

FURTADO VS. PREBISCH: A LATIN AMERICAN CONTROVERSY

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ABSTRACT

The second half of the 1950s saw a conflict between Raúl Prebisch—the Executive Secretary of Economic Commission for Latin America and the Caribbean (ECLAC)—and Celso Furtado, who was one of the most respected economists in the institution. The conflict is little explored in the literature and, somehow, it has become taboo within the institution itself, since it motivated Furtado's abandonment of ECLAC in 1957. By investigating two official documents they prepared to subsidize the Argentinian and the Mexican governments, the current study highlights the main differences regarding anti-inflation and external insertion policies and, taking a broader view, the role played by the State in leading the development process.

Key words: Raúl Prebisch, Celso Furtado, ECLAC, Structuralism, Latin America.

JEL Classification: N16, O20.

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RESUMEN

En la segunda mitad de la década de 1950 se registró un conflicto entre Raúl Prebisch, el Secretario Ejecutivo de la Comisión Económica para América Latina y el Caribe (CEPAL), y Celso Furtado, uno de los economistas más respetados de la institución. El conflicto está poco explorado en la literatura y se ha convertido en un tabú dentro de la propia institución, ya que motivó el abandono de la CEPAL por parte de Furtado en 1957. Al investigar dos documentos oficiales que ellos prepararon para subsidiar a los gobiernos de Argentina y México, el presente artículo destaca las principales diferencias respecto a las políticas de combate a la inflación y de inserción externa y, a partir de una visión más amplia, el papel desempeñado por el Estado en la conducción del proceso de desarrollo.

Palabras clave: Raúl Prebisch, Celso Furtado, CEPAL, estructuralismo, América Latina.

Clasificación JEL: N16, O20.

1. INTRODUCTION

The relevance of Economic Commission for Latin America and the Caribbean (ECLAC) in the formation of the Latin American economic thought, from the 1950s on, led the Commission to extrapolate its primary task of economic advice. Given the influence of the entity, the name “structuralist” was attributed to its economists, especially in its early stages. However, this denomination was somewhat simplistic and schematic.

The intellectual diversity of the team formed immediately after Raúl Prebisch became director of the entity gave rise to a fruitful difference of opinions, which has been little discussed in the literature. The gathering of economists closer to the mainstream —among them Jorge Ahumada and Víctor Urquidí stood out— and of economists from Marxist backgrounds, such as Juan Noyola and Regino Boti, reveals the intellectual plurality of the group responsible for the “construction of Latin America.”

Thus, the aim of the present study is to reconstruct the controversy in which the two leading figures of the organization —Raúl Prebisch and

Celso Furtado— became involved back in 1956. The conflict between the two was due, among other reasons, to the analysis and proposals made by Furtado in a study requested by Prebisch on the Mexican economy. Not only was his study contested by Prebisch, but it was never published in full by ECLAC. Nowadays, there are only a few (and rare) typed copies of it. After the disagreement, Furtado left the entity in 1957 to conclude his studies in Cambridge, where he finished his first and most notable study, entitled *Formação Econômica do Brasil* [*The Economic Formation of Brazil*], which brought him fame as the leading Brazilian economist associated with structuralism (Bielschowsky, 1989).

Documentation on the conflict is scant, which can partly be attributed to the delicate nature of the situation, involving interpersonal relationships. However, research carried out on unpublished material obtained from Celso Furtado's personal archive revealed the unusual way he referred to Prebisch at the time he moved to England —an attitude he avoided showing in public at that time, referring to Prebisch respectfully in his memoirs (Furtado, 1985).

The letter Furtado wrote to Regino Boti —an economist he became close to when he visited Santiago de Chile— shows a certain resignation about the activities he performed in the United Nations body. When he commented on the uproar created by his study, he referred to Raúl Prebisch with irony: “I am here reading something in silence and giving a little rest to my spirit. My last year at ECLAC was not easy. I faced increasing difficulties to get along with the director. This innocent study about Mexico was pulled out by forceps after days and days of strenuous debates” (Furtado, n.d.). Their relationship would never be the same again.

