opening-up, or interaction with the international market. It depends instead on the distribution of "total returns" between "domestic activity" and "foreign trade" (Prebisch [1979] p. 31 and [1991c] p. 290).⁷⁴ This Prebisch presents with numerical models for countries with similar, then dissimilar, productive structures, but different import coefficients.⁷⁵

The sterilization of foreign currencies or gold in the upward phase, may diminish the effects of continuous drainage of gold reserves, but not totally prevent it, particularly if the "gold standard regime" is followed to the letter.⁷⁶ This system, which in the long term concentrates gold within certain borders, contradicted the idea that gold was merely a vehicle for carrying out transfers and supporting foreign trade. Prebisch defends the existing asymmetry

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⁷³ "The *time* in which the process is completed -its *duration*- is of fundamental importance, and the explanation of this point is of interest in gaining a better grasp of the international mechanism and its flaws" (Prebisch [1979] p. 23 and [1991c] p. 280). (Prebisch's italics).

⁷⁴ "The income growth left in each country is proportional to its returns. (...) This means that to reach the point of equilibrium, the original income growth is distributed in proportion to the returns of the different countries considered." (Prebisch [1979] pp. 34-35 and [1991c] pp. 294-295).

⁷⁵ "Therefore, when gold is distributed worldwide according to countries' incomes and not foreign trade, countries with lower returns and higher import coefficients are put in a much more vulnerable position in terms of fluctuations in foreign trade and balance of payments. This is point of great importance for national and international monetary policy" (Prebisch [1979] p. 36 and [1991c] p. 296).

⁷⁶ "There exists therefore incompatibility between an expanding domestic policy or maintenance of domestic economic activity in a downward phase caused by falling exports, and the monetary stability inherent in the gold standard regime" (Prebisch [1979] pp. 49-50 and [1991c] p. 315).

theoretically through the idea of the "expansion coefficient," which, according to him, is not the same as the concept of the Keynesian "multiplier" (Keynes/Kahn), as they are each "based on substantially different theories" (Prebisch [1979] p. 72 and [1991c] p. 350). Whereas for Keynes the "multiplier" is a constant giving the amount by which investments or original income have been reproduced, Prebisch holds that his idea of the "expansion coefficient" has "limits." These "limits" have nothing to do with the amount of "saving" assumed by Keynes's theory (Prebisch [1979] pp. 84-85 and [1991c] p. 365), but with the "time" elapsing between the beginning of a productive cycle and the generation of fresh income. This period is determined by two elements: "the number of times the money changes hands to produce the income" (*i.e.*, its rate of circulation), and the "amount of money lost at each exchange in imports payment" (Prebisch [1979] p. 78 and [1991c] p. 358).⁷⁷ What this attempts to explain is, on the one hand, the loss of income leaving the circulatory process via imports in economies like Argentina's, and on the other, the rate at which different economies generate their own income. It is precisely the time factor that explains a certain asymmetry in the concentration of gold: economies with low import coefficients that "take a long time" to put back a proportion of their income into the international market, thus producing "gold holdings" within their borders, accumulating it progressively over various cycles. Thus Prebisch suggests that it is the relationship between "total returns" -the rate at which they are generated- and foreign trade, that explains the process. If we accept that, in "the upward phase" of the cycle "exports grew faster than imports, and the balance of payments was positive, whereas in the downward phase exports fell more rapidly than imports" (Prebisch [1979] p. 53 and [1991c] pp. 320-321), then the different rates of circulation of the income and amounts leaving some borders would explain the circular accumulative process.⁷⁸

Given his theory "the greater the return, the greater the gold," Prebisch would grow even more suspicious of industrialization policies per se in shoring up growth and dealing with oscillations caused by the gold standard (Prebisch [1979] pp. 309-310) than when, in reference to Bunge and his group, he could still conceive of adapting to the regime with a clearly defined monetary policy.⁷⁹

⁷⁷ "The economic cycle is thus manifested in an alternate movement of income, contracting and expanding in the circulatory process. (...) Whatever the origin of domestic income, it gradually evaporates and is transformed into income of other countries. (...) The extent of this substitution has great influence on the development of domestic economic activity" (Prebisch [1993c] p. 217).

⁷⁸ "I can thus prove numerically what I have so often said, namely, that in the downward phase, imports fall less steeply than exports. In this way, the remainder of money is consumed, or the gold and foreign currencies from the positive balances of the preceding phase -which amounts to the same thing in this case" (Prebisch [1979] p. 76 and [1991c] p. 354).

⁷⁹ "It is often believed among ourselves that Argentina's industrial growth makes us less vulnerable to the effects of these international disturbance factors. There is no ultimate basis for such a belief. I will show (...) that industrial growth *could* make us less vulnerable, but if Argentina were to go on operating under the classical gold standard, industrial growth would make us more vulnerable than before" (Prebisch [1979] p. 22 and [1991c] p. 279). (My italics).

Prebisch is clearly not interested in the different demand/income elasticities or demand/price elasticities (nor even in the terms of trade). Countries, it would seem, are differentiated on the basis of their relationship of global rather than sectoral exchange with reference to a financial center and its effects. Although *La moneda* and the later *Concepto preliminar* (Prebisch [1993c]) both conceive of the rate and circulation of money and income in terms of the payment "habits" of the "public" (companies, individuals, the State), and/or of the varying number of "transactions required by each economy to obtain a given amount of income" (Prebisch [1993c] p. 223), Prebisch's *Concepto* avoids any reference to the "quantitative theory of money" of *La moneda* (Cf. Prebisch [1979] pp. 60-110 and [1991c] pp. 330-402). Perhaps even more significant than the process of continuous theoretical elaboration is the fact that he does not mention his concept of the "expansion coefficient" in contradistinction to Keynes's "multiplier." As we shall see later on, this would morph into the concept of the "outflow coefficient" (Prebisch [1949] p. 47 and [1993c] p. 464). Prebisch is clearly still not totally comfortable because he does not stop there. More radically, a year later in 1946, at the First Meeting of Technicians on Problems of Central Banking of the American Continent, he stated, "I am disturbed by the arguments that free competition leads to general equilibrium and to the most appropriate distribution of resources and income within society. I see no correspondence between these abstract propositions and the reality of the economic world" (Prebisch [1993b] p. 227).

But by this stage he can already see that the ontological feature of capitalism is essentially stochastic: I have found only wave movements (...) all movements in the economy taken as a whole are cyclical in nature (...) in the broadest sense, (...) a succession of rising and falling wave movements (...) The cycle (...), both in the center and the periphery, is the characteristic way the economy grows -the capitalist economy has grown in no way but cyclically" (Prebisch [1993b] pp. 226-227).

The *theoretical* work done in the coming years will be devoted to a "dynamic examination of the economy," because it was still "in its infancy" then (Prebisch [1993b] p. 227). Between August 1946 and early 1947, Prebisch devoted himself to analyzing Keynes's classic work, *The General Theory of Employment, Interest and Money* (Keynes [1965]). It was during the course of this analysis that he made his final theoretical crossing.

Though the "practical solutions" proposed by Keynes are indisputable, this does not necessarily mean agreeing with his critique of political economy or its doctrinaire construction,⁸⁰ less still with the "dogma" his followers have made of his work, on the basis of which they devise

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⁸⁰ "Keynes has also left behind practical solutions that are independent of his theory and that can be admitted or rejected, while wholly abstaining from it. These practical solutions are of great importance and have not yet been superceded. (...) You will say that there is contradiction in my theoretical position in judging Keynes, and my respect for some of his practical propositions. There is no such contradiction, since accepting an interpretation of reality quite different from Keynes's own does not imply seeing the positive side of certain of his practical propositions -with certain reservations, and in the absence of anything better" (Prebisch [1991c] pp. 505-506). (My italics).

"new theoretical constructions ever further removed from reality as, in my opinion, is Keynes's own construction" (Prebisch [1991e] p. 504). Prebisch insisted that anticyclical economic policy should be defended from a different theoretical perspective. Wherever he could, Prebisch emphasized the gap between himself and Keynes. He wrote a series of articles analyzing the elementary concepts basic to Keynes that would later become his *Introducción a Keynes* (Prebisch [1947]) - almost a glossary of sorts. Prebisch did not interrupt the flow of Keynes's ideas with his own or others' criticisms. He also excluded from the book the more scathing of two negative comments about Keynes made in the original articles;⁸¹ only the following was left in: "What correspondence do these theoretical reasonings have with reality? Keynes's book cannot be said to present a systematic analysis of facts to verify his theories" (Prebisch [1993c] p. 258 and [1947] p. 86).

He leaves for another occasion the matter of whether or not "Lord Keynes" carried off "the rational explanation of economic movement, and elucidated the principles it obeys" (Prebisch [1991c] p. 454 and [1947] p. 13).⁸² Yet the strategy he was later to embark upon is already very clear here: he would harp on analogies or "coincidences" between Keynesian ideas and "classical" thought, and missed no opportunity to point out that the "multiplier decreases" (Prebisch [1991c] p. 454 and [1947] p. 54) in an open economic system due to the fact that some income filters abroad to pay for imports. Prebisch is in fact here reminding us of the mechanism he developed concerning trade relations under the gold standard.

As his account of Keynes develops, Prebisch emphasizes the wave pattern and cyclical form of capitalism, highlighting its fluctuations, a phenomenon that seems not to have been central to the analysis, says Prebisch, for it is left until the end of the book. However, basing himself on Keynes's idea of "oscillation around an intermediate position," so as to avoid consideration of more serious fluctuations, he advances his own ideas that the cycle and its wave form should be seen in a historical, institutional sense, not as a "natural law" (Prebisch [1991c] p. 482 and [1947] p. 114). Yet Prebisch's critique of classical thought in general and Keynes in particular, it was already there in outline: Keynes devotes some pages at the end of his work to explaining the phenomenon of continuous disequilibria in reality, his so-called notes on the cycle in which he makes no use of the results reached in his theoretical discussion at all. He seeks the explanation of the cycle in another vague form. (...) that is, as with classical economists, we find that his fundamental theories are unsuited to explaining cyclical reality (Prebisch [1991e] p. 506).

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⁸¹ "Thus our author states it categorically, though offering no arguments to prove it other than the ones he has just succinctly mentioned" (Prebisch [1991c] p. 476). See the end of the first paragraph of the *Introducción a Keynes* (Prebisch [1947] p. 57). It is no coincidence that this dig appears at this point, when discussing the multiplier. But as we will see, Prebisch's critique of Keynes takes another tack in subsequent years: "in spite of the fact that his general theory of employment seems to unfold upon a plane independent of the cyclical movement" (Prebisch [1991c] p. 260 and [1947] p. 89).

⁸² "[Which] I intend to consider briefly in a more encouraging work on the Keynesian system and the economic cycle" (Prebisch [1991c] p. 454 and [1947] p. 13).

By mid-1948, in *Apuntes de Economía Política* (Prebisch [1991e] and 1993), shortly after finishing his book on Keynes, Prebisch was displaying a shift in conceptual vocabulary that might almost be described as a "quantum leap." He proposes no less a task than rebuilding "classical" or "traditional economics." The initially timid vocabulary of the course - "to see things with one's own mind" and "to detach oneself from certain foreign theories" (Prebisch [1991e] p. 495) - is succeeded by a full frontal assault on the whole apparatus of economics as a discipline. He roundly stresses that only by "undertaking a profound revision of classical theory and devising a new theory, rather than tacking a theory on to it (...), might we find the theoretical elements to guide us effectively and wisely in practical action" (Prebisch [1991e] pp. 325-326). As a discipline -and even morally- economics was in "serious crisis" due to its excessive "exaltation of personal interest as the supreme regulator of economic activity" (Prebisch [1991e] p. 496). As a "scientific discipline" it was "incipient" and "indecisive." As in earlier days, its critical situation had to be surmounted through reformulation: an "out-and-out effort to renovate it from its very foundations," as it cannot "rationally explain" the way "economic movement occurs, the hows, whys and wherefores of economic phenomena" (Prebisch [1991e] p. 496).

Two different steps explained the course of the theoretical strategy adopted: as a "mere foretaste" (Prebisch [1991e] p. 328), the first step was to devise a historical explanation for the various ruptures in economic thinking, and in the process points out the theoretical incongruities of "classical economists" (and even Keynes himself, since, in Keynesian style, Prebisch uses this preference for the ideas of classical political economy and modern neoclassicists), and reveals much of his theoretical arsenal. As a second step, Prebisch would summarize this in his theory of the capitalist cycle, as indeed his own evaluation of the discipline demanded: an "absolutely endogenous theory of the cycle where it is repeated systematically through the very factors inherent in the system" (Prebisch [1993a] p. 42 and [1993d] p. 458).

As we will see later, Prebisch would suggest that the "general cycle" theory should be devised without "the false sense of universality from which the major cycle theories have so far suffered, concerning themselves exclusively with the phenomena of centers, blithely ignoring what is happening on the periphery, and thus *closing off* one of the most fertile paths of research" (Prebisch [1993a] p. 4 and [1993d]: p. 414). Yet Prebisch hoped that: cyclical theory becomes the *only* dynamic theory of the economy, or rather, the *only* theory of the overall movements of the economy. I do not believe that the overall movements can be the object of a static theory that pursues positions of equilibrium. (My italics).

If we are to understand how he arrived at his theory of the cycle, we should deal with the brief excursion Prebisch made into the history of economic thought. First and foremost, Prebisch needed to deconstruct the discipline in order to synthesize and conclude the theory he had been devising, and to stress the importance of certain notions that "classical" thinking deemed marginal: time, money and profit.

According to Prebisch, the "first" crisis in economic thought was "caused by Marx" (Prebisch [1991c] p. 497), whose critique was essentially aimed at deafness to serious and embarrassing social "inequalities," and at the "instability of the economic system," but who failed because he used the "inconsistent" theory of the value of labor, an easy target for classical economics. With Walras and Pareto came reconstruction and a "higher stage" whose precision and elegance through mathematics caused the "body of doctrine" to move away from the real world, which was what it was supposed to "explain in order to give us the means to act on it" (Prebisch [1991c] p. 497).⁸³ Prebisch, who saw clear differences between the members of that "compact body of doctrines" of classical economics, claimed that what unified them were certain underlying principles: first, the incentive of profit with the free play of free competition leads to a situation of "equilibrium" and "optimum production"; second, that the social distribution compatible with this "optimum" should not be tampered with by ethical or political questions, notwithstanding its importance, and third, the non-participating State.

In spite of its "vener of logic," "classical" doctrine was not "able to explain to us what happens in an eminently cyclical (...) reality" (Prebisch [1991c] p. 499),⁸⁴ a result of the engine of capitalist growth through profit-seeking businessmen, and irreconcilable with classical economics, which describes the process in terms of "equilibria." An "optimum of production" cannot exist when the expanding and contracting phases are systematic. The system approaches, but never reaches "full employment," there being a waste of "productive forces" instead. Instability cannot be reconciled with the body of doctrines of classical economics, still less so with how it postulates "income distribution" (Prebisch [1991c] p. 500).⁸⁵

This does not mean that these doctrines have ignored the phenomena mentioned earlier, but that their crisis stems from not acting "scientifically," and from not "scrapping" theories that did not explain "reality satisfactorily" (*ibid.*). Instead, they adopted certain "attitudes" toward phenomena like unemployment, pointing to "rigidities" or "resistances" in the real world like falling wages, and not the logical flaw in the "premises." In spite of his "efforts" free himself from these doctrines, even Keynes presents "an eminently classical type of explanation," the rigidity being different in this case, namely, "the interest rate" which does not fall far enough to counteract "the drop in the marginal efficiency of capital." According to Prebisch, both the explanation of classical unemployment and Keynes's are in error because "in reality the phenomena do not present themselves in that way" (Prebisch

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⁸³ "Building on thin air" as Prebisch puts it (*ibid.*).

⁸⁴ "The cycle has been always been capitalism's typical form of historical growth. (...) There is no still point: it rises only to fall, and falls only to rise again. (...) There is no point of equilibrium in this movement; it is a continuous succession of disequilibria" (*ibid.*).

⁸⁵ "Whence the crisis in political economy, and whence its ineptitude at explaining the form and origin of economic phenomena" (*ibid.*).

[1991c] p. 501).⁸⁶ Another theoretical attitude adopted by classical economists attributes the "excesses" and troughs in the cyclical process to the "abusive [use] of the monetary system" (*ibid.*), and therefore to State intervention, or customs duties.

The third attitude observed by Prebisch among economists toward the undulatory nature of reality involves admitting the "existence of the cycle" but "attributing to it" explanations based on the idea that it is due to "outside factors," "wars," "factors of a cosmic nature," "psychological" disturbances awakening optimism or pessimism - "factors outside the economic system," that is (Prebisch [1991c] p. 502). This released economists from having to find an explanation because they were not apparently phenomena that came under the brief of their discipline. In other words, they did not choose to say that the "reasoning was wrong," but avoided the problem, arguing that "in reality there are factors that theory cannot take properly into account" (*ibid.*).

There was one further theoretical strategy among the defenders of classical postulates, and the least coherent: it postulated an "endogenous" theory of the cycle,⁸⁷ but did so "independently of the body of traditional doctrine" and, in contrast to previous attitudes, was not "compatible" with the tradition due to the impossibility of simultaneously arguing that "the action of businessmen" brings "society to a point of equilibrium" and/or to a "continuous succession of disequilibria" (*ibid.*).⁸⁸ In other words, the postulates of classical doctrine are accepted, but reality is explained from different premises. To underline this "incoherence,"⁸⁹ Prebisch brings

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⁸⁶ "It is not due to the reasoning being erroneous, or to his premises being incomplete or false, but to the fact that in reality the factors tackled by the reasoning have not been allowed to adjust spontaneously to the conditions required by the optimum equilibrium of production, to the fact that there are rigidities or obstacles in the economic system that hinder the necessary adaptation of the factors" (*ibid.*).

⁸⁷ "A spontaneous logical result of the way businessmen act" (Prebisch [1991e] p. 502).

⁸⁸ Eight months later he was saying the same thing: "the continuous succession of disequilibria" (Prebisch [1949b] p. 3 and Prebisch [1993d] p. 413). Prebisch claims that, "Of course, no classical economist, ancient or modern, holds that there are actual equilibria. What [they mean] to say is that, by the very forces that move it, the system tends toward equilibrium; but that, naturally, external disturbances always intervene to prevent it attaining this equilibrium. I believe that these disturbances that intervene and prevent it attaining equilibrium, which lend the system its characteristic wave pattern stem from the interdependence of the model's curve" (Prebisch [1993a] p. 45, and [1993a] p. 462). I must confess that my intervention in this quote, as marked by square brackets, substantially alters the meaning, as I presume there was a typing "error." For Ralph W. Souter equilibrium involves, "the conception of a continual attempted adaptation toward real equilibrium which is continually thwarted in some degree by the inequality of time-coefficients *plus* the constant emergence of new evolutionary changes" (Souter [1930] p. 82)

⁸⁹ "The very economist who speaks of typical equilibrium has devoted himself (...) to the study of the economic cycle and flits from one thing to the other without the slightest theoretical scruple. (...) in a first part, they have expounded their theory of equilibrium for us with great doctrinaire rigor, and in a chapter on the cycle expound the theory of disequilibrium for us without any concern for the fact that they cannot combine two fundamentally different theories; if the cycle were a mere accident occasionally registered in the economy, it *would* be possible to combine them. But as the economy's way of moving *is* the cycle, the theory of economic movement can be nothing but cyclical" (Prebisch [1991e] pp. 502-503). Possibly one of the best discussions of this set of issues is found in Mirowski [1985].

up the name of none other than Hansen, which should not surprise us when we remember how little "respect" he showed toward Keynes.⁹⁰

By the late 1920s then, political economy was facing the "Great Depression" in a state of "ineptitude" and "theoretical incongruousness." The "deep instability" and "excessive inequality in distribution" found no explanation whatsoever, never mind a strategy to correct them.

This period of world depression brings about the "second crisis in political economy" (Prebisch [1991c] p. 503), and it is in the labyrinth of the economic depression that Keynes suggests an explanation that grants a certain place to "economic freedom." Its "practical" solutions are couched in a "theory of economic movement" which had supposedly done away with the principles of "classical economics." Keynes had not therefore "solved the crisis in political economy," neither had he "extricated himself completely" from classical doctrine: it is surprising that the two most formidable critics of the classical doctrine -Marx and Keynes- ran into the same difficulty. Marx because he sought to build his whole doctrine and interpretation of capitalism upon the basis of a theory of value inherited from classical doctrine, the Marxist theory of value being essentially the Ricardian theory of value. And Keynes is incapable of letting go of the mental habits of the classical economists who led him, in his theoretical system, to pursue the search for positions and laws of equilibrium in economics (Prebisch [1991c] pp. 504-505).

Therefore, what should have been transcended was the "quest for laws of equilibrium," otherwise they will go on devising "constructions alien to reality" (Prebisch [1991c] p. 505). Prebisch understood why early classical economists were fascinated by theorizing about the "apparent chaos of phenomena" in terms of "precise laws of equilibrium," though these "laws of movement" could also be explained in rigorous scientific terms. However, the rigorous logical system of traditional thought embellished by mathematics had one drawback: it did not "correspond to reality" (*ibid.*).⁹¹ The "crisis" in "political economy" was due to its inadequacy in explaining reality.

The crisis occurred when political economy turned its back in terror on the "key factor of time": classical economists view it as "contrived," and Keynes as "arbitrary." The discipline's

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⁹⁰ It was Prebisch himself who called for a "respectful revision of classical theories" (Prebisch [1991e] p. 325).

⁹¹ "A scientifically satisfactory economic theory would have to explain cyclical movement for us because the type of movement presented to us by reality is a wave pattern, [as well as] the reason [why] the capitalist economy does not take full advantage of its productive factors, and at the same time give us an interpretation of the periodic phenomenon of unemployment" (Prebisch [1991e] p. 303).

theoretical problem therefore lay in how "to introduce time into their theory just the way it is" in reality (Prebisch [1991e] pp. 271).⁹²

The absence of time could be seen in the notions of capital and saving in classical and Keynesian doctrine because it was through the "contrivance" of the interest rate that it was tackled in theory.⁹³ The interest rate then was the mechanism through which the saving that "society is willing to supply" matched capitalists' demand to form capital: according to the demand for saving, the interest rate would rise or fall, and therefore the saving "required" by businessmen would emerge. But Prebisch maintains that, for any given period, production requires a certain time to come out into the marketplace, and there should therefore be income in process higher than the value of the production of final consumption. This could clearly not be explained with Say's Law, which states that "supply creates its own demand," because there would then be higher demand at the end of the productive cycle outstripping "supply." However, classical economists explain this anomaly as being the result of a "saving" made by the community on the interest rate. The interest rate is the contrivance that facilitates or limits what amount of saving would be used in production in any given period, namely, the total income generated at the end of the process. Any "surplus" would be explained by the existence of the relevant "saving," thus fulfilling Say's law.

Keynes, for his part, tackled the problem of time with a variety of "attitudes" (Prebisch [1991e] p. 275). In one case, Prebisch claimed that, with a falling "interest rate," Keynes went hand in glove with classical economists, but once marginal capital yield did not keep pace with the interest rate (due to a preference for liquidity), then Keynes left classical economics behind. The saving was left in liquid form, not invested, and a deficiency in demand arose. Nevertheless, according to Prebisch, Keynes keeps "within the logical game" of classical economics: on one hand, he recognizes "the time factor," but uses the "contrivance" of the "interest rate" to manage it; on the other, this contrivance has limits after a certain point (the "preference for liquidity"). In contrast with this "attitude," in the theory of the multiplier, Keynes "denies" the role granted to the interest rate by classical economists, and does without time altogether; saving becomes an altogether different

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⁹² "Time is a fundamental of reality. It is not possible to eliminate it arbitrarily as Keynes does, nor to view it with the contrivance of classical economists. A good deal of the investment that has been -and still is being- made throughout history has been via a mechanism different to the supply and demand for saving; and a good deal of the saving invested is not the result of what society may choose to do spontaneously according to one of its inclinations or tastes, or the interest rate" (*ibid.*).

⁹³ "I call the interest rate a logical contrivance produced by classical economists to solve the problem of time because, after long reflection and observation of the facts, I have become convinced that the interest rate does not in fact play the regulatory role in production and distribution that classical economists ascribe to it. (...) the formation of capital in society is quite different, and the interest rate only minimally plays the regulatory role ascribed to it by the classical school. (...) If the interest rate does not perform the functions in the production and distribution of products assigned to it by traditional doctrine, the problem then arises of substituting it with a theory different to the Keynesian one, for such are its inconsistencies that it is not, in my opinion, possible to use Keynes's theory even as an instrument to explore reality, since also has serious defects" (Prebisch [1991e] p. 278).

phenomenon than for classical economists. Here, the assumption of simultaneity in saving and investment is not taken into account, and it is simply accepted that saving will come out of the "income from production": this would in turn multiply these "investments" (Prebisch [1993d] p. 276). The very multiplication of income -also the product of a certain investment- would by itself produce a certain level of saving in the community. Saving is a function of the rate of income growth. But, Prebisch points out that, for certain investments to produce a certain income, a certain time is required, otherwise we would be "confusing" the present with the future. This, according to Prebisch, is precisely the theory of the Keynesian multiplier. Its "logical inconsistency" invalidates "Keynesian theory" (Prebisch [1993d] p. 277), and marks the absolute rift between him and the classical school.

It is the idea of static equilibrium that should be called into question. In this "position," neither businessmen nor consumers are thought of as having any interest in "moving" -nor do savers. The amount saved is the one that businessmen demand from the rate of interest. Wages too reflect the position where there is no incentive to work harder or change jobs. Similarly the price of primary commodities is high enough to keep on working "marginal" lands where the production cost "only just" equals the "value of the products (the difference in cost in the best endowed or located lands being left as earnings)" (Prebisch [1993d] p. 280). A change in any of the circumstances once again establishes a "position of static equilibrium": "The concept of static equilibrium is a mere instrument of abstract analysis of the phenomena as viewed by classical economists to gain a better understanding of them. In classical doctrine, one can easily switch from the static to the dynamic" (Prebisch [1993d] p. 281).

If classical economists isolated every latent change, and interpreted the event as a phenomenon that could become unstable, Prebisch did not deny that economic reality could be viewed as an "endless succession of disturbances." It was therefore possible to go from the "static equilibrium" of classical economics to a "dynamic" theory of reality (*ibid.*). This theory should be seen as an "infinite overlaying of processes tending to reach equilibrium" (*ibid.*). But, due to the incessant changes that might prevent it, "equilibrium" is never achieved, despite the fact that one might suppose that, "abstractly speaking," the disturbance is the point of "equilibrium." Prebisch offered a definition incorporating the very paradox of the economic reality he was attempting to describe: only if a certain point is viewed abstractly in the sense that its disturbances "end," can we speak of "equilibrium" in the economic system, which will, nevertheless, never be achieved.

Prebisch says that this explains why classical economists did not elaborate "a dynamic" or "general theory": they presume that the disturbances themselves lead to equilibrium, and this excludes any reflection about "how it is reached" (Prebisch [1993d] p. 282). He says that a general theory could "be constructed" but it would suffer from the "fundamental vice of the theory of static equilibrium," namely, its "mistaken conception of saving, and the contrivance of the interest rate" (*ibid.*). As the "theory of static equilibrium" starts from mistaken premises about reality, a theory of "dynamic equilibrium" would also suffer such consequences. "What we need then is a dynamic theory that explains movement, gives us

laws of movement, and does not get bogged down in the quest for laws of equilibrium that do not conform to reality" (*ibid.*).

Prebisch then moved on to present the way the interest rate was conceived as a regulator of production and distribution. First he showed how businessmen require an incentive to transform techniques and become "Professor Schumpeter's" classical businessman (Prebisch [1993d] p. 283). Only in this way will he seek out higher levels of saving, while paying a higher rate of interest given the percentage profit achieved in the new productive arrangement. Businessmen therefore require saving to put population growth on a level with a corresponding employment: capital ratio. "Profit" is the businessman's "prize." Due to technical innovations, he brings down production costs, which will eventually be matched by other businessmen. This makes "profit" a "temporary" thing. Competition pushes up wages or prices fall, so "free competition transferred to society the fruit of technical innovations which, in the transition period, was held by businessmen in the form of profit" (Prebisch [1993d] p. 287).

Once businessmen have made their investments concrete, the intensity of demand for greater saving falls away, at the same time as the world of savers expands due to a rising interest rate (because of the businessmen's earlier "creative" drive). This would in turn produce a fall in the interest rate. But this new equilibrium in the interest rate still entails the existence of profit for businessmen and, not having fallen to their earlier level, the fruits of technical progress ended up in their hands.

Prebisch then outlined a series of scenarios in which businessmen chose to use the same interest rate, without trying to alter it to make new investments. But there will also be businessmen looking for greater investment per head, who would reduce the employed population, and drive up the interest rate. And although, in the latter case, society loses out because "there are fewer products and unemployed people" (Prebisch [1993d] p. 291), that would be the position businessmen would choose because it gives them greater incentive and profit.

But in this case the classical school would say that, if wages are not fixed, their levels will fall, and the demand for workers will therefore grow once again, reaching a new point of equilibrium. To put it another way, wages will pay for the costs of the higher interest rate required by savers to supply a growing amount of it.

One cannot here talk about a point of equilibrium because, as production is transformed by new technical inputs, the demand for workers will grow, thus raising the level of salaries, on the one hand, while on the other, greater production will reduce prices. Over time this will reach equilibrium, and make "profit" disappear, thus favoring "society."

He then concludes that: the classics maintain that unemployment is a means of reaching a new position of equilibrium by lowering wages sufficiently for businessmen to (a) obtain the minimum profit to induce them to extend innovations until unemployed is absorbed, and (b) pay the highest rate of interest demanded by the market for the additional saving (Prebisch [1993d] p. 292).