Our main hypothesis is that this divergence expresses two different viewpoints that divided the Latin American economists at that time. Using an expression coined by Versavsky (1971; 1982), Prebisch and Furtado dissented over the way the economic policy should be conducted and over “development styles.” According to Rodríguez (2009), the terminology introduced by Versavsky regards the different ways of changing the existing product and demand structures, along with the other variables related to them. Thus, Furtado pointed out that the import substitution industrialization (hereinafter ISI) should focus on the domestic market with more thoroughgoing income redistribution. On the other hand, according to Prebisch, the negative aspects of the

relative “closure” of the import substitution model became clear, and it led him to advocate greater openness to foreign competition.

The aim of the current study is to help towards a better understanding of the thought of two of the most important Latin American economists, considering the studies performed by these authors —and in particular on the reports they produced to support the economic policy in Argentina (Prebisch) and in Mexico (Furtado) in the second half of the 1950s. In pursuit of this aim, the current study is divided into three sections, besides this brief introduction. Section 2 deals with Prebisch’s position and proposals at the time he participated in the Argentinian government; after the fall of Juan Domingo Perón. Section 3 approaches Furtado’s objections to the aforementioned plan and analyzes, in the light of such disagreements, the study he coordinated on the Mexican economy. Section 4 draws the final conclusions.

2. RAÚL PREBISCH: FROM THE CRITICISM OF PERONISM TO THE ORTHODOX STABILIZATION PLAN

Raúl Prebisch became internationally known for his theory of the deterioration of the terms of trade of primary products as compared to industrial products. The theory was introduced in the study entitled *El desarrollo económico de América Latina y algunos de sus principales problemas* [*The Economic Development of Latin America and Some of its Main Problems*] presented at the Havana Congress in 1949. Although his study criticized the theory of comparative advantage and advocated import substitution industrialization, Prebisch was in line with sectors opposed to Peronist state interventionism when it came to Argentina’s domestic policy. No sooner had Perón become president in 1946 than he intervened in the Central Bank, acting on his disagreement with the autonomy it had been granted when it was created —under the influence of Prebisch, its first director— in 1935. Moreover, Perón was against the appointment of Prebisch as Executive Secretary of ECLAC. He claimed that, by taking on the position with United States government support, the economist was following in the line of his negative record as defender of imperialism.

Prebisch was asked to take on a “super ministry” in Buenos Aires after the fall of Perón in 1955. However, he preferred to stay in the ad-

ministration of ECLAC while at the same time advising the provisional government. As economic adviser to Eduardo Lonardi —the leader of the military junta that deposed Perón— he organized a study on Argentina’s economic realities, which aggravated his disagreement with Celso Furtado.

The political position of Prebisch had already disappointed the Brazilian economist. By accepting, albeit unofficially, a position in a government that did not have the legitimacy of the polls, Prebisch diverged from the understanding of his team in Santiago¹. When his name started circulating in the press as a probable member of a cabinet resulting from an anti-Perón coup, Prebisch assured his team that he “would not participate in an unconstitutional government”, but he decided to collaborate with the military while holding the status of international civil servant (Furtado, 1985, p. 181).

The social support base the “Liberating Revolution” lied on —an epithet by which the military coup that ended the first presidential term of Perón became known— already announced the future gap not only between the two characters, but also between the former ECLAC economist and the now government adviser. Furtado (1985, p. 182) pointed out that Prebisch’s new attitude of relating the alleged excess demand of the working class to the core of the inflation problem, “implied that the social achievements were the cause of the evils that overwhelmed the country, and that the fight against inflation required restoring the old income distribution pattern.”

The volatility in the content and mainly in the form of Prebisch’s speech did not go unnoticed. Bianchi (2002) analyzed the changes he made in his speeches and in his writings to adapt them to the particular media and, above all, the target audience. Whenever Prebisch addressed an audience that was sympathetic to the original ECLAC ideas, he indulged in a more unorthodox rhetoric that agreed with the Third World view of the institution, as in the case of the presentation entitled *Manifiesto latino-americano* [*Latin American Manifesto*], held in Havana (1949).

¹ The visit Prebisch paid to Venezuela’s dictator Pérez Jiménez had already troubled the ECLAC team. Prebisch did not want to have problems with a country that was member of the organization, so he decided to go to Caracas and praised the ruler’s achievements, including his commitment to freedom of the press (Dosman, 2011, p. 360).