It is therefore *temporary* damage that is surmounted with recovery in the final equilibrium, when profit vanishes and the "interest rate falls as the supply of saving rises by virtue of the increase in savers' income" (*ibid.*).⁹⁴

These examples aimed to underscore the process described by classical economists, as they facilitate exposition of the theory of "cyclical movements": in classical and Keynesian models the "dynamic phenomena of reality whose disturbances prevent" equilibrium being reached are forgotten. Prebisch then was introducing what would become the basis of his argument against classical economics and Keynes: he owned that nothing prevents us thinking about the classical model where businessmen use their own saving, without resorting to the market or putting pressure on the interest rate only to invest it later. They lend to each other, and if the "marginal yield is lower than the interest rate (without the minimum profit), they will prefer to lend their saving" (Prebisch [1993d] p. 296). Keynes's stance is different because, when there is unemployment, "saving" inhibits accumulation, and therefore the income multiplier. Prebisch also says that Keynes overlooks the reasoning of classical economists of the transitory period, in which wages are supposed to fall to achieve full employment. Prebisch asks himself if the proposed alternative of lowering the interest rate is due to this. However, as "saving" is a "spontaneous" activity, and requires a specific incentive to raise its total amount, there would seem to be no explanation as to how to achieve a lower interest rate to drive up investment.

Prebisch says that this is where Keynes parted company with classical economics, especially for maintaining that the "*interest rate is a conventional phenomenon*, and is within the reach of the Banks" (Prebisch [1993d] p. 297). It can also be manipulated to reduce it and induce higher investment, which will in turn generate the corresponding savings, "until a new position of equilibrium is reached" (Prebisch [1993d] p. 298). Therefore, the way of thinking about money creation, or its way of inducing a certain interest rate is, according to Prebisch, a "real revolution" (*ibid.*). Keynes maintained "just the opposite of what the classical school held," but "that by creating money (or using inactive money), the equilibrium of the multiplier is not reached. Instead, we go through the typical phases of the cycle, which neither Keynes nor classical economists have been able to explain because their reasoning is so contrived and arbitrary" (*ibid.*).

According to Prebisch, at the beginning of the cyclical upcurve, the supply of saving is meager because recession is still being felt. This means that businessmen do not have the "option" of using the spontaneous "saving" assumed by classical economists, unless they put up the interest rate considerably. Instead, a process of money creation by businessmen occurs: "The typical manner of accumulating capital consists in increasing the money supply.

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⁹⁴ "Classical doctrine where saving is concerned (...) does not hold (...) that all saving obeys the incentive of a given rate, but only that relating to the marginal amounts necessary to complete the demand of businessmen (...) The interest rate as regulator of the economic system" (*ibid.* p. 283).

The businessman does not go out looking for saving, except to a minimal extent. (...) most fixed capital investment is covered *indirectly* with a rise in the money supply, not by turning to the market" (Prebisch [1993d] pp. 299-300).

In contrast to what classical economists say, the rise in the money supply which makes technological progress possible does not allow prices to come down.⁹⁵ Such a process involves a wage reduction, but not to be able to pay a higher interest rate in order to cover the growing "demand" for saving through investment, as classical economists believe, "but to compel those paying the highest prices to save, and shift this saving to the businessman (...), it is not the result of a mechanism of incentives and preferences, but of a mechanism of compulsion. This is what happens in the capitalist reality. (...) Except that one does not arrive at the equilibrium of the multiplier, but the typical phases of the cycle" (Prebisch [1993d] pp. 300-301).

The classical mechanism of saving transfer is variable and, by not being "complete," it loses the function assigned to it by classical economists. What Keynes advocated is then what happens in the capitalist reality, with one difference: that, instead of reaching a new position of equilibrium, "this way of covering investments" leads "to the typical movement of the cycle that characterizes reality" (Prebisch [1993d] p. 301). This phenomenon also reflects the characteristic of capitalism mentioned by Keynes: "economic instability" and "inequality of distribution." On the other hand, saving in the "collectivist economy" is identical because the collective businessman raises prices, or stops them from falling, after bringing about a transformation in production.⁹⁶

Prebisch moves swiftly on to describe human history as one in which certain "groups and dominant classes" have made use of a variety of instruments to set up a distribution favorable to it, the "monetary" instrument being the one privileged under capitalism. However, the fact that the process is different under collectivism does not necessarily guarantee that inequalities are abolished. All regimes make use of certain instruments "to favor dominant groups" (Prebisch [1993d] p. 303).

To summarize, the saving "interest rate" has a regulatory function both in boosting productive activity to optimum levels, and in the "distribution" of income. There is no room for unemployment in classical economics where, given free competition, the economy tends to the "optimum." Unemployment is a phenomenon of "system rigidity." Because optimum production required a certain amount of market saving, and if supply could not provide this

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⁹⁵ "It is through price rises that consumer items are transferred to those responsible for the formation of capital. The saving market has only a supplementary function. The increase returns to businessmen in the form of profits, thus again performing its function in the accumulation of capital" (Prebisch [1991e] p. 300).

⁹⁶ "And one wonders," says Prebisch, "whether handing this instrument of inequality from private hands to the hands of the State is enough to lead us to the conclusion that inequality has disappeared" (Prebisch [1991e] p. 302).

amount at the existing rate, a higher cost meant reducing wages ("temporarily"), thus allowing businessmen to afford the interest rate. In the classical mechanism, this was achieved by displacing the workforce, which would lead to lowering wages, and paying a higher rate of interest. In the event of lower wages not being accepted, there would be unemployment. Unemployment is a phenomenon of "system rigidity." But this possibility also finds a place in the classical system -a case only Keynes considers- thus completing the system, and still "remaining classical" (Prebisch [1993d] p. 305), but equally far removed from "reality."

Nevertheless, Prebisch would accept the classical postulate about how capitalism transfers the fruits of technical progress, either via wage increases or price decreases. But "the process by which this transfer has occurred, the time it has taken, and its quantity are, in my opinion, different to those postulated by classical theory" (Prebisch [1993d] p. 311).⁹⁷

There was also the classical and Keynesian coincidence in terms of the phenomenon of short-term unemployment. This involved an abundance of manpower and temporary shortage of capital. The explanatory difference between classical economists and Keynes regarding the phenomenon would lie in the "remedy" and its correction: classical economists advocate a fall in wages, while in Keynes it is attempted by "lowering the interest rate."

With its conception of money as a mere "veil," classical theory obscured its prime importance. Classical doctrine's idea of isolating "money" presupposed that it could be studied independently of productive and distributive phenomena, and that "it intervenes without affecting either the nature of the phenomena or the laws that guide them toward equilibrium" (Prebisch [1993d] p. 317). Money therefore adapted to economic evolution, and with this system in "equilibrium," it made analysis of the monetary phenomenon superfluous.

If for classical economists inflation was a "pathological" aspect, for Prebisch "certain inflationary seeds" that "upset the tendencies to equilibrium" (Prebisch [1993d] p. 319) were part and parcel of capitalism. It was really their way of making abstractions that led classical economists to certain theoretical errors because they believed that various partial aspects could reach equilibrium in themselves and as regards to the whole. Positing a theory "closer to reality" (Prebisch [1993d] p. 324), Prebisch suggests that the increment in money systematically affects the "three planes" of economic reality (a theory of production and distribution, a monetary theory, and a theory of international trade), identified by classical economists, which culminates in his theory of "wave movement." In this case there are "disturbances" that lead to "a series of actions and reactions that are in fact those that give economic phenomenon their characteristic wave form" (*ibid.*). Their "laws" are different to those that supposedly lead to "equilibrium." It is the "interdependence"

⁹⁷ "Income that, at different stages in the process, businessmen pay to the productive factors employed by their companies" (Prebisch[1993a] p. 6 and [1993c] p. 417).

between different economic spaces which makes of the process a wave phenomenon and makes it imperative to discard classical theories.

It is both ironic and unfortunate that Prebisch never considered the Keynes of The General Theory as a possible theoretical ally, but as a special case in neoclassical economics -the so-called "neoclassical synthesis."⁹⁸ Given the importance of money and money creation in Prebisch's model (also, paradoxically, a crucial topic in Keynes, as is nowadays being recognized) when it comes to understanding the cycle and capitalism, it is the Keynes of the Treatise on Money whom he presents as being of use for his own theoretical development - all the more so because he then identifies him as a follower of Wicksell:⁹⁹ If we go back to the Treatise on Money, we will find that his reasoning over the economic process and the cycle is fundamentally Wicksellian (...) I would not know how to explain (...) the reason for such an abrupt change in Keynes when, a few years after the Treatise on Money, he switches to The General Theory, forgetting everything he had told us about Wicksellian theory, and the economic cycle to go and get himself hopelessly tangled up in the theory of the multiplier, thus spoiling the value of his contribution to economic phenomena (Prebisch [1993d] p. 326).

Prebisch then sets about integrating monetary theory and the theory of production. He lays out the shortcomings of the classical theory of money, showing that, faced with an increase in the money supply (assuming the economy is at a point of equilibrium), it is correct to deduce an increase in prices. This is explained by the hypothesis that there is a "proportional relationship between price movement and the amount of money" (Prebisch [1993d] p. 327), which signifies a new "position of equilibrium." But given the assumption of "full exploitation" from which he starts, "prices rise or fall" without affecting production. But a disturbance of this nature "makes the amount of businessmen's profits vary and leads them to expand and

⁹⁸ According to Jaime Puyana Ferrara, "It is clear that there was very solid trust in the analytical instrument available, particularly in the formal interpretation of Keynes, as outlined initially by John Hicks and Alvin Hansen in the late 1930s. It was mainly through this interpretation, better known as the IS/LM model, (...) that key aspects of Keynes's thinking were eliminated, making him a very special -almost aberrant- case in a much broader theoretical approach whose roots are deep in general Walrasian equilibrium. (...) It comes as no surprise therefore that this construction has been christened "neoclassical synthesis" (Puyana [1992] pp. 25-27). See also Guillén [1990] p. 17.

⁹⁹ Gottfried von Haberler: "the process of monetary expansion by way of reciprocal stimulation of consumption and investment -the so called Wicksellian process" (Haberler [1937] p. 306). A good synthesis of Wicksell's ideas can be found in Pribram [1983] p. 323: "Wicksell's dictum that any theory of money worthy of the name must be able to show how and why monetary or pecuniary demand for goods exceeds or falls short of the supply of goods in given conditions. The consideration implied a repudiation of Say's law of markets, since the validity of that 'law' was predicated on the assumption that demand for and supply of money were equal. (...) Wicksell questioned the traditional relationship which had been established between the volume of money and the volume of exchange transactions as a means of defining the price level. In support of these doubts de pointed to the observation that the loan rate of interest had been low during periods of low prices -periods of limited supply capital supply -and had been high when the supply of capital was obviously abundant and prices were rising. (...) Wicksell attack[ed] (...) the almost generally accepted 'banking principle,' according to which the supply of money was automatically adjusted to the requirement of the economy when the prevailing rules of short-term lending were strictly observed."

contract production, distancing them from the position of equilibrium postulated by classical theory" (Prebisch [1993d] p. 328).

If there is full employment of factors, the increase in the money supply undoubtedly "only pushes prices up: Keynes starts from a position of insufficient exploitation of resources, and assumes that the increase in the money supply only pushes up production without having a bearing on prices, except where the production cost for the diminishing labor yield pushes up prices" (Prebisch [1993d] p. 330).

However, this is an arbitrary starting point because, as the "economy approaches full employment, it is due precisely to a series of phenomena in which monetary expansion plays an important part" (Prebisch [1993d] p. 329).

Full employment is something "fleeting" and, in this respect at least, Keynes is closer to reality than classical economists, otherwise productive capacity could not rise. But in contrast, Prebisch holds that growing production involves raising prices.

Classical economists are wide of the mark because the nearest thing in the capitalist reality to full employment is when "monetary expansion," occurs. The Keynesian position misses the point too because, despite assuming the existence of unused resources, monetary expansion increases both production and prices, and this trend does not necessarily lead the system to equilibrium; instead, "they stamp upon economic movement its characteristic wave form" (*ibid.*).

The "intimate relationship" between production and the monetary can be visualized, according to Prebisch, in the "the cycle's upcurve," where it can be seen that the "increase in the money supply tends to simultaneously expand production and prices (or stops them falling to the extent that they would fall due to falling costs arising from technical innovations, under a regime of free competition). This process gives rise to business profits, and the sequence of actions and reactions" (*ibid.*) mentioned as typifying the capitalist cycle.

The core of Prebisch's explanation assumes an understanding of the variations and quantity of profit. Profit is a consequence of the successive processes of creation of money used during different periods to form or cover the costs of forming capital. It is different than the use of "saving." If, for the time being, we exclude the phenomenon of increases in money filtering through to other economic spaces, the function of money left in a given space is to "absorb" the "increase in finished consumer production" (Prebisch [1993d] p. 332).¹⁰⁰

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¹⁰⁰ "In other words, that part of the increase in the money supply left in the economic space is higher in the cyclical upcurve than the amount of the increase in production which is gradually garnered from new investment" (*ibid.*). (My italics).

This is crucial to an understanding of the capitalist cycle, according to Prebisch. The "excess" of the "increase in the money supply" in relation to the increase in production, in fact defines its form: prices rise, which prevents prices falling, and this generates greater productivity for the process when there is competition. The "origin" of and reason for the quantity of "businessmen's profit" is then due to the fact that the "increase in the money supply thus is responsible for businessmen's profit, and makes its quantity vary, with major repercussions for the economic process" (*ibid.*).

Prebisch thus refuses to accept that the mechanism of "saving supply and demand" assumed by classical and Keynesian theories is so important. The "increase in the money supply" is actually used instead of "saving" because at the lowest point in the cycle, businessmen find themselves with relatively "large quantities" of money "inactive in their bank accounts" (*ibid.*); they do not need market saving "forcing interest rates" up. There is then a paradoxical phenomenon at the lowest point in the cycle: saving in short supply, "but there is an abundance of money (a very important distinction indeed, for, where there is no saving but an abundance of money, money is used by businessmen in substitution of saving to make investments" (Prebisch [1993d] p. 333).