But whenever he addressed an audience unrelated to the ECLAC universe—such as foreign scholars or economists from developed-country organizations—he adopted more formal language and toned down his criticism of neoclassical theory. Such is the case of the Economic Survey of Latin America [*Estudio Económico de América Latina*, 1949] and of the plan carried out under the recommendation of the Argentinian government, in 1955.

Thus, the disagreement regarding Prebisch's suggestions to the Argentinian government triggered the confrontation between himself and Celso Furtado. His study encompassed the different economic problems faced by the country and his suggestions to combat inflation were the main source of Furtado's dissatisfaction with the plan. Although the Brazilian economist was aware of the severity of the Argentinian crisis, which he had characterized as "calamitous" (1985, p. 181), he saw an overly contractionary bias in the proposals listed by Prebisch.

Furtado's hesitation about the real contribution of the "wage cost" component to boosting Argentina's inflationary pressure was proportional to his disapproval of the conciliatory attitude adopted by Prebisch. By ironically suggesting that the ECLAC leader should be "too involved with his old group of friends in Argentina," Furtado underestimated his capacity to oppose the influential agrarian elite². Furtado reinforced his disagreement with the plan prepared at the President-General request, by stating that Prebisch's attitude was "in line with the local orthodoxy, gave too much emphasis to the stability issue, as if it could be isolated for special treatment" (Furtado, 1985, p. 182).

Prebisch may have placed emphasis on fiscal discipline as a way to oppose Perón's interventionism in deconstructing the previous economic policy. Prebisch, by associating the rise of prices with the deposed government's "permissiveness", was close to an orthodox approach tend-

² Raúl Prebisch could never get rid of that stigma throughout his life, especially in his homeland, where the link with liberal orientation groups (from the "agrarian oligarchy" to the urban-industrial sectors) reinforced that criticism. According to Gilbert, Rougier, and Tenewicki (2000, p. 2), the "Prebisch Plan" emerged as a result of "a subtle interaction between Prebisch's undoubted technical and analytical talent and the influence of the liberal Orthodox group of Argentinian economists around him, which was dominated by a strong spirit of revenge and ideological opposition, not only to the Peronist measures and the economic philosophy, but also to industrialization."

ing somewhat in the direction of those who, in the words of Furtado himself (Furtado, 1985, p. 183), were inclined to reject, from the very beginning of ECLAC, “the simplistic view that monetarism takes on economic phenomena, by emphasizing the ‘external vulnerability’ of the primary-exporting economies.”

Along with Juan Noyola —an economist who enjoyed not only Furtado’s intellectual admiration, but also his personal friendship—, Furtado diagnosed Latin American inflation as a symptom arising from institutional and political backwardness. Thus, the specificities of each country would require more complex solutions than a simple monetary stabilization prescribed by those who framed it as a purely monetary phenomenon. Otherwise, he suspected that “the inflation issue would be solved by putting four soldiers in front of the Mint” (Furtado, 1985, p. 181).

Years later, when Prebisch had already abandoned the passionate political daily life of Buenos Aires, Furtado acknowledged the theoretical maturity of the Argentinian colleague, whose anti-inflation proposals, in his opinion, were no longer restricted to a necessarily exclusionary dichotomy between stabilization and development³. According to Furtado, Prebisch “was no longer inclined to pay this high price and started recommending structural changes through import substitution.” Still, whenever he mentioned the Argentinian case, the political hostility he had been victim of led him to insist on the “difference between the inflation related to structural causes and that caused by the permissiveness of the Peronist government” (Furtado, 1985, p. 184).

As we have seen, the controversial plan, presented in a staggered way no longer required its mentor to hold back in order to soften the real intent of his recommendations. On the occasion of a visit to Montevideo

³ This viewpoint taken by Prebisch, which is more consistent with ECLAC structuralism, would later appear in his study entitled *Desenvolvimento Econômico e Estabilidade Monetária: um Falso Dilema* (1965) [*Economic Development and Monetary Stability: A False Dilemma*]. According to Furtado, Prebisch’s ideas about the subject would keep on evolving. A few years later, “when the ghost of Buenos Aires no longer haunted him, he peremptorily said that in order to avoid inflation it is necessary to develop ‘a rational and planned policy of economic development and social progress’, and added that this is a problem whose solution depends above all on political will” (Furtado, 1985, p. 185). For detailed analysis of the evolution of Prebisch’s economic thought, see Prebisch (1983), Gurrieri (1982), Flechsig (1991), Couto (2007), Salem (2008) and Pedrão (2011).

in November 1955, Prebisch did not use euphemisms to describe the goals he had outlined in the documents⁴: “*Only austerity and sacrifice can save Argentina*” (cited in Dosman, 2011, p. 351, emphasis added).

The first report was in fact the most restrictive one. In order to mitigate the impact of proposals so mismatched in comparison to those proposed when he was the head of ECLAC, the author stated that the plan contained only “simple facts of life; any government would have to implement an austerity program.” A loan taken to help the economy was “very different from selling Argentina to imperialism;” thus, joining the Internacional Monetary Fund (IMF) was essential, since “like it or not, we need to have external credit.” Calling for moderation, he pointed out the alleged inevitability of the measures, since “everyone should work together to overcome our difficulties, enduring the inevitable burden” (cited in Dosman, 2011, p. 353). In the words of Gilbert, Rougier, and Tenewicki (2000, p. 3), “the suggested stabilization modes were as orthodox as possible.”

The second document, which was handed to President Aramburu in early January 1956, showed a slightly softer tone than the first one. The text content, however, contradicted what Furtado would propose the following year in his study on the Mexican economy.

Firstly, the attempt to deconstruct the Peronist economy becomes clear when we observe the political tone permeating a report that was intended to be technical. On analyzing the Argentinian economic situation at the time of the “liberating revolution” triumph, Prebisch did not eschew directly blaming the former Argentinian president for the ills of the economy in the country.

The adjustment policy required by today’s events would require from the Argentinian society —government, employers and workers— the boldness that was lacking at the time of Perón: “It is necessary to have the courage that lacked before. The military had the courage to raise their swords to destroy the dictatorship. Now, we have to show courage as civilians in order to restore the country’s economy and rescue it from

⁴ In the end, the study encompassed three documents: The so-called “Prebisch Plan” from 24 October 1955, and two other reports entitled *Moneda sana o inflación incontenible* [Sound Money or Uncontrollable Inflation] and *Plan de restablecimiento económico* [Economic Recovery Plan], from 6 January 1956.

the chaos and prostration caused by this dictatorship” (Presidencia de la República Argentina, 1956, p. 21).

The condemnation of the Peronist administration was not limited to political aspects, but also extended to the economic measures adopted in the previous decade. According to Prebisch, these economic measures were responsible for the inflationary crisis of that time: “Stabilization is a sensitive task. The previous government wanted to do it, but failed since it followed a completely different path from that we had recommended” (Presidencia de la República Argentina, 1956, p. 21).

Seeking to justify the inevitable recession resulting from the orthodox policy proposed to the newly appointed president, Prebisch sought to impute the fiscal irresponsibility of the Peronist government for the harsh restrictions imposed by the new economic policy: “The country’s vitality was dangerously abused and it is now suffering the consequences of it. It is essential to frankly recognize and admit the urgent need for severe remedies. (...) This government has the thankless and difficult task of telling the truth without hesitation and of applying these remedies” (Presidencia de la República Argentina 1956, p. 38).

Thus, the unpopularity of the measures was credited to the “patriotic duty” that fell on the new government. If the military government exempted itself from the action attributed to it, the inescapable economic chaos would require even more costly sacrifices in the future: “This is the time to rid ourselves of the evil. If it is not done now, it may then be too late” (Presidencia de la República Argentina, 1956, p. 29).

A second divergent aspect of Furtado’s propositions concerns the external insertion strategy of the Latin American economies. Although the bottleneck in the balance of payment presented itself as a restriction common to most of these economies, the proposals to tackle it were not restricted solely to the orthodox adjustment recommended by the IMF, for instance. By emphasizing currency devaluation as a means of encouraging the export sector, Prebisch not only relativized the domestic market centrality in the success of the import substitution process—and, therefore, of the external equating, but also tended to confirm the suspicion about his connections to the Argentinian “traditional oligarchies”: “The serious imbalance in the balance of payments, which limits the import of raw materials and capital goods, results from immediate factors and from slow evolution. The discouragement in the agricultural

production and the consequent fall in the exports stand out among the immediate factors” (Presidencia de la República Argentina, 1956, p. 47).