When the net increase in the money supply "decreases," or its rate of expansion decreases and is "insufficient to absorb the increase in production, at the prices" (Prebisch [1993d] p. 335) prevailing, the "decrease in prices" is not automatic. There are "obstacles," otherwise we would be back in the realm of classical economics. The situation assumed by this perspective, where profit were completely eliminated is therefore not reached for in the capitalist economy profits are "irreversible," (Prebisch [1993d] p. 336) -in other words, we cannot "shrink." This becomes clearer when we are told that profit does not "blossom" in the last stage of production and sale of the product in question, but that it had been generated over several productive stages by various businessmen as it approached culmination in the end consumer. In other words, in terms of Marx's metaphor about "the somersault" of commodities, this event already occurred before reaching the marketplace -profit is materialized in product prices.¹⁰¹

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¹⁰¹ "But there is one fundamental difference between the value of the products in process that are created at each stage, and the respective income. The value created at each stage is not the value of an immediately consumable product. (...) It therefore involves a series of values that are gradually added, but that are not immediately consumable until the productive process ends. However, the income businessmen pay one another and that paid by the productive factors at each of the stages, are immediately expendable, and can immediately be transformed into demand for finished articles. The producer of raw materials paying income to factors and receiving profits can spend this income immediately, long before the final production of consumer items manufactured with the raw materials that he himself produced has appeared in the marketplace. (...) In this fundamental difference between the nature of the created value, which is not immediately consumable except at the end of the process, and the nature of the income paid, which can immediately be transformed into demand, in this difference between the two phenomena [on the one hand, production, on the other, circulation] lies the germ of the wave movement." (Prebisch [1993d] p. 7 and [1993c] pp. 417-418). "There are various businessmen distributed across the various different phases; and no one waits for the final sale to liquidate the profit by distributing it among participants in the process. Businessmen pay one another profits in advance of the final sale; (...) set precisely by the duration of the process. We are again faced with the time factor" (Prebisch [1991e] p. 338).

Therefore, what halts the continuation of the cycle, a relatively insufficient demand, a result of a *slowdown* in the increase in the money supply in terms of the increment in production. As profit, "accumulated by businessmen," is not "confirmed," the economy contracts, and the typical phenomena of the "downward slope of the economic cycle" occur (Prebisch [1993d] p. 338). If the net increase in the money supply cannot cover the increase in production, according to the value of supply, one cannot turn back and reimburse the profit received: the phenomenon is "irreversible."

The growing stocks held by businessmen indicates that it is necessary to reduce production, and thus initiate the cyclical downward trend.¹⁰² However, if for classical economists profit (the result of cost reduction) decreases with competition, for Prebisch competition does not have "any influence on the general amount of profits in the economy as a whole"; it is set "*exclusively* by the difference between the increase in production and that part of the increases in money left in the economic space" (Prebisch [1993d] p. 355). (My italics).

This does not mean that competition is not important, but that its function is not to "lower the amount of total profits set by other factors, but to establish how profit is distributed among businessmen" (*ibid.*). The quantity of profit is set by both phenomena: productive and monetary activity -competition does not alter the "*quantity* nor the variations" but their distribution "within the group of businessmen" (*ibid.*). On the other hand, profit is "concomitant" to the phenomena of the cycle and "has nothing to do with the free competition" (*ibid.*) of businessmen, despite decrease in profit being determined by competition between them.

According to Prebisch (Prebisch [1993d] p. 357), in "real economic movement" during the cycle's upcurve, prices rise at the expense of real wages, and their decrease does not obey the classical thesis that this is done to pay a higher rate of interest to savers; rather, it is "to allow businessmen to carry out their own saving with the profit from the price rise -to shift saving from the rest of society to businessmen" (*ibid.*).

Conventional theory considers other agents as the sectors that save to undertake technological innovations, supposedly motivated by a higher rate of interest. For Prebisch, they are different sectors of society that are compelled by the system to save rather than make investments. (...) in reality wages fall due to price rises, not to attract more saving from the high income sector by pushing up the interest rate, but so that businessmen can *compulsorily accumulate the saving* in the rest of society (Prebisch [1993d] pp. 357-358). (My italics).

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¹⁰² "If profits were reversible or only occurred at the final sale, investments could even conceivably fall without causing disturbance, since prices and profits would fall as increases in the money supply that had earlier made both rise were reabsorbed" (Prebisch [1991e] p. 339).

The quantity of profit varies, not through competition, since all businessmen, whether they have undertaken technical innovations or not, receive their aliquot part. However, Prebisch insists that neither his theory of profit nor the classical one can be justified under the same principles of the economy because "objective elements" are few and far between. It is therefore a matter of political or ethical posture. It cannot be demonstrate how far competition would keep on lowering the profits of businessmen who have undertaken technological innovations because this "reality" has never existed, and the theory does not allow us to measure the magnitude of a phenomenon that is not tested in the real world. Nor could we ascertain the scope of the businessman's incentive (...). We cannot say, for we utterly lack any objective elements for doing so. The only thing we can say at this stage is that profit has a different origin than that stated by classical theory; that its quantity and variations are determined by the increase in money supply and production (...), but we cannot ascertain how far profit is justified because, from an economic perspective, we lack the elements of judgment to demonstrate this (Prebisch [1993d] pp. 359-360).

And if besides profit occurs to varying degrees in all businessmen according to their innovations, then we can no longer speak of "profit as the prize of those who have introduced technical innovations" (Prebisch [1993d] p. 359) because there are others that are simply what nowadays are called "free riders" -nor can it be used to justify or explain reality.

The wave form of capitalist reality, driven by the very specific form in which this economic system grows, and in particular through businessmen's decisions, is quite justifiable. The only thing that can be said is that average profit is the prize of businessmen who "introduce innovations," and that it is the "minimum incentive that the other businessmen require in order to go on" (Prebisch [1993d] p. 360) expanding production. But one cannot ascertain "how far technical competition would change technical results" or "what the minimum incentive of businessmen would be. Only experience will tell" (*ibid.*).

Prebisch underlines that, although capitalism requires a "compulsory" mechanism guaranteeing society's saving in "cyclical upcurve," its concept of "forced saving" should not be imagined in terms of "plundering" some to "give to others" (*ibid.*), for on occasions "profit" can be null and void, and it is *businessmen* who "begin to use increases in money supply which push up prices and move consumer articles from certain sectors to others, generating profit." Therefore "what businessmen take is precisely what is due to them, since they were working without profits and now [that] the increase in money supply is generating them (...) this is the incentive that must stimulate them to introduce innovations and increase production" (Prebisch [1993d] p. 361).

In other words, in the upcurve there are transfers, but it could not be said to "what extent businessmen take from the rest of society what is due to them as a prize or incentive, and what is not due to them" (*ibid.*). Therefore, Prebisch's theory does not "enable us to say what profit is justified" (*ibid.*) either.

If we assume that economic spaces are always linked by outflows and inflows of income, another mechanism presents itself through which income filters, and reduces the "net increase" in money supply in one of the spaces. This is the thesis of "doctrinaire economists" (Prebisch [1993d] p. 367) who, basing themselves on the "brilliant" -"Ricardo's theorem of compared costs"- prove what should be imported and/or exported between certain countries, or what should be produced locally. Prebisch, however, holds that "this reasoning is only true from the static point of view," in other words, when it is shown (...) that the protection of B is an economic heresy: [for] it would use more labor, and primary income would be lost by seeking to produce directly what one can obtain indirectly under better conditions (*ibid.*).

But in dynamic terms, a certain level of protection between countries A and B can bring about significant changes because a "net loss in A" can be a "net gain for B" (Prebisch [1993d] p. 368). But this will not always be true, as it will depend on how B reduces its "Ricardian loss" (*ibid.*). And if we also take into account the fact that B has been "subject to the cyclical fluctuations engendered in A, the achievement of stabler if costlier production, involves increasing the net gain" (Prebisch [1993d] p. 369). Here Prebisch is already toying with the idea that B represents a "group of countries" (Prebisch [1993d] p. 368)¹⁰³ testing out an industrialization process. He also points out how unjustifiable and untenable is the posture of deploying "the classical theory of international trade" in order to restrict protectionist policies in the B countries, as the "United States of North America" do (Prebisch [1993d] p. 373), when in actual fact the "rules of the game" are being systematically violated by the A countries.

This was the context in which Prebisch would make his qualitative theoretical leap, leading us to the center-periphery theory he expounded in a series of lectures in Mexico eight months after his course *Apuntes de economía política* (Prebisch [1991e]), the title of which read *Teoría Dinámica de la Economía (con especial aplicación a las economías latinoamericanas)* (Prebisch [1993a]). If on this occasion Prebisch is slightly less vociferous in his critique of the history of economic thought, he nevertheless salvages and expands on his earlier theory of capitalism and profit.

The "countries" "found in the periphery of the world economy,"¹⁰⁴ display the effects of the cycle, whose characteristics are "different from the ones it has in the big centers. There is a very clearcut division of functions between center and periphery. The theory is to explain the workings of the economy between the center and the periphery, and the close connection between the two" (Prebisch [1993a] p. 3 and [1993c] p. 413).

¹⁰³ For a presentation in modern vocabulary of the case outlined by Prebisch, see Cypher [1998].

¹⁰⁴ "I will take it that the primary production stage takes place in the periphery, and the other stages of elaboration and outlay at the cyclical center. This is not the only characteristic of cyclical centers; there are others (...) I mean that a cyclical center and a periphery can be contained in one and the same country, as in the United States, which has a large periphery, unlike what happened in the British cyclical center, which had the world economy as a periphery" (Prebisch [1993a] pp. 34-35 and [1993c] p. 449).

The notion of "the laws of movement" forced Prebisch to specify his conception of the time, and the reason for "wave movement." This he defines as the result of a certain time lag, and not as he had done earlier simply because of the business world's desire for profit -though it could have been argued that without this drive there would be no movement: a disparity in times, of the disparity between the time of the productive process and the time of the circulatory process, generated in the process itself. The disparity in these times is what gives us the cyclical movement with its alternating prosperity and depression. Even when there is the most perfect free competition and a total lack of State intervention in the economy, the wave phenomenon will necessarily occur due to the mere disparity in times (Prebisch [1993a] p. 3 and [1993c] p. 416).

If we accept Prebisch's assumption that the income paid today is greater than that of the same day's finished production, then what he is underlining is the asynchronism between the productive and circulatory processes, between the appearance of liquid resources in the marketplace and products, which prevents there ever being a "perfect equilibrium between the total overall demand for income and profits paid, and global supply (the value of the finished items), for then one would have to assume "equality between the time of the circulation process of income and profits, and the time taken by the entire production process" (Prebisch [1993a] p. 3 and [1993c] p. 418).

So the money or the final demand paid today can be said to reach the market long before the ongoing production during the course of the same day. In Armando Di Filippo's words, there is an "asynchronism" (Di Filippo [1981] p. 54), and therefore, "there is no automatic mechanism in the economy, however, perfect free competition is, that assures a perfect correlation between the value formation time and the circulation time of the income generated in the productive process when creating these values" (Prebisch [1993a] p. 3 and [1993c] p.419).

Starting out from this asynchronism, Prebisch would present the model of a world economy between the Periphery and the Center, which in turn forced him to explain expanding and contracting phases -in other words, the reason for the changing tempo of the world economy.

This he attempts in a simple graph: a series of curves which we could think of terms of three cars starting out one after another on a roller coaster and which we will call IP, RI, and FP ("income paid=ongoing production," "returning income=demand," and subsequently "finished production" (Prebisch [1993a] p. 9 and [1993c] p. 419).¹⁰⁵ The occupants of the cars IP and FP are brave because the speed, amplitude and steepness of their ride will always be more extreme than for those occupying the RI car of the cowards.

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¹⁰⁵ The curves are shaped like sine waves and are stepped (indicating the different times at which they begin), and vary in amplitude from one to the next.

These cars or curves advance uphill in parallel until they reach the points at which they cross paths, or as Prebisch calls them, the points of "conjunction." It is only here that the cars' occupants can wave at each other; from then on the speed of the trajectory changes (the rate of exchange). This representation tells us that when the "demand" curve (car RI) finally reaches the supply curve or "finished production" (car FP), the latter keeps up its upward momentum, whereas demand slows down and bottoms out. Meanwhile, the paid income curve (car IP) is still on its way up. Then, as the curves approach their peaks, the representation of the cycle begins just as this one is showing a tendency to fall, and the cars' occupants scream. After a while, the occupants will again be able to wave at each other (a new point of conjunction). This is where demand (car RI) bumps into "finished production" or supply (car FP) again, and in contrast with the first moments of the expanding cyclical process, demand exceeds finished production.

This again produces the start of the cycle, and a new line of passengers to repeat their rides (those inhabiting the center can repeat them several times in the time it takes those in the periphery to complete just one ride), and we again see the waves of the occupants as their cars cross: it is the disparity in the *time* taken to complete the cycle that explains why they never wave at each other at a point of "equilibrium," bearing in mind income paid and overall gross production.

When the movement tries to present itself through the respective origins of paid income or demand -center and/or periphery- and its respective productions, we can see that, unlike the periphery, the paid income=demand curve of the center always "exceeds" finished production or supply: in the periphery the curve of its demand always displays a "deficiency" in terms of the finished production curve. Core "excess" is the counterpart of peripheral "deficiency." If observed from the center, the "point of conjunction," which can be seen in the cycle in its expanding phase, indicates that this "excess" of demand gradually disappears, and is outstripped by the finished production curve, which continues upward as the demand curve falls away (Prebisch [1993a] p. 40 and [1993c] p. 456).

This phenomenon never occurs between peripheral demand and production, as the "deficiency" represents a series of inflows that are always below the finished production curve. Prebisch begins from the idea that, during the "cyclical upcurve," paid income "for businessmen" is always higher than finished production (the "demand curve exceeds supply"). This process is reversed after the point of "conjunction." Demand outstrips supply because "the time of return of the income paid by businessmen is lower than the time taken by the productive process. Therefore, before finished production flows in, it is outstripped by income" (Prebisch [1993a] p. 3 and [1993c] p. 420).

It is the decline or accumulation of stocks that brings on expansion or contraction respectively. But finished production or supply always lags behind the contraction of income in both the upcurve and the downcurve. The conditions of contraction and expansion are generated at these two points of "conjunction" -on the upcurve or the downcurve. This means that

"disequilibrium" is inseparable from capitalism's way of growing: one "goes alternately from a situation in which demand exceeds supply" (Prebisch [1993a] p. 3 and [1993c] p. 421).

The division between "center" and "periphery" is fundamental to an understanding of the economics of "our processes." The origin of a certain demand and the place certain values are generated in has different effects for their respective parts due to the varying amplitudes and rates displayed by each economic space. The center will always have an excess of demand that will take time to shrink, depending on the amplitudes and rates of the return of income in question. I should mention that my exegesis presents Prebisch's perspective using terms such as "rate," when in fact Prebisch [1949b] systematically avoided the term. In a way then the "rate" of "return" of income is greater in the center than in the periphery.¹⁰⁶ In other words, there is a disparity of timing between the periods of production and circulation, and the "return" of the income originally paid in the "cyclical center": it is very short whereas the time of return toward the cyclical center of income paid in the periphery is extremely long. This means that if, in the combination of both processes, the time of return shrinks and the time of value formation in the productive process shortens, the excess of demand over supply will tend to shrink, because it has in fact been generated by the contrary phenomenon, that is, by a very much shorter return time than the time of production (Prebisch [1993a] p. 11 and [1993c] p. 422).

The "wave form" is a consequence of the disparity in timing in production and circulation. On the upcurve there is an accumulation of circulating capital investment, because there is ongoing production and finished production; on the downcurve, the circulating capital is liquidated: investment and/or disinvestment respectively. Just as on the upcurve income return is lower than the payment of income, during the downcurve "income return" is higher than the "payment of income by businessmen" (Prebisch [1993a] p. 13 and [1993c] p. 425).