Prebisch’s proposals to help the agricultural export sector went beyond mere currency manipulation. However, he was aware that this sector would benefit from the general rise in the prices at the expense of the rest of the society: “The monetary adjustment and the consequent stimulus to the agricultural production have an unavoidable cost: Increase in the prices of imported goods and its impact on the cost of living” (Presidencia de la República Argentina, 1956, p. 36). Nevertheless, Prebisch inferred that there was no dichotomy between export promotion and industrialization in the long term: “By increasing the exports, we will have more currency to buy raw materials and gradually allay the shortage that now oppresses the industry, and there will also be currency to bring capital goods” (Presidencia de la República Argentina, 1956, p. 36).

The third point of disagreement in relation to Furtado’s report was of a more general character, namely the obvious “liberal” bias that framed his plan. Thus, Prebisch emphasized the urgency of fiscal adjustment and listed a series of measures to strengthen the primacy of the free market as driver of growth, a strategy that was not fully consistent with Furtado’s views on development.

Prebisch accepted direct State intervention in economic activity when it was not maintained by “any collective interest.” However, he rejected any such interference in situations wherein the public entity “unnecessarily blocked the freedom of the private entrepreneur to the detriment of the economic system fluidity and efficiency” (Presidencia de la República Argentina, 1956, p. 52). Therefore, he recommended measures of a liberalizing nature, such as: 1) privatization of several sectors; 2) liberalization of prices; 3) gradual exchange control elimination, and 4) promotion of the free play of supply and demand.

Finally, his suggestion to grant political and operational autonomy to the monetary authority reinforced his orthodox turn. He acknowledged that it was appropriate for the “Central Bank to remain in the State’s hands;” however, this did not mean its “officialization” (Presidencia de la República Argentina, 1956, 54). In a further criticism of the Peronist government “excesses,” Prebisch testified against the institution created by him in 1934, by separating the “general administration and supervision of the private banking system from the bureaucratic perversion

regime the institution was subjected to.” Thus, with respect to the financial system, he thought it was fundamental: 1) to give technical and administrative autonomy to the Central Bank; 2) to give the intrinsic operation responsibilities back to the private banking system; 3) to reorganize several official banks, and 4) to transform the Industrial Bank into a stand-alone bank for Economic Development (Presidencia de la República Argentina, 1956, p. 54).

In short, it can be stated that although he proposed a 10% wage increase in the plan, the broad focus fell on unquestionably liberal proposals, namely: Downsizing, privatization of inefficient State companies, reduction in public spending and deficit, withdrawal of price controls, adoption of a floating rate regime, a tax reform to increase revenue and prevent evasion, promotion of agricultural production and exports, attraction of foreign capital (except for the oil sector) and entry into the IMF (Fausto and Devoto, 2011).

This set of measures eventually disgusted both the “traditional oligarchy” and the Peronism-related sectors⁵. A national opposition group demanded his resignation almost unanimously, the result being a lower position for him in the government hierarchy—since he would no longer respond directly to the president—less than a month after publication of the report.

The strategy with its orthodox bias aimed at leading Argentina to abandon the Peronist version of interventionist capitalism, which, according to Prebisch, had worked against the formation of capital and of competitive industries, and resulted in a swollen State, an inefficient private sector, and acute inflation. What would it have taken for an intellectual of predominantly critical stance to approve such a conservative program? The historical character of his disagreement on the direction Perón gave to Argentina becomes a plausible hypothesis to explain Prebisch’s change of course⁶.

⁵ Gilbert, Rougier, and Tenewicki (2000) analyze some of the main criticisms of the plan at the time it was published. From the “radical left” (José Liceaga) to the “conservative right” (Walter Beveraggi Allende and Federico Pinedo), passing through the Peronists (Arturo Jauretche), the authors demonstrate how Prebisch’s proposals attracted the hostility of almost all sectors politically and economically represented in the Argentinian society.