What corrects this "disparity in timing," and pushes the "demand curves" toward the "finished production" curve is the contraction of production, when businessmen observe that their stocks are growing and reduce their investment. This will in turn produce the other "point of conjunction," and restart the cycle in its upward phase.

Overall, therefore demand exceeds supply, and retailers initially cover the higher demand with stocks instead of putting up prices, by increasing unit sales: prices only rarely depend on supply and demand, according to Prebisch. It is businessmen's stocks that regulate the market: they simply sell more items. This produces greater demand from retailers on wholesalers, and in their turn from wholesalers on industry, which also ups demand on

¹⁰⁶ "Some time elapses between the payment of income by businessmen (payments to productive factors and payments of profits to each other) and the return of this income to businessmen in the form of demand for the goods they produce. This period of return varies according to whether it involves the cyclical center or the periphery, and the different circulation processes" (Prebisch [1993a] p. 12 and [1993c] p. 425).

primary producers. This chain causes the rise in prices, as well as "profits" (Prebisch [1993a] p. 20 and [1993c] p. 432). But when the "market" does not make this "speculation" or "anticipation" by businessmen a reality, prices have already incorporated these "profits," and therefore cannot reduce what has previously been paid out, as assumed in the classical image of the market where supply and demand converge. As prices have already incorporated the values by the time they reach the marketplace, this involves, as I said, an "irreversible" phenomenon (Prebisch [1993a] p. 23 and [1993c] p. 434), which nevertheless still produces fatal contraction effects.

Then, as the different productive stages occur, profit is incorporated into final goods, and the "rigidity" those values bring with them induces cyclical contraction "when demand is insufficient to absorb supply after the point of conjunction" (Prebisch [1993a] p. 21 and [1993c] p. 433). It is then the "disparity in timing between return and income, and the inflow of production" (*ibid.*) that produces the "disequilibrium between demand and supply" during the cyclical upcurve.

Let us not forget either that in this model Prebisch claims that the most usual thing in cycles is the faster growth of profits in the periphery than in the center. How do we test this? It is an established fact that, in general, prices of primary products rise faster than those of finished products, indicating that the profit incorporated into the primary product has grown faster than that incorporated into the finished product (Prebisch [1993a] p. 22 and [1993c] p. 434).

This occurs because, between the different stages of the process of product production and sale, each agent buys the goods at one price and sells them at another with a given "unit" profit. But through such buying and selling, businessmen pay their peers their respective profits and other income, but from production that has not arrived yet. It is the stocks in the respective agents' warehouses that are sold at a price including the profit, driven by the "demand" generated by the ongoing productive process. This explains why the "value of supply" increases at each stage, which in turn drives an increase in demand. The profit arising among the various different businessmen performing these various different activities in turn makes it possible to increase demand. Each productive stage raises demand above the immediately previous one, and so on.

There can therefore be no "stability of demand" (Prebisch [1993a] p. 24 and [1993c] p. 436);¹⁰⁷ demand is always contingent, which lends capitalism its typical "wave" form: "a disparity between the time of income return and the productive period" (*ibid.*).

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¹⁰⁷ "In the partial phenomenon -an industry or company- we can dismiss as insignificant the impact on demand of the rise in income stemming from the persistent efforts of businessmen to increase production. (...) But when it is not only the footwear manufacturer but all businessmen who, to one extent or another, respond to the growing impetus of the cycle, the income they pay over and above the finished production tends to increase demand in greater proportion than supply, and thus reactivates the process of cyclical growth until the point of conjunction is reached" (Prebisch [1949b] pp. 28-29 and [1993c] p. 441).

Even in the idyllic scenario of a perfect market with no "rigidities," it would be the time factor in terms of process and the time it takes agents to produce a given production, that would define the existence of profit and explain its *total quantity*. And since the process of production or response to a given stimulus is slower in the periphery than in the center, the *quantity* of "profit corresponding to the periphery will be less than for the cyclical center" (Prebisch [1993a] p. 27 and [1993c] p. 440).¹⁰⁸ This is due to the fact that, in terms of the whole picture (center and periphery), lower unit profits are not necessarily at odds with a higher *quantity of the total profit*.

To put it another way, when the periphery itself lowers the response time to demand from the center, it does not necessarily mean the "*total quantity of profit*" declines, as this process would drive businessmen to cover demand more quickly, and push up their own production and profits, generated by their payments to productive factors and other businessmen. This makes a lower unit profit compatible with a higher *total quantity of the profit*.

On this occasion Prebisch, no longer speaks of a "compulsory mechanism" for saving. He continues to question the traditional "theory" on the subject and how it would shape the "interest rate," but maintains the idea of the "inflationary" dimension in order to understand the resources used by businessmen to start the phase of the upward cycle, as well as its negative social distributive consequences.¹⁰⁹

Prebisch wants to show that it is "increases in the money supply" that makes capitalism work, and monetary volume is flexible. Therefore, where there was saving, there would be "equilibrium." "Money" then is supposedly an endogenous creation of companies, and it is therefore businessmen who are the main agents in explaining the operation of capitalism, and its characteristic wave form.

Therefore, investments are started with money created by the banking system, or which has been inactive and has accumulated in businessmen's accounts. During the cyclical upcurve, businessmen offload their savings, or turn to the banks, and during the downcurve, they do the opposite, canceling debts and storing up circulating capital to be used during the cyclical upcurve. In other words, for Prebisch saving is performed in the downcurve because, during the cyclical upcurve, the phenomenon signifies an expansion of future productive capacity, payments for productive resources and profits, but concludes when, having covered "fixed

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¹⁰⁸ Let us remember that these lectures have not been revised by the author. On the next line he says: "It is obvious, moreover, that if this increase in demand were not to vary -if it were to remain fixed- and, for whatever reason, the time the primary businessman took turned out to be less than for the businessmen in the center, the quantity [of] profit in the periphery would fall, while remaining the same in the center: the total unit profit would then be lower than in the preceding case" (*ibid.*).

¹⁰⁹ "It upsets distribution in society, and conveying a considerable share of the income to relatively small groups of businessmen who, as a result, increase their saving capacity, and so we reach the conclusion that the shortage of saving, a feature in the early stages of the cycle's upward phase, generates the phenomenon of profit, and profit generates saving growth" (Prebisch [1993a] p. 33 and [1993c] p. 447).

capital needs, this capital no longer grows as fast as profits, and so, instead of being invested in fixed capital, part of the profit is invested in circulating capital. This is enough to lead us to the point of conjunction, and to unleash the phenomenon of contraction" (Prebisch [1993a] p. 34 and [1993c] p. 449).

The notion of the cycle then involves related activities between center and periphery. Businessmen in the center make resource payments in the center and to the periphery. This entails resources leaving a certain economic space, and due to the particular nature of the periphery, take much longer to return to the center and its businessmen than the income and profits paid in the center itself. And we know that during the upcurve businessmen pay more resources and profits than they will recoup in the future, but "accumulation" occurs because they are manufacturing articles in process, and paid resources -two ways of establishing circulating capital. However, in the downcurve "they liquidate articles in process" and "store money," for any future productive resources or profits.

In both contexts (center and periphery), profits grow faster during the cyclical upcurve than "productive factors' income," thus explaining the rise in prices. But just as profits "grow faster in the upcurve," "they fall faster in the downcurve" (Prebisch [1993a] p. 36 and [1993c] p. 452). However, the "distribution of profit over the different stages of the productive process does not occur in proportion to income" (Prebisch [1993a] p. 37 and *ibid.*), and profits in the periphery grow faster than in the center.

But regardless of where the movement of the capitalist cycle is observed from, the process inevitably leads to the points of "conjunction," and the curves between demand and supply intersect. This is when the process of contraction takes place.

During the upcurve a "deficiency" of demand concerning supply or finished products always manifests itself. The differences between the workings of demand and finished production between the center ("excess") and the periphery ("deficiency") are explained by the fact that in the cyclical center the rate of "income return" is much lower than in the periphery, over time, the gap between peripheral deficiency and core excess tends to grow wider.¹¹⁰

If we think about the hypothesis that profits are generated faster in the center than the periphery, a larger quantity of profits will go to the periphery. But meanwhile, businessmen go on demanding higher levels of production due to the existing surplus demand, at the

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¹¹⁰ "I believe that within the same system there are forces that tend to enlarge the deficit or deficiency of peripheral demand with greater amplitude than the excess of core demand. As the upcurve gets steeper both the excess of core demand and peripheral deficiency begin to increase, but the deficiency rises much more steeply than the excess, until reaching a point when peripheral deficiency is similar to core excess" (Prebisch [1993a] p. 43 and [1993c] p. 458).

same time reciprocally increasing profits and demand. This displacement of profits to the periphery eventually makes the peripheral "deficiency" and the core "excess" converge.¹¹¹

According to Prebisch, it is the "spontaneous play of the system" (Prebisch [1993a] p. 44 and [1993c] p. 461). It is not a point of static equilibrium; it is a point of conjunction. It is the "equivalence of magnitudes" from the pressure exerted by profits on the periphery. There can be no convergence of demand and supply because then there would be no profits, never mind the phenomenon of "undulatory" capitalism.

"Dynamic" equilibrium and the "succession of dynamic equilibria" are equally impossible (Prebisch [1993a] p. 46 and [1993c] p. 463), as it would presuppose supply closely shadowing the demand curve, where in fact the point of conjunction means that the demand curve begins to lose speed or bottom out. Otherwise his "model would be destroyed," and "classical theory" vindicated (Prebisch [1993a] p. 45 and [1993c] p. 462).¹¹² Because the dynamic element comes from the decrease or otherwise in "stocks," forcing businessmen to invest or disinvest, "the idea of equilibrium with a possible increase or systematic decrease in stocks" is untenable. "The two conditions repel each other" (*ibid.*).

To demonstrate the systematic and circular accumulative disequilibrium of capitalism between the center and the periphery, Prebisch reconceptualizes his idea of the "expansion coefficient" in the "outflow coefficient." He presupposes a kind of circulatory production process during which, besides being reproduced, production grows, or reincorporates part of its income to extend the established capacity. It has already been mentioned said that the time of income return is longer when the periphery is observed from the viewpoint of the center, and since both entities are divergent in terms of their respective "outflow coefficients," there is no chance of their respective supply and demand curves ever catching each other up simultaneously. This is why Prebisch posits that "excess of core demand" and "deficiency of peripheral demand" are parts of a single system. If to each unit the economy (central or peripheral) grows by, we should add the outgoing proportion of income, as well as any investment necessary to keep its growth steady, the different outflow coefficients, or "inflow coefficients" (Prebisch [1993a] p. 48 and [1993c] p. 466) (return income) will never get their respective demand and supply curves to coincide, given the respective disparities between the two in the speed of transactions.

Any race to intensify growth or demand from either party will always eventually bring about the system's point of conjunction, and contraction, thus starting up the next cycle.

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¹¹¹ "Until its quantity has created a deficiency similar to the excess" (Prebisch [1993a] p. 44 and [1993c] p. 461).

¹¹² "I believe that these disturbances that intervene and prevent it attaining equilibrium, which lend the system its characteristic wave pattern stem from the interdependence of the model's curve" (*ibid.*).

What leads to the point of conjunction and contraction is the system's virtue, namely, profit. As stocks are accumulated in the center, businessmen react in order to lower the proportion of stocks, which in turn gradually reduces unit profit among various businessmen, until demand meets supply or finished production (the "point of conjunction").¹¹³

Nevertheless, the "peripheral deficiency" grows faster than the "excess of core demand" due to the respective outflow coefficients, or to the different rates at which income circulates.¹¹⁴ This causes the gap between the "insufficient [demand] of the periphery" and the "excess of core demand" to widen, which in turn brings about conjunction, thus starting the process that leads the system to contraction.

This is precisely what prevents theorizing about the growth and circulation of income between the periphery and the cyclical center in terms of "dynamic equilibrium":¹¹⁵ it will simply never be reached.¹¹⁶ If different economic spaces grow at dissimilar tempos, a change in outflow coefficients, or an acceleration of peripheral growth would not alter this disparity, in terms of the amount of income each of the spaces "retains" for itself, for example - otherwise there could be no ongoing production.

If "time" is eliminated, it is possible to observe positions of equilibrium between the mass of income and production. However, businessmen would then be insensitive to the levels of accumulated or declining stocks. For the same reason, "core excess" "dies out before deficiency," a result of the greater slowness of the return of income to the center. If we postulate growth or greater productive expansion from the periphery, and independently

¹¹³ "What happens as long as the peripheral deficiency does not coincide with the core excess? There is a net excess of demand over [the] supply at the cyclical center, the consequence of which is the decrease in stocks of the end businessmen. This brings about an increase in demand among final businessmen with the purpose of increasing production. This in turn brings about an increase in profits which, in our hypothetical scenario, goes largely to the periphery. In other words, as long as the point of conjunction is not reached, there will be a continuous fall in stocks, a continuous rise in the demand of businessmen, continuous growth in profits, and a shift of profits toward the periphery. Profits go on shifting more and more toward the periphery, until their quantity has created a deficiency equal to the excess. This is the spontaneous play of the system. The equivalence of magnitudes is reached through the pressure exerted by profits bound for the periphery, and by the consequences this pressure has on the difference between production and income return" (Prebisch [1993a] p. 44 and [1993c] pp. 460-461).

¹¹⁴ "Note also that, just as in the cyclical center there is an excess of demand over [the] supply of central origin, there is also a deficiency in demand or return in terms of production of peripheral origin. During the rise there is an excess of core demand, and a deficiency of peripheral demand because the income paid in the center takes less time to return to businessmen than for production to begin to flow. For this reason there is an excess of core demand. Why is there a deficiency of peripheral demand? Because the income paid in the periphery takes much longer to return to the center than the production in process bought by businessmen takes to flow in finished form to the cyclical center" (Prebisch [1993a] p. 43 and [1993c] p. 459).

¹¹⁵ "The lower the outflow coefficient of the circulatory mass is, the higher the magnitude of income retained to cause the regular increase that leads to positions of dynamic equilibrium, the farther away the point from which these positions of dynamic equilibrium are reached" (Prebisch [1993a] p. 47 and [1993c] p. 464).

¹¹⁶ "I believe that where there are two different outflow coefficients, it is quite impossible to reach equilibrium" (Prebisch [1993a] p. 49 and [1993c] p. 466).

from the center, thus balancing out the scales of income, then we would go from a "net [excess] of demand" to a "net deficiency of demand." This would in turn involve an accumulation of stocks -unlike the reverse situation where businessmen went on expanding production given surplus demand- and production would contract.

Only by neutralizing the "action of stocks on demand" could a "dynamic equilibrium" be reached (Prebisch [1993a] p. 52 and [1993c] p. 470), which is practically impossible, as it is the mechanism that makes the whole productive apparatus work, starting with the reactions of businessmen themselves. But in the event that the tempo of production, or the farsightedness of businessmen begins to slacken, circulating capital will have been accumulating, and will subsequently be of use in recovery, or the start of the cycle in its upward phase.

During his account, Prebisch saw that the people he was speaking to were in frenzy at the merely "passive" function of peripheral economies, and insisted on raising the theoretical possibility of an autonomous process of expansion and growth. Prebisch would later try to show that such a process is absurd.

He introduces a series of alternatives -such as higher levels of investments or loans in the periphery- to see whether the point of conjunction could thus be avoided, or postponed for a while at least. Now, a higher quantity of investment in the periphery -due to whatever mechanism- would speed up the encounter between demand and supply (the point of conjunction). Another theoretical option for reaching the point of conjunction is to examine an atypical case where income grows faster in the center than the periphery. Here, unlike the typical case, the "excess of core demand" and "peripheral deficiency" -by definition the point of conjunction- cannot be made to coincide. But although rising demand will take its course, and exceed supply, it cannot go on rising ad infinitum. The point of conjunction will be reached only if the tempo of fixed capital investment grows faster than the rise in profits. This involves higher levels of fixed capital investment, which in turn implies a growing proportion of savings. This would considerably slow down income return, which means that the "excess of core demand" curve begins to level out, eventually coinciding with the rate of "peripheral deficiency" (the "point of conjunction") "via another path."

If, in the typical case, the point of conjunction was reached because the "deficiency of peripheral demand grew more intensely" than demand in the "center," it is now "core demand" that slows down relative to the "periphery."¹¹⁷

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¹¹⁷ "A higher retention of income has been developing. This means a slower return, and although the distance between income and production continues to grow, a point will be reached at which, due to the saving invested, not in fixed, but in circulating capital, peripheral deficiency coincides with core excess. The point of conjunction can be reached in different ways, but always by virtue of the disparity in the time of income return" (Prebisch [1993a] p. 57 and [1993c] p. 476).

At his audience's request, Prebisch examines a case when the periphery, acting of its own accord, generates its own process of economic expansion in an attempt to break away from its merely "passive" function.¹¹⁸ Such action would only "delay" the meeting of the supply and demand curves (the point of conjunction) in the cyclical center, in turn generating full employment and a process of inflation. We would be faced with an event where the cyclical phenomenon and the inflationary phenomenon would converge, with much more profound negative effects than would occur during any strictly cyclical process. But in fact, these considerations only change the "amplitude" of the cycle, not its characteristic "wave form": "it has always risen only to fall again" (Prebisch [1993a] p. 59 and [1993c] p. 478).

Apparently then, the adjustment mechanism for the "phenomena of center and periphery" would not change, regardless of the variables considered -precisely the phenomena that prevent "equilibrium" being achieved. When Prebisch describes the depressive effects of the cycle after the point of conjunction, demand does not "exceed" production, and therefore "the circulating capital they have been accumulating is excessive" (Prebisch [1993a] p. 64 and [1993c] p. 485). Then there is the problem of liquidating stocks, which generally exceed the level necessary to deal with the "demand set by the point of conjunction" (Prebisch [1993a] p. 65 and *ibid.*):

And this is where businessmen's reactions come into play, leading us back to recovery, for, while businessmen see themselves accumulating passive stocks, it is natural for them to try to lower production (...), if they wish to deal with the volume of demand reached, they will have go back to paying income higher than finished production, thus commencing the system's recovery. (...) Supposing that, for whatever reason, instead of returning the income in the cyclical downcurve in the way we have seen, the periphery is slower to make repayments: (...) what would happen? Income return would be less active, and instead of where we marked it, the point of conjunction would be much lower down (Prebisch [1993a] p. 65 and [1993c] p. 486).

If, during depression, instead of offloading stocks or circulating capital, the periphery is also able to raise import coefficients, and prolong the repayment of income to the center by some mechanism, then "supply and demand" would cross much earlier (the "point of conjunction").

But this is something that has never actually happened. The history of inflationary phenomena is originally the result of the monetary practices of centers, according to Prebisch, not the periphery. No matter how long it goes on, the inflationary process will eventually produce the "point of conjunction."

¹¹⁸ "It creates its own income in very much greater quantity than the periphery would need in its passive function to meet core demand. (...) The scope of this expansion typical of the periphery might eventually be such that, instead of the net peripheral deficiency bringing down the core excess until reaching the point of conjunction, we will have a net excess in the periphery and that, in the cyclical center, the excess of demand will be much larger than that it would be in the cases we have considered" (Prebisch [1993a] p. 59 and [1993c] p. 479).

Inflation means a fast-growing accumulation of profits in the cyclical center. A part of those profits are made over to the periphery, all the more so, the faster the rise in profits in the center is, and the longer the productive period in the periphery. This would tend to make the parallel development of production in the periphery increasingly difficult. Nor would a quantity of profits flow out to the periphery, thus increasing the peripheral deficit until eventually it met the excess (Prebisch [1993a] p. 66 and [1993c] p. 487).

The idea that this process would only stop because there was "full employment" was for Prebisch theoretical madness simply because while the inflationary process is at full tilt, businessmen will go on investing and receiving profits in view of the rise in prices. Circulating capital will grow, and as in any expanding process, will require increasing sums of money to enlarge the circulating capital/stocks. But they will also have to use their profits to make purchases and investments in the periphery, which means in actual fact that the "excess of cyclical demand" will be reduced. This will increase the "deficiency of peripheral demand" (Prebisch [1993a] p. 66 and [1993c] p. 488), and "inevitably" produce a point of "conjunction after which the contraction of the system will supervene" (*ibid.*).

In his last lecture given on the March 1, 1949, Prebisch promised to return the following day, and go into greater depth on certain aspects, introducing "world gold production and the tempo of technical progress" into his model (Prebisch [1993a] p. 66 and [1993c] p. 488). But this never happened, for he left for Santiago de Chile the next day as consultant to the ECLAC, where he embarked upon other reflections of a theoretical and practical nature.

I have tried here to describe a period in Prebisch's critical thinking on economics. Because, even during his lifetime, certain devotees or detractors of Prebisch's work have made our protagonist say many things, I have, as far as possible, adopted the strategy of presenting his ideas in his own words. The development and conclusion of his ideas on the world economic cycle during this period involved setting aside certain ideas that he had initially espoused. His political radicalization is the flipside of his theoretical reconstruction. I do not know whether the history of Latin American economic thought has examined this period in Prebisch's intellectual development, and his rise to fame after the meeting of the ECLAC in Havana distanced him from making such reflections.

However, certain faint conceptual traces passed into the phraseology of his next texts at the ECLAC, and this makes Di Filippo's work [1981] all the more worthy. In just a few sentences he transports us to Prebisch's texts and ideas of a quarter century later, around 1975, when he began work on what would become *Capitalismo Periférico* (Peripheral Capitalism) [1981]. Once retired from his international posts, Prebisch crossed the equator to return to tropical lands, and took his manuscripts of the period we have been analyzing out of the deep freeze.

This is not the place -nor is there space- to evaluate his ideas about the world capitalist cycle, but as I have said, it was unfortunate that Prebisch never considered Keynes a potential ally against economic orthodoxy. Their notions on money and money creation are close to the

versions about endogenous money currently being resurrected (Dow [1997]; Cutler *et al.* [1978]), which resuscitate Keynes himself. For Prebisch, as we have seen, Keynes remained a hopeless case.

Discussion of the economic cycle (Kuznets [1930]) -par for the course back in those days- and its stochastic nature (Mirowski [1989, 1990, 1991a,1991b]), would also again become part of the intellectual daily life. I am not referring to the "real business cycle," but Ormerod's critique [2000] of it demonstrating its theoretical incongruities -a version that is currently dominant in certain schools of economics in the United States.

Also, those who feel that the "equilibrium" or "disequilibrium" issue is a myth made up by Prebisch, should remember that the economic establishment had considered an attempt to "stabilize" Weintraub's "dynamic" (Weintraub [1991] p. 123) to be their main theoretical task, since the notion of "equilibrium" in neoclassical economics has always been highly "unstable" (De Vroey [1999]).

Only time will tell if economics will again be thought of in historical and institutional terms (Hodgson [2001]; Furtado [1983]; Mallorquín [2001]) as Prebisch highlighted throughout his life, an attitude clearly visible in his descriptions of the action of businessmen in their zeal for maximum profit. What better than to return to the past and some of its thinkers in Latin America who, gathered together in the Golden Decade of the ECLAC (1950-1960), provided, then as now, theoretical and practical alternatives for economic development in a region facing a legacy of economic problems bequeathed by latterday neoliberalism.

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PREBISCH AND REGIONAL MARKETS: THE FIRST PHASE

Edgar J. Dosman

Raúl Prebisch's commitment and contribution to regional integration forms one of the most distinctive features of his long career. The entire edifice of Prebisch's work was devoted to creating a Latin American consciousness and common purpose for twenty vastly different republics, and he never doubted the eventual success of regional integration. His launch of a formal Latin regional trade initiative in 1956, culminating in the creation of the LAFTA on February 19th 1960, dominated ECLAC's agenda from 1956-1960. Similarly ECLAC's pioneering efforts in promoting a CACM in the early 1950s paralleled, indeed in certain ways preceded, those in Western Europe. But they had none of the same success; LAFTA proved particularly disappointing (the export coefficient of the larger countries of the region actually fell from 6.2 to 4.6% between 1950 and 1973), and it was replaced in 1980 by the less-ambitious and equally moribund Latin American Integration Association (*Asociación Latinoamericana de Integración* -ALADI-) (Ballesterro [2000] p. 47).

LAFTA has not fared well in the historical memory of economists. Few regional initiatives have been so unanimously consigned to the garbage can of history, and Hufbauer (as an example) has firmly relegated LAFTA and Prebisch to Latin America's "clouded past" of "closed regionalism." He noted that "the integration agreements that emerged were really anti-trade agreements in that they emphasized the regulation of investment and production and the restriction of imports from the rest of the world." Fortunately, in his opinion, but "ironically," ECLAC, "the institution that was founded by and housed Raúl Prebisch is now the major exponent of open regionalism," driven by trade liberalization both among the member countries and the rest of the world which has yielded NAFTA, MERCOSUR, the FTA, and a host of other trade agreements (Hufbauer and Kotschwar [1998] pp. 1-2). ECLAC, therefore, has finally rehabilitated itself, but Prebisch remains tarred with the brush of regional integration wrong-headedness (ECLAC [1994]).

Other scholars have challenged this dominant perspective. According to Bhagwati, Prebisch's work in the 1950s to temper the import-substitution strategy by regional trade liberalization "preceded the major work on trade-and-development strategy (by Balassa for the World Bank, Little, Witovsky and Scott for the Organization for Economic Cooperation and Development -OECD- and Bhagwati and Krueger for the National Bureau for the Economic Research -NBER-) that has resulted in the current thesis that export promoting strategy has many advantages over the import substitution strategy" (Bhagwati [1986] pp. 292-293). Similarly Salazar-Xirinache has stressed the pioneering aspects of Prebisch's work in this area, concluding that his "ideas on economic integration, outward-looking growth based on industrial export promotion, selectivity based on world income-elasticity criteria, and reciprocity, appropriately adapted to present conditions, are relevant for the rethinking of the strategy of international insertion complemented by regional integration" (Salazar-Xirinache [1993] pp. 21-22). Rather than advocating a retreat behind tariff walls, "Prebisch viewed regional integration as an essential component of industrialization and outward-oriented growth." Salazar-Xirinache's work is not alone in reinterpreting ECLAC's work under Raúl's direction during the 1950's. As John Toye and Richard Toye have demonstrated, Prebisch was acutely aware of the dangers of excessive protectionism and the limits of industrialization. Simple criticisms of Prebisch, like the "closed" vs. "open" regionalism of Hufbauer, are missing the point.

The challenge in interpreting Prebisch's thinking on regional markets during his ECLAC years is to isolate what he actually wrote and proposed during the 1950s, as opposed to the decisions of Latin American governments over which he had no control. The Treaty of Montevideo fell far short of his expectations. "I am encouraged," he noted privately at the time, "but in no way do I lose sight of the great difficulties that lie ahead."¹¹⁹ These "great difficulties" overwhelmed LAFTA after several years of modest success followed by the dead weight of military dictatorships, but it seems misguided to lump Prebisch himself into the well-documented deficiencies of governments on the one hand and the lack of support by external agencies such as the IMF on the other.

The task, therefore, is to understand Prebisch himself and to contextualize his thought on regional markets. During the 1950s and particularly between 1956-1960 he prepared closely-argued papers, gave dozens of speeches and wrote extensively on this subject in an often public campaign to win acceptance for the regional Common Market he proposed. He lobbied US, UN and Latin American officials; he negotiated with the IMF, the GATT and the international agencies. These records survive. Looking over the mass of documentation that exists, it is readily apparent that the more positive interpretation of Raúl's work offered by Bhagwati and others is more persuasive by far than the traditional negativism. While Latin American governments in the end rejected his advice, neither the US nor the IMF agreed with, or believed him. Words were not enough; no matter what he actually proposed, key officials considered him an untrustworthy unreformed protectionist.

¹¹⁹ Raúl Prebisch to Philippe de Seynes, January 22, 1959 (UN correspondence).

Fortunately there is another approach to help corroborate Prebisch's assumptions on regional integration in the 1950s-his earlier record as a senior practitioner in Argentina, where he had a brief but intensive experience in this area. Raúl was not a novice in regional markets when he joined the United Nations in 1949, and a closer analysis of this "first phase" of his career also provides a useful context for discussing the origins of the Treaty of Montevideo. It will be argued that most of the key concepts in his approach to regional integration in ECLAC have their antecedents in the 1939-1941 period when he headed the Argentine Central Bank. To be sure, past experience is not conclusive as a guide to future activity, but it provides insights otherwise not available in establishing the Prebisch record.



Prebisch's changing approach to regional markets after 1939 was the product of war in Europe. When Hitler invaded Poland in September, Prebisch was the leading mandarin guiding Argentina's economy, and the conflict forced Argentina to reconsider its traditional international trade policy. The immediate effect of the war for Argentina was the sudden end of trade with Germany and Central Europe, and a reduction of exports to France and Great Britain. The loss of German commerce was not a major blow because bilateral trade had already declined by over 50% since 1933; by 1939 it comprised only 5% of Argentine exports and imports. Instead the main problem for Argentina was Great Britain, its dominant trade and financial partner and the traditional external anchor of its economy. In October 1939 the British Government stunned Buenos Aires by announcing its inability to pay for its meat and grain imports in pounds sterling; this blocking of the bilateral sterling account froze Argentina's primary source of foreign exchange. The dilemma was that Argentina needed US imports to maintain its economic growth, but since its exports went primarily to Britain a deficit was incurred in its US trade. Before 1939 this deficit was manageable because it had been balanced by a trade surplus with Britain. Now the blocking of the sterling account presented a fundamental imbalance which threatened Argentina's long-term stability, creating a mounting Argentine deficit in its import bill from the United States.