⁶ In the words of Fausto and Devoto (2011, p. 342), “the political aversion the minister had

Furtado, “perplexed and disappointed,” attributed the divisive atmosphere that had settled in Santiago when Prebisch returned to the city to his short experience in Buenos Aires (Dosman, 2011, p. 360). According to the Brazilian economist, Prebisch’s failure as a public policymaker had repercussions beyond the personal sphere, for it reinforced the position of the group that struggled to change ECLAC’s orientation. According to Furtado (1985, p. 182), the “monetarist *versus* structuralist” quarrel [at ECLAC] emerged within this context, and Prebisch, whose institutional leadership was weakened, was the only doubly impaired figure.

3. INCOME DISTRIBUTION AND THE INTERNALIZATION OF THE MEXICAN ECONOMY DYNAMIC CENTER: THE REPORT BY CELSO FURTADO

The controversy between the economists was not merely a matter of Prebisch’s participation in the military government that deposed Perón, nor indeed of the economic debate on inflation. The discord on “development style” revealed a broader theoretical disagreement reaching well beyond the inflation issue. The importance Prebisch attributed to the external insertion of dependent economies, although consistent with the strategy underlying the ISI, clashed with the primacy Furtado attributed to the domestic market and income distribution. In Furtado’s opinion, “the growth of colonial or dependent economic systems, specializing in exports of raw materials, can only happen as a result of economic growth in other systems, that is, they are not able to generate their own growth impulse” (Boianovsky, 2010, p. 234).

Prebisch spoke to 120 Latin American, European and Asian delegates, as well as to General Agreement on Tariffs and Trade (GATT) and IMF representatives at the opening of the ECLAC Trade Conference held in early 1956. He said that the *autarchization* of developing country markets would be a “mistake of incalculable dimensions.” Concluding his long argument in favor of the sale of goods to foreign buyers, he said: “Latin America has to export more and more” (cited in Dosman, 2011, p. 375).

against Peronism led him to present a much darker overview of the previous ten years than the real circumstances warranted.”

This divergence became apparent when Furtado coordinated an *in loco* study on the Mexican economy. Along with three other economists—including two Mexicans, Noyola and Oscar Soberón, besides the Chilean Osvaldo Sunkel, who had returned from London after concluding his post-graduate studies— Furtado dedicated the year 1956 to drawing up the report, whose main goal was to diagnose the causes of the Mexican trend to external imbalance as well as proposing measures to address it.

The Mexican economy was considered one of the main cases of import substitution industrialization in Latin America, and it had been growing at high rates since the 1930s. However, it presented a persistent trend towards income concentration. When Furtado was preparing the study, in 1956, two points in particular became clear to him: Not only the viability of the process, but also the need to focus it on the domestic market, mainly through income distribution.

According to Celso Furtado, the structural factors responsible for the external vulnerability of the underdeveloped economies undergoing an industrialization process could easily be detected. In addition to the requirement to keep international reserves to implement the policy of stability of the Mexican peso *vis-à-vis* the American dollar, the consequent (and recurring) currency devaluation to stimulate export resulted in income concentration (Furtado, 1985, p. 189).

Although the report encompassed the state of the Mexican economy in a holistic way, its central focus fell on the reasons for its external vulnerability. The main sectors directly related to foreign countries were analyzed—in particular agribusiness, tourism and the mining industry— between 1945 and 1955. The study sought to highlight the difficulties, such as currency devaluation, arising from the policies that promoted Mexican products in the international market.

Furtado not only recognized, but in several parts of his study also praised the benefits, albeit limited and isolated, of exchange rate depreciation to the export sector and, consequently, to enhancing import capacity. Although he did not condemn the initiative, he set major restrictions to its use. As pointed out by Boianovsky (2012, p. 299), “apart from the difficulties of carrying out a real devaluation of the exchange rate (because of its effects on domestic money-wages and the price level), it may affect negatively the growth process, as it tends to increase the relative price of capital goods.” The main restriction referred to the income

concentration trend, which was in opposition to the very essence of the import substitution process, since it was based on the domestic market. In short, the document celebrated a development strategy substantially different from that simultaneously proclaimed by Prebisch in Argentina.

The report also questioned the impact of currency devaluation on the terms of trade, directly questioning Prebisch's proposals. It concluded that the currency depreciation would not be the real reason for the reversal of the downward trend: "Depreciations do not seem to directly and indirectly influence the falls in the exchange ratio, and it is easy to understand the cause. (...) In the long term, the downward trend can be just attributed to the export composition changes" (ECLAC, 1957, p. 21).

The document corroborated the direct relationship between depreciation and income concentration, analyzing the elements composing private consumption decomposed by income strata: "The data indicate that there were two stages in which income redistribution was intensified [in favor of the upper classes], and both meet those of the depreciation" (ECLAC, 1957, p. 38).

The study section that dealt with agricultural sector performance pointed out its growth limitations if it mismatched the increased domestic demand through income distribution:

Agricultural development in the future will more directly depend on the domestic market. Unlike what happened in the last decade, when the income distribution caused by devaluations favored an important agricultural sector —export and the import substitution—, it is most likely that the agricultural sector will need a domestic demand under steady expansion, in order to keep on growing in the coming years. This expansion will only be possible if the demand of the low-income consumer groups develops a more intense growth rate than seen in the last decade (ECLAC, 1957, p. 59).

Although the study focused on Mexico, it offered some generalizations that apply to other Latin American economies. "If the external imbalances (...) are of structural origin, the governments' strategy should not fall only on adoption of a depreciated exchange rate." The document repeatedly pointed out the limits of devaluations, which "do not fundamentally change the import trend to grow faster than income" (ECLAC, 1957, p. 99).

The external sector of the Mexican economy was in fact very dynamic since it did not depend on the United States. However, the resulting trend to concentrate income among the upper classes should have implied for Furtado the adoption of regulatory policies not predicted by Prebisch. It was in fact a report that broke new ground within the theoretical framework of ECLAC. From that moment on, Furtado began to question the inflexibility of the ECLAC theory: Import substitution strategy was effectively established in the region, but would it constitute a final and definitive answer? Did the countries that adopted it manage to develop their economies over the broad spectrum? The conclusions his team reached required further thinking in order to guide the development policies, which should focus on income redistribution from that moment on.

In addition to the differences regarding the distributional benefits of currency devaluation, the report found Prebisch fearing that such income distribution goals could require even more interventionist measures related to policies from which he had moved away due to his experience in Buenos Aires. Partial publication of the study was authorized only after a review that toned down the general sense of the text: “This view was softened (...) and yet we found great resistance on the part of Prebisch, who feared we could deduce a call for greater interventionism in his study” (Furtado, 1985, p. 189). The history of Furtado’s team in Santiago de Chile corroborated the fear of the executive secretary. Three of the four members responsible for the study (Furtado, Noyola and Boti) belonged to the so-called “red division,” which was a questionable-merit nickname used to refer to the ECLAC Development Department headed by Furtado (Dosman, 2011, p. 305).

Regarding the intervention itself, the first point that raised differences between Prebisch and Furtado was the relevance the report attributed to public spending, both to current spending, and, above all, to investments. Several excerpts from the document focused on the centrality of the State component of the aggregate demand. In addition, the stability and the stimulating effect inherent to public investment were the major advantages, repeatedly cited.

The great elasticity of private investments over the negative expectations of return, in particular, made combination of them with public investments a necessary condition for the stability of the gross capital

formation⁷. According to the report, this complementarity had become critical in many situations faced by the Mexican economy in the period 1945-1955: “Public investment seemed to be the compensatory element, since its variations in trends are not very marked and generally tend to correct the fluctuations of private investment” (ECLAC, 1957, p. 28).

One of the main justifications for public investment (that of boosting sectors not always funded by private capital, such as the formation of human capital, for instance) also justified the primacy attributed by the report to the current fiscal status of the State: “Public spending is the pathway for investments to achieve the upgrading of the workforce needed to shift labor from the field to the urban activities” (ECLAC, 1957, p. 33).

The need for public funding for specific productive activities was another element that occasionally came in for censure by the orthodox approach and it became a recurrent theme in Furtado’s study. According to the diagnosis performed by Furtado’s team, the role played by the official development agencies was crucial to promote the export sector and, consequently, import capacity: “The work of specialized government banks (...) succeeded in transferring an increasing amount of resources to the agricultural sector. Besides allowing for ordinary funding under less onerous conditions, it facilitated the import of agricultural machinery, genetically improved cattle, etc.” (ECLAC, 1957, p. 55).