The old empire was under threat and Britain was no longer a reliable economic anchor. Instead the US was emerging as the new world leader, and this meant a new vulnerability for Argentina after a long and successful foreign policy orientation based on a triangular relationship with Britain and the United States, in which these opposing poles were kept in balance to maintain Argentine autonomy and interests in the South Atlantic. Developments in Europe had ended the viability of this strategy (Díaz Alejandro [1970] and Di Tella [1981]). The European balance of power was now destroyed, with Britain itself in imminent danger of attack. Thus a new international order had suddenly appeared. The traditional Atlantic triangle paradigm in Argentine foreign policy was passé; and a new policy toward US and regional markets were unavoidable.

Prebisch agonized over what to do. Argentina faced crucial decisions, but political divisions of every kind, including pro-allied and pro-fascist tendencies, had created a situation of stalemate. In addition, President Roberto Ortiz was incapacitated by illness. Four days after the fall of Paris, when governmental paralysis showed no signs of abating, Raúl decided to establish a direct personal link with the US Embassy, meeting secretly with US officials on June 17, 1940 to brief them on Argentina's precarious economic and financial situation and to suggest a new opening in Argentine-US relations.¹²⁰ He acknowledged that his visit was outside official Foreign Ministry channels and without Presidential authorization, but proposed that a dialogue be opened for a new strategy combining: a major economic recovery plan to promote industrialization; a new alignment with the US beginning with a trade agreement; and a similar initiative to strengthen regional markets through a trade agreement with Brazil and its neighbors.

Prebisch followed up this meeting with a long article in *La Nación* on June 28, 1940 where he supported a new national policy to promote economic recovery and industrial development; more concretely, he and his top staff, particularly Ernesto Malaccorto and Guillermo Klein, began work on a document called the Program of Economic Reactivation. In July the political prospects for approval of the plan rose with the appointment of Federico Pinedo, with whom Raúl had worked during the 1930s, as Minister of Finance. Although Pinedo resigned within six months, he introduced the proposed legislation to the National Congress in November 1940, after which it became known as the "Pinedo Plan." In fact it was written entirely by Prebisch and his Central Bank colleagues.¹²¹

The program offered a bold long-term approach to reviving and strengthening the economy within the new geo-political context. Prebisch and his co-authors used a 'three wheel' metaphor to highlight the dilemma facing Argentine trade. The first wheel (Britain) had essentially been broken with the war and the blocked sterling account; this meant that Argentina would have to re-orient its economy to the second wheel (the US), and South American markets (the third wheel). Their hope was to sign a new trade agreement with Brazil followed by a mission to Washington.

Brazilian Foreign Minister Osvaldo Aranha welcomed the suggestion for a bilateral meeting and President Getulio Vargas invited his Argentine counterparts to a major conference on October 3-6 in Rio de Janeiro. It was a propitious moment to replace the long legacy of discord with a new era of cooperation. Bilateral relations had been strengthened after 1930. The Great Depression had collectively hurled both countries into economic crisis. If before 1930 Argentina had treasured its link with Britain in a special relationship that seemed to set it apart from the rest of Latin America, the depression demanded similar responses from all of them, and thus

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¹²⁰ US State Department, Ambassador Armour to the Secretary of State, June 17, 1940.

¹²¹ This is not to discount Pinedo's involvement; Prebisch and Pinedo worked closely together at this time, and Prebisch readily acknowledged the Minister's political skills. See also Villanueva [1981] pp. 78-79; Llach [1984] and Baldinelli [1996].

after a century of rivalry, a sense of southern cone "neighborhood" began to emerge. The outbreak of war in 1939, therefore, gave an additional impulse for regional cooperation since both Argentina and Brazil needed expanded markets. During the depression both had erected tariff barriers against each other; now Europe was at war and both were dependent on the US; it was time to explore a larger regional market to diversify that dependence.¹²²

The Brazil-Argentine Economic Conference was opened by Aranha on October 3 and brought together the key political and economic leaders from both countries. The Argentine delegation included Pinedo and Foreign Minister Julio Roca, as well as Prebisch. Respective Chambers of Commerce as well as ranking military officers participated in the discussions. In a private meeting with Prebisch and Pinedo, President Vargas underlined his support for building a large regional market. "In place of the so-called Monroe Doctrine," Brazil Finance Minister Costa Souza noted, "we are proposing a new era for the new circumstances: continental cooperation at the economic level without prejudicing the right of any country of the Americas to manage their internal affairs according to their individual needs."¹²³ The prospect of a bilateral trade agreement revived a long-standing dream of a common market in the River Plate Basin, anchored by Brazil and Argentina but including Uruguay, Paraguay and if possible Chile, which would create a South American bloc in the world economy. While the integration idea in the southern cone had been around for decades, it was Prebisch who was able to seize and carry the initiative in 1940 because only the Central Bank had the clout for this task: his institutionally-based power in a fragile state where ministers came and went made Prebisch the dominant figure in economic policy-making of the early period.

The underlying concept was a free trade agreement beginning with sectoral accords, starting with wheat and textiles and working forward towards an increasingly comprehensive agreement on a step-by-step basis as regional integration deepened. Prebisch argued that instead of Argentina and Brazil duplicating sectors for local markets, the two countries should promote sectoral specialization for a regional market. Given the early stage of industrialization in both countries it seemed the right moment to determine relative sectoral comparative advantages, achieve an agreement on priorities, and therefore build competitive industries with economies of scale capable of producing for a combined regional market. Examples of the benefits of regional cooperation were readily identified. Brazil was growing wheat and mixing manioc with flour because of its persistent trade deficit with Argentina, yet Brazil was the more advanced of the two in certain textile products. Brazil, therefore, agreed in principle to expand wheat imports from Argentina in return for Argentina's purchase of Brazilian textiles worth \$ 30 million pesos. As a safeguard both parties agreed that a reasonable overall trade parity would have to be maintained as the integration

¹²² At the 1940 Inter-American Conference in Havana, the Brazilian and Argentine delegations had agreed to discuss a new trade initiative in light of the war-time emergency; they could now take up this project seriously in fall.

¹²³ Quoted in *La Nación*, October 4, 1940; see also Gabriel Porcile's rare discussion of the Argentine-Brazil rapprochement in Porcile [1995] pp. 129-159.

process deepened, but they endorsed the logic of regional sectoral specialization to build export-capable industries across the Argentine-Brazil divide.

Argentina and Brazil set out a bilateral goal of a free trade treaty, open to the neighboring countries, as a step towards a regional customs union. In a special paragraph the two countries also supported a spirit of Pan-Americanism, agreeing that Uruguay and Paraguay should be included in a southern cone trade agreement, and that the participation of Chile should also be explored. Prebisch had already sent a team to Santiago to brief officials there on the Rio Conference. In more specific terms the two large countries tried to allay the fears of the smaller neighbors. Argentine Foreign Minister Julio Roca met with his Uruguayan counterpart, Foreign Minister Alberto Guani, to endorse regional free trade and establish a bilateral Joint Ministerial Economic Commission. Governments of the five River Plate countries-Uruguay, Paraguay, Bolivia, Argentina and Brazil-agreed to meet at Cuenca de la Plata early in 1941 to take the first steps toward regional integration and set up a secretariat for this purpose in Buenos Aires.

The formation of a Argentine-Brazilian trade entente in 1940 implied a potential diplomatic revolution in South America, but both sides understood the challenge facing them in actually achieving this dream. The Argentine-Brazil rapprochement since 1930 remained fragile. Apart from the inherited mutual distrust, the persistent leadership crisis in Buenos Aires disconcerted Brazil, and a long list of bilateral irritants and regional rivalries in Paraguay, Bolivia and the South Atlantic remained to be resolved. Both countries faced increased military spending as the war deepened, and they were competitors in a race to develop a capital goods producing capacity, particularly steel. And both countries looked to Washington, particularly the Export-Import Bank, to finance their industrialization programs - there was no other investment source.

Following the Rio Conference, Prebisch went on to Washington on November 8 where he spent three months, leading the first foreign delegation to meet President Roosevelt after his re-election. Roosevelt expressed understanding of the need for greater cooperation and promised not to oppose the new trade grouping emerging in South America. Indeed, the successful Argentine-Brazil negotiations strengthened Prebisch's hand in his negotiations with US officials in general. They discussed such ambitious ideas as the establishment of a Western Hemisphere free-trade area, and eventually a customs union encompassing the Americas from Canada to Patagonia. This mood in Washington was hearty. Treasury Secretary Henry Morgenthau hailed the new US-Argentine compact as "practical proof" that the good neighbor policy is "a living force among American Republics" (The Journal of Commerce [1945]).

Argentina's new plan depended on success in export promotion; if free trade with Brazil was aimed at developing new patterns of specialization, Prebisch's objective in Washington was to increase Argentine exports to North America- to replace European suppliers shut out by the war-as well as to establish permanent new markets for non-traditional products. Raúl therefore visited groups of private sector leaders, and outlined a new export corporation, the

Corporación para la Promoción de Intercambio (CPI), which he had discussed with the Embassy two months earlier in Buenos Aires. The concept proposed a new form of private-public sector cooperation. "Exporting is not a function of government," Prebisch had argued, but he insisted that "government must concern itself with making conditions favorable for export trade," and that there was "no justification in pointing to obstacles as an excuse for not attempting to acquire a part of the orders American importers formerly placed in Europe."¹²⁴ On May 19, the new CPI setting up its offices in downtown Buenos Aires with a ten-person Board of Directors comprising two Argentine and eight American citizens, with a network that included most of the major companies in Buenos Aires. All dealings of the CPI were to be controlled by the Central Bank. US business leaders from John D. Rockefeller to commercial bankers encouraged the State Department to support the initiative, and a New York CPI office opened in July as part of a major diplomatic campaign in the US. "The CPI is making every effort to assure the Argentine exporter that this is not a temporary organization and that the opportunity exists for finding permanent and lasting markets in the United States, markets that can be retained even after the war," one New York banker noted.¹²⁵

1941 was not an easy year, however, for promoting regional markets in South America. US interests and leverage grew rapidly in the southern cone as its rearmament program took hold, and war threatened the Americas in both Europe and the Pacific. And as the threat of war in the Pacific loomed; different agencies in Washington pulled in different directions with inconsistent policies that deepened the latent rivalry between Argentina and Brazil. The Argentine military, for example, was indignant over US plans for a major naval base across the River Plate at Punta del Este in Uruguay since the base dominated approaches to Buenos Aires and could be seen as a threat. Nationalists argued that US military maneuvers in the South Atlantic were aimed as much at Argentina as at Nazi Germany. The deeper issue concerned the economic development and the future regional balance of power. In April 1941, the US Export-Import Bank agreed to provide \$20 million in credits to build a state-owned steel complex in Brazil, the *Compahia Sidirogica Nacional* (CSN), but there were no such funds for Argentina.

Nevertheless, despite these obstacles, the Argentine-Brazil rapprochement was maintained. On November 21 Osvaldo Aranha visited Buenos Aires to sign a bilateral agreement which endorsed regional free trade. Beneath the tension created by the personal dislike between the two Foreign Ministers a sub-regional concept was forming with a set of regional commissions in which the five countries were beginning to coordinate policy on functional areas such as customs and transport, and the Regional Office for Information and Economic

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¹²⁴ The central idea was to woo Argentine producers out of the domestic market; if the US would import Argentine manufactured goods, the Central Bank would reward such exports by adjusting import duties for US products. US State Department Memorandum from the US Embassy in Argentina, November 29, 1940 outlines the objectives and structure of the new CPI.

¹²⁵ *New York Times*, July 24, 1941.

Research was set to be opened in Buenos Aires. The practical result was an immediate lowering of Argentine-Brazil rivalry in the buffer states, particularly Paraguay and Bolivia.

Similarly, and despite irritants, the US-Argentine relationship remained on track. There were powerful voices in Washington sensitive to Argentina's interests, reciprocated in Buenos Aires as bilateral trade grew rapidly. The progressive deterioration of security prospects in the Pacific as Japan extended its zone of influence also underlined the mutual interest in stabilizing and strengthening US relations with a stronger South America. In July 1941 there was a major public display of solidarity between US and Argentine armed forces, complete with parades and a fleet of B-17 Flying Fortresses flying into Buenos Aires, and on October 14 the Argentine-US bilateral trade agreement heralding greater cooperation was finally signed. In the end Washington and Buenos Aires agreed on a satisfactory price for strategic minerals. Other irritants in both the security and economic areas remained, but they were negotiable and the Roosevelt Administration sent a diplomatic mission to Buenos Aires to resolve them. These talks were to begin on Monday, December 8, 1941. Prebisch met the US delegation at the airport on Saturday and invited them for Sunday lunch; shortly after they arrived at his home they were informed of Pearl Harbor and immediately recalled to Washington. World War had now begun; sides had to be taken, and the stakes dwarfed trade negotiations at every level.

In this situation the first attempt at a MERCOSUR could obviously not survive, and for political reasons Prebisch himself was dismissed as General Manager of the Central Bank in October, 1943. The drama of World War after Pearl Harbor, Argentina's diplomatic break with Brazil and the US, followed by the Peronist Revolution, so overwhelmed the brief 1940-41 experiment in regional integration involving Argentina, Brazil and their smaller southern cone neighbors that it became a forgotten chapter. The war produced a deep cleavage between the two powers, and the political underpinnings of a free trade agreement, not to speak of a River Plate regional grouping, disappeared.



Fifteen years after Pearl Harbor, on November 19, 1956, Prebisch convened the new ECLAC Trade Committee to open the campaign for a Latin American Common Market. A lot had changed, beginning with Prebisch himself. His previous focus on Argentina had broadened into a regional awareness of Latin America's commonalities and challenges; and his 1949 Havana Manifesto (presented in May, 1949 to ECLAC's Second Session in Havana) had projected his vision of Latin America's asymmetrical embeddedness in the international economy (Prebisch [1949]). Now he headed a small UN Secretariat in Santiago rather than a major financial institution like the Argentine Central Bank, exchanging a position of actual power for mere respect.

Latin American economies were also more industrialized, with strong growth in Argentina in the last half of the 1940s and particularly rapid Brazilian expansion in the 1950s. Other countries such as Chile and Mexico had also advanced in the modernization process. But the strategic rationale for regional integration was more compelling now than in 1940-1941. Latin America, Prebisch said, had the dubious distinction of a unique insertion in the global economy, "the only region in the world with a very large population and immense resources that is trying to combine industrialization with keeping production artificially boxed up in twenty sealed compartments" (Prebisch [1958]). The region had never been successful at economic integration, maintaining instead the post-colonial pattern of exclusive bilateral trade with industrialized countries. Intra-regional trade was only 7%, or \$350m, largely in commodities. Borders in the southern cone were often militarized, and poor transportation links discouraged trade. There were few border crossings between Argentina and Brazil, or Chile and Argentina. This formula for industrial policy was suicidal in the long term, since small domestic markets made them high cost producers incapable of penetrating export markets, and condemning them to traditional commodity trade which was in decline. Politically this model of import substituting industrialization easily led to local monopolies, clientelism, bloated state bureaucracies stagnation and inflation. Argentina under Perón was a case in point. As advisor to the *Revolución Libertadora* during 1955-1956 Prebisch saw the dismal results of a closed ISI model of industrialization taken to an extreme, a self-inflicted isolation from regional and international markets.