In addition, the State action in financing activities strengthened the strategy underlying the import substitution process: “The industries promoted and financed by public resources were partly contributory to agricultural development, such as those producing synthetic fertilizers, (...) and partly contributory [to the import] of certain machinery” (ECLAC, 1957, p. 55).

The main conclusions drawn in the study coordinated by Furtado often contradicted relevant aspects of the document drafted by Prebisch in Argentina, in 1955. His defense of a fuller inclusion of peripheral economies in the international market, for instance, found no echo in the study on the Mexican economy.

⁷ In addition, it is reported that the concrete stimulus of State investment, more than private investment, became indispensable in times of increased global production capacity in the Mexican economy: “In 1950, the public investment seems to have greatly stimulated private investment for the following year” (ECLAC, 1957, p. 29).

Furthermore, a second reason, which was more political than technical, also worked against the publication of the study. The Mexican government was displeased with the sharpness of certain criticisms and with the diagnosis in contradiction to the political platform of the party that had long stood in power. Therefore, the government rejected the document content, claiming that it was undue external interference. Víctor Urquidí —an Orthodox-tradition economist and head of the Mexican ECLAC office— authorized the partial publication of the report, despite being pressured by the government of his own country. Thus, the few existing versions of the study (one of them was the basis for the current study) became public in a modified version to avoid further exacerbating the spirits of the two main organization leaders: “We had to rewrite the same thing several times to remove the rough edges. The final text was mimeographed for the presentation at the La Paz Conference, held in May 1957, but it was never published in full; thus it became a rarity confined to ECLAC -work collectors” (Furtado, 1985, p. 190).

The episode led to the Brazilian economist’s resignation in August 1957. After a short stay in Rio de Janeiro —when he delivered a series of ten lectures on the Brazilian economy at the Banco Nacional de Desenvolvimento Econômico e Social (BNDES) [Brazilian Development Bank] headquarters— Furtado moved out to Cambridge and returned to Brazil in August of the following year to direct the very same Brazilian Development Bank.

4. FINAL CONSIDERATIONS

The debate here analyzed reflects, in the foreground, the theoretical divergence and the divergence on economic policy between two of the main economists at ECLAC in the 1950s. The discords listed demonstrate the clear disagreement between the development strategies Raúl Prebisch and Celso Furtado elaborated for two important Latin American countries in the post-World War II period. These discords suggest the origins of an incipient and gradual fragmentation within ECLAC as background (Pedrão, 2011).

The distance between the two authors was due to two main factors; firstly, Prebisch disappointed the group he had formed when he was the Executive Secretary of ECLAC, in 1949, by integrating the economic team

of a military government that did not have the legitimacy of the polls. Secondly, his team was against the idea of supporting a discretionary regime closely related to United States interests during the Cold War.

The political antagonism came on top of the technical differences, which were exacerbated when the reports coordinated by both authors, almost simultaneously, were published to support the economic policies of the Argentinian and Mexican governments. The emphasis Prebisch placed on monetary stabilization as a prerequisite for sustained growth after the Peronist decade (1946-1955) surprised Furtado. Moreover, Prebisch focused his recommendations on the export sector and pushed development of the domestic market and, in particular, income distribution into the background by prioritizing the commercial inclusion of Argentina in the international economy.

The disagreement between them became even more evident when the report coordinated by Furtado on the Mexican economy was concluded. The document highlighted the role played by income distribution — which was an aspect that, according to Furtado, clashed with the promotion of exports through currency devaluation— by placing emphasis on import substitution led by the domestic market.

The clear divergence of prognostics led Prebisch to reject publication of the study that Furtado and his team had been working on throughout 1956. Since the report was also rejected by the Mexican government —an ECLAC-member country— Prebisch allowed it to become public only after it was rewritten several times to mitigate the disagreements with the local government and with what he himself had proposed in Buenos Aires.

The outcome of the imbroglio, as reported, was Furtado's resignation from ECLAC in the mid-1957. He left Santiago de Chile and spent approximately one year in Cambridge, where he studied with heterodox economists such as Nicholas Kaldor and Joan Robinson, who greatly influenced his intellectual development. Prebisch remained at the head of the institution until 1963, when he moved out to Geneva to lead another organ related to the United Nations system, namely the United Nations Conference on Trade and Development (UNCTAD). ◀

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