Latin America had to learn from Europe, as well as the US and the big developing economies like India and China with large domestic markets. In Europe the Treaty of Rome (1957) in effect restored the "spontaneous economic system which had existed before 1914," and the benefits were immediately apparent (Prebisch [1958]). The European Economic Community (EEC) countries, for example, had already proven better able to defend themselves in the international market; unlike Latin America, Europe had not suffered a severe downturn during the US recession in 1957. Vulnerability at the regional level implied the need for new approaches. If the much more powerful economies of Europe recognized the need for collective action, how much more should their vulnerable Latin American off-shoots! In retrospect the failure of the 1940-1941 integration attempt seemed more and more a lost opportunity for South America.

As in Europe, the 1950s offered Latin America scope for the consolidation of a regional market which would spur development through specialization; productivity and exports would increase as economies of scale grew and costs of production fell. "The day draws near," Prebisch noted, "when Latin America's industrial products could compete in the world markets." Some Latin industrial products, such as Chilean steel, were already entering the US market, demonstrating that it could be done—that exports of light and heavy industries could be successful. But these were first steps only which required the support of a regional market for sustained growth. "For the first time trade will be on a footing of equality," Prebisch noted; "for the first time since the Industrial Revolution, Latin America will be in a position to compete on equal terms." Trade liberalization would also serve another purpose: opening Argentina's closed economy after Perón; weeding out the worst of the protected sectors by competition;

and breaking the vicious cycle of clientelism which had become entrenched during the Perón era and which threatened the future health of the Argentine economy (Prebisch [1956a]).

Prebisch, however, stressed the special challenge of the proposed Latin common market. Although starting from a very small base, it would have to be consistent with Article XXIV of the GATT; but the initiative also required "a dynamic" policy of protectionism which would be "rational," "orderly" and "selective" in order to create new competitive industries such as automobiles and non-commodity products to diversify and increase exports to the rest of the world (Prebisch [1956b]). He, therefore, advocated a selective use of import-substitution as a development tool at the regional level, just as both Europe and North America retained protectionist measures in their common markets. Nor should the new common market be considered anti-trade or closed; trade with the rest of the world would grow to the benefit of all as Latin American development strengthened, and only the composition of Latin exports and imports would change as the productivity gap with the industrial economies narrowed.

There was, therefore, a remarkable continuity of approach to markets in the 1950s common market proposal and the embryonic MERCOSUR pursued during 1940-1941. Both were strategic initiatives in the face of external challenges to Latin America; they were both defensive and developmental, based on the principle of reciprocity; and both were characterized by a combined policy of export-promoting and import-substituting to accelerate industrialization (Prebisch [1956b]). The two arms of the policy were intrinsically connected; it was not an either/or situation. As a leading policy-maker in 1940-1941, Prebisch demonstrated this connection with the creation of CPI; it should not be surprising to find the same balance in his 1950s initiative. At the first Trade Committee meeting Prebisch repeatedly stressed the need for the flexible application of policies to spur growth, undoubtedly influenced by his first trip to Asia earlier in 1956 where he saw countries employing an ISI model, but implementing it with greater sophistication and effectiveness than in Latin America. The continuity with 1940-1941 is also shown in the MERCOSUR created in 1991 by the Treaty of Asunción, in which Prebisch's rationale is repeated virtually verbatim (but evidently with no knowledge of its antecedents fifty years before) as a triumphal example of "open" rather than "closed" regionalism.¹²⁶

However, the 1940-1941 experience also underlined the exceptional difficulties facing regional integration in Latin America during the 1950s. In both cases external constraints were severe; in contrast Western Europe had the full backing of the US and NATO, as well as supporting institutions such as the BIS (Bank for International Settlements) to facilitate credit and payments. Even with this unconditional support the Treaty of Rome encountered

¹²⁶ See, for example, Peña [1999] p. 54: "(...) Two of the central principles that motivated Argentina and Brazil's leap forward in 1990 in building their strategic alliance [were] creating a regional "habitat" to promote the global competitiveness of their businesses and strengthening their capacity to negotiate international economic relations."

persistent criticism and obstacles; without this powerful institutional and political backing it might well not have succeeded. Prebisch and Latin America, in contrast, could not count on either Washington or the IMF, and countervailing regional institutions did not exist to balance their weight in the region. In the 1940-1941 period the Roosevelt Administration needed Argentina as the largest economy of South America, and it supported the regional markets initiative; after December 7, 1941 Washington and Brazil formed an alliance in which Argentina was sidelined and the focus became Europe and the Pacific. Now in the 1950s, US attention was again concentrated on Europe and Asia to the relative exclusion of a Latin America far too safe to merit sustained attention, and regional policy fell to ideologues and second-level US officials with the narrowest view of markets. For its part the IMF was uncompromising in its orthodoxy and turned definitively against involvement in the common market project. In these circumstances Prebisch's distinction between crude import-substitution strategies (like Perón's Argentina) and the strategic combination of export-promotion and selective protectionism was lost. Even when the texture of US-Latin American relations began to change in 1958 after Vice-President Richard Nixon's dramatic visits to inflamed Latin capitals, Prebisch remained distrusted as congenitally trade-phobic. Thomas Mann, US Assistant Secretary for Economic Affairs, both led and typified this simplistic but entrenched position. He bridled over Prebisch's talk of promoting automobile production in the Latin America regional market. "It would be wrong to create an artificial or uneconomic industry in automobiles or any other product that could never compete." Latins could not make cars, period. It followed that ECLAC's regional integration project would be protectionist and anti-business, no matter what Prebisch said about his commitment to a GATT-consistent process, featuring "special, monopoly-favoring provisions for the protected expansion of new products."¹²⁷

Launched with enthusiasm in 1956 with strong initial support of key Latin American governments, the regional integration negotiations faced increasing resistance as they moved toward the Treaty of Montevideo, signed in February 1960. Seven countries signed on as members of the LAFTA-five from the southern cone (Argentina, Brazil, Chile, Paraguay and Uruguay) along with Peru and Mexico from the Andean group and Meso-America. Prebisch's expectations had to be scaled back, as governments became skeptical of taking short-term risks for the long-term future. The most that could be expected was a free trade agreement as the first step towards a common market and eventual economic community, and the Treaty of Montevideo was a modest step forward indeed, larded with loopholes, exceptions and government veto power. Dag Hammarskjöld and Philippe de Seynes cabled their congratulations, but it was an anti-climax and disappointment for Prebisch.¹²⁸ Initial signals from Washington were not good. The State Department was negative, convinced that it would go nowhere, and US officials recommended the EEC

¹²⁷ David Pollock to Louis Swenson, review of July 7-8 interviews with US State Department officials. ECLAC Correspondence.

¹²⁸ February 18, 1960.

countries rather than the LAFTA partners to US private sector investors. ECLAC stalwarts like Victor Urquidi rebelled in turn against the hypocrisy of Washington critics, citing US and international exceptions. "One cannot demand of Latin Americans that they be the last perfect free-traders on the planet," he noted. The facts of industrial development, and not only in the Latin part of the Hemisphere, are that it has to be carried out behind a protective tariff and similar measures." Different and tighter standards were demanded from Latin America than in Western Europe or the US itself. "This is the rub," Urquidi sighed. But the main causes of LAFTA's eventual failure were domestic: essentially there was a lack of sufficient political direction and will to reform the skewed and overly-protected industrialization process criticized by Prebisch. To these government reservations was added the onset of military rule throughout Latin America, which postponed the next round of integration into the mid-1980s.

So unjustly served by economic historians, Prebisch at least lived to see the termination of Argentine-Brazil rivalry before his death in 1986 and the prospect of constructing a durable regional market to make the unity of the River Plate a reality rather than an aspiration. He would not have been surprised by either the formation-or the difficulties-of MERCOSUR after 1991. Prebisch was a realist: Latin America's vulnerable insertion in the international system required regional integration as an essential tool for balanced development, but getting there was a different story.

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CONCLUSION

Enrique V. Iglesias

Timing defines the legacy of great historical figures, and Raúl Prebisch is no exception to the rule. The extremes of the Twentieth Century, coinciding almost exactly with his life span, left little room and even less recognition for development economists. Perhaps most of all, the ideas which he advocated to skeptical audiences in the 1950s (such as regional integration or diversifying beyond commodity production) gradually made their way into the mainstream and are now accepted as common sense without any recognition of their origin.

Professor David Pollock and the other authors of this volume demonstrate not only the scope and salience of his contribution as a great intuitive economist, but also the dynamic interplay between his Argentine experience and his UN career. Unlike most of his contemporaries, he was a practitioner as well as a scholar. Arriving in Buenos Aires in 1918 amidst the chaos and instability following the First World War, he developed a passion for public policy as well as research and teaching; by 1935 Prebisch's Central Bank had become the key manager of the Argentine economy. This blend of theoretical and policy experience produced a trade-mark approach and style apparent in ECLAC and UNCTAD: a flair for institution-building; a banker's fear of inflation; the promotion of regional integration and a balanced approach to state versus markets; an insistence on discipline and mutual responsibilities; and a life-long pursuit of intellectual autonomy in development economics. Prebisch led his first research groups while a student in Buenos Aires; he ended his life as editor of the *ECLAC Review* which he created in 1976. He was a reformer rather than a revolutionary, working from within the system rather than living a life of detached criticism or what he called "the solitary life of the isolated scholar." Nevertheless Prebisch's theoretical achievements in the inter-regnum between his Central Bank and ECLAC periods have not been adequately recognized, according to Carlos Mallorquin. The record certainly is clear enough. If he was consistently rejected in Argentina, he was the world's foremost development celebrity during the ECLAC and UNCTAD years.

This volume takes particular aim at the worst injustice done to Prebisch's memory. The onset of the Cold War coincided with Prebisch's emergence as the icon of Latin American development, and he became identified in certain capitals as a dangerous radical—a proponent of state-led protectionism at any cost, and an enemy of globalization. Endlessly repeated though far from the truth, the caricature has stuck to his name: the authors set the record straight on the globalization debate.

Prebisch arrived in Buenos Aires in 1918 true to Adam Smith's belief in the civilizing influence of trade in strengthening rather than weakening the ties that bind nations together, and he remained a believer in globalization during all the subsequent stages of his tumultuous life. From these early student days, he both rejected a Soviet-style command economy and witnessed the fragility of the Post-War international liberal order. By 1930, when Prebisch became Undersecretary of Finance in Argentina, globalization had collapsed in the Great Depression and this shock proved to be the touchstone of his life and work. Inherited theories collapsed before the need to survive and for the next thirteen years he worked to this end, creating and managing the Argentine Central Bank and participating in efforts like the World Economic Conference of 1933 to restore global trade during the depression.

His work in the Central Bank and the success of Argentina in weathering the worst of the Depression and the onset of the Second World War in 1939 demonstrated that so-called "peripheral" economies could - and must - defend themselves with a flexible mix of import-substitution and regulatory regimes. On the eve of his dismissal from the Central Bank in 1943, Prebisch was looking beyond the war. He recognized the restoration of international trade as a fundamental element of global prosperity. He welcomed the Bretton-Woods Conference and the institutions which it created, yearning to be a participant in shaping the new post-war multilateral order that was emerging under US leadership.

But did Prebisch's views change when he launched the Havana "Manifesto" in 1949 and turned ECLAC into a powerful voice for development in Latin America? In fact the continuity of Prebisch's approach to globalization between his Argentine work and the more so-called "radical" ECLAC and UNCTAD periods is unmistakable and important. Both before and after 1949, whether as central banker or later as theorist and senior UN official, he viewed markets as a necessary element for prosperity; both before and after Prebisch understood that only a balance between markets and the state could harness the potential of globalization for developing countries. On the one hand he rejected the prevailing liberal orthodoxy of comparative advantage; on the other he located his development strategies within a vision of expanding market capitalism. If the functioning of the global trading system was inherently unequal it was also reformable through rational and planned intervention, and this very moderation made him a formidable protagonist and Third World advocate.

Trade and development were dynamically linked for Prebisch. In a celebrated conversation with W. W. Rostow prior to the UNCTAD Conference in 1964, he emphasized the importance of international trade, noting that Latin America's problem of inefficient overprotected industries had to be seen against the closing of the 1930s; the early industrialization of the

region had taken place in the worst possible circumstances - in what he called 'water-tight compartments,' with neither regional nor global markets. Between 1939 and 1941 Prebisch had led a major initiative to expand regional markets in a Southern Cone free trade area, and his quest for regional integration during the ECLAC years was in no way "autarchic" as critics have charged. Indeed, when he returned to Argentina in 1955 as Presidential Advisor, his horror at the legacy of Juan Perón redoubled the distinction he made years earlier between "rational" and "irrational" import-substitution strategies. Perón had rejected globalization and paid the price.

Domestic obstacles in Third World countries (like Argentina) could therefore defeat the most positive external prospects for development, but Prebisch refused to compromise on the need for simultaneous action to lower unequal trade and power relations between North and South. Both levels had to be addressed simultaneously. His approach to this dilemma in UNCTAD, already articulated in the Alliance for Progress in 1961, was a new trade system in which institutional reforms in developing countries would be matched with the required trade and financial support for a sustained growth rate. Such 'converging measures' would recognize the implicit solidarity in development, and Prebisch argued that such a "new order" in which the market could be made to work was not utopian because both rich and poor shared a core interest in preventing protracted global polarization. It was a bold vision of deepening international governance in which globalization ceased to be a war-cry and became a resource to be managed.

"Prebisch," Nancy Birdsall concludes, "had a point."

ABBREVIATIONS & ACRONYMS

ALADI	<i>Asociación Latinoamericana de Integración</i> (Latin American Integration Association)
CACM	Central America Common Market
CPI	<i>Corporación para la Promoción de Intercambio</i>
CSN	<i>Compahia Sidirogica Nacional</i>
ECOSOC	Economic and Social Council
ECAFE	Economic Commission for Asia and the Far East
ECE	Economic Commission for Europe
ECLA	Economic Commission for Latin American ^(*)
ECLAC	Economic Commission for Latin American and the Caribbean ^(*)
EEC	European Economic Community
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
GDP	Gross Domestic Product
ISI	Import Substitution Industrializing
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund

* In 1984 the Commission was redesigned as the Economic Commission for Latin America and the Caribbean by the Council in its resolution 1984/67 of July 1984.

- ITO International Trade Organization
- LAFTA Latin American Free Trade Association
- ILPES *Instituto Latinoamericano de Planificación Económica y Social*
(Latin American Institute for Social and Economic Planning)
- MFN Most-favored-nation
- NBER National Bureau for the Economic Research
- NIEO New International Economic Order
- OECD Organization for Economic Cooperation and Development
- RCAF Royal Canadian Air Force
- SELA *Sistema Económico Latinoamericano* (Latin American Economic System)
- UN United Nations
- UNCTAD United Nations Conference on Trade and Development
- US United States

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DATAINTAL (CD-ROM) Sistema de estadísticas de comercio de América

Base INTAL MERCOSUR (BIM)

Base de datos bibliográficos (INTEG)

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