Raúl Prebisch and Latin American structurlist thought [1]

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Abstract

This article addresses the thought of Raúl Prebisch and the Latin American structuralist school. It highlights that much of this thinking –although similar to Keynes' vision of solving crises and maintaining the level of economic activity– is distinct in that it considers one of the most important constraints that a developing economy generally faces: external constraints. In this sense, this work aims to recover the contributions of said structuralist thought, and point out its validity in the pursuit of growth and economic development goals.

Keywords: Raúl Prebisch; structuralist thought; external constraints; ECLAC; economic growth; Latin America.

1. INTRODUCTION

Most readers will already be familiar with the name Raúl Prebisch and his key role in both the Economic Commission for Latin America and the Caribbean (ECLAC) and the United Nations Commission on Trade and Development (UNCTAD). What is less widely known, however, is that, before joining ECLAC, Prebisch played an important role in designing and implementing economic policy in Argentina. Although Latin American structuralist thinking has received no small amount of attention in academic literature, particular issues deserve to be reconsidered, either because they have influenced economic thinking, they contribute to a fuller understanding of issues that are currently relevant to Latin American economies, or both.

This is the history that will be delineated by describing Prebisch's thinking and that of the Latin American structuralist school. This is a vast object of inquiry, and therefore it will only be possible to refer to some of the structuralists' ideas; the ones that have most commonly been the objective of academic inquiry have been selected for analysis here. Two additional types of antecedent will be presented below: first, some important episodes related to this article's subject that occurred in the region will be addressed; second, in the process of summarizing Latin American economic thought, some of Keynes' proposals will be presented, namely the ones that influenced the Latin American authors referred to in this article. It is hoped that focusing on these antecedents will make it possible to situate more clearly Prebisch's position in both the field of economic history and the history of ideas.

2. A BRIEF HISTORY

Before the crisis of the 1930s, all Latin American economies were strongly connected to the world economy as suppliers of raw materials and food. Consequently, the 1930 crisis provoked a severe decline in prices and export volumes, as well as a fall in exports due to the multiplier effect, which amplified the crisis's direct impact on domestic demand. Since export taxes accounted for the majority of government revenue, the orthodox reaction to a reduction in export taxes was to reduce government spending, which led to a further cycle of contraction in demand.

However, individual government's political stances sometimes deviated from this pattern, with the first such deviation taking place in Brazil. Celso Furtado, one of the great Latin American economists, masterfully analyzed this episode, and the best thing to do here is probably to be as faithful as possible to his description of the facts (Furtado, 1962).

When the crisis hit Brazil, the South American nation was one of the largest coffee producers in the world. It had managed to significantly increase its coffee production thanks to enormous investments made during the preceding period. At the time of the crisis, excess supply caused coffee prices to fall to a third of their previous level.

Brazil had had important prior experiences of governmental intervention to protect coffee prices when faced with adverse external shocks. These interventions were known as "production recovery." Essentially, the procedure consisted of government expenditure financed by external credit to purchase surplus production, which stabilized prices as a result of the reduction in supply to world markets.

Thus, when the world crisis of 1930 occurred, Brazil had to contend with the inefficient reduction of its import capacity, then close to 50%, along with the need to finance enormous stocks of coffee for which there was no foreign market. Doing so required a high level of government intervention. It should be borne in mind that, within just a few years, the coffee production that was bought reached values of around 10% of gross domestic product (GDP), and that there was no external credit available to finance this. The authorities had to destroy a substantial part of these coffee reserves to avoid the expense of storing it.

Government purchases of surplus coffee necessitated a huge increase in government spending. This was financed by loans (i.e. deficit spending) which guaranteed the monetary income of landowners and farmers, despite the fall in the value of exports. Thus, domestic and aggregate demand were preserved, as was employment. Brazil had only a small industrial base, but was nevertheless able to increase its supply output to meet the additional demand for domestic product. According to Furtado, "the value of the destroyed product [coffee] was much lower than the value of the income created. We were, in fact, building the famous pyramids advocated by Keynes years later" (Furtado, 1962, p. 98).

This increase in government spending mitigated the crisis' negative impact on Brazil's GDP between 1929 until the end of the crisis. Nevertheless, GDP still shrank by around 25%, and began to grow again in 1933.

The aforementioned protection of domestic income during the crisis created a deficit in the balance of payments, leading to a depreciation of the currency. This, in turn, led to a significant shift in relative prices in favor of manufactures. On this point, Furtado (1962) argues that by protecting domestic monetary income in the context of a diminished import capacity, the policy of favoring the coffee sector eventually became a policy of industrialization. Domestic import prices increased in sync with the rapid depreciation of currency values, resulting in producers of import substitutes becoming better able to compete. On the other hand, the coffee sector, and the export sector in general, were becoming less profitable. This was due to the fact that government support only partially compensated for the adverse effects of export earnings. Manufacturing production for the domestic market then became the most profitable business in the Brazilian economy; consequently, financial resources and business skills were transferred from the traditional export sector, especially coffee production and marketing, to the new manufacturing industries. In this context, industrial entrepreneurs became an important pressure group that would later support the policies to expand the domestic market.

The second episode that should be highlighted took place in Argentina, with similar characteristics to the situation in Brazil described above. When the world crisis hit, economic authorities' reaction was to adopt orthodox policies.[1] As the crisis lasted longer than expected, however, and these policies did not produce positive outcomes, at the end of 1933 the government appointed new economic authorities, who launched the National Economic Action Plan. Raúl Prebisch played an important role in outlining the entire plan. In his own words:

> The *National Economic Action Plan* was Keynesian, an economic expansion that controlled the external sector with a selective exchange rate policy [...] and with two exchange markets: a controlled one and a free one. In the first one, we controlled everything. Imports were subject to selective prior authorization; exports were subject to fixed prices for exchange. We subsidized those exports that we could not sell at international prices; in other words, a domestic subsidy. Additionally, financial services, as well as non-traditional exports, remained in the free market (Magariños, 1991, p. 94).

A crucial component of the plan was its proposal to establish a government institution (the Grain Regulatory Board), which was responsible for purchasing all grain at a higher price than could be obtained in the international market. The board was tasked with: 1) setting minimum prices at which the state would buy all grain on offer; these prices encouraged farmers to plant and harvest; 2) controlling the supply of Argentine grain exports to the world market, to avoid prices falling in case of overproduction (González and Pollock, 1991).

These interventions contributed to Argentina's significant economic recovery between 1933 and 1937. GDP grew 5% per year, which was almost as high as the 5.7% growth rate achieved between 1920 and 1925, the period of highest growth in GDP. Here, a greater use of productive capacity allowed for growth. Even so, in 1937, per capita GDP remained below the level it had reached in 1929.

The experience of the global crisis left a lasting impression on all Latin American economies. Authorities and public opinion in general had witnessed that expansionist economic policy measures could induce an external recession. Monetary and fiscal policies were especially important in protecting production and demand. Economies that employed unorthodox policies to deal with the crisis obtained positive results. Despite their small size and low level of development, domestic industry responded by making greater use of its capacity and supply in the face of increased demand.

However, economic authorities also found that managing demand was impossible without control of the external sector. Thus, they had to recognize the usefulness of certain instruments rejected by orthodox theory, such as exchange rate controls or tariffs.[2] The institutions and instruments used to navigate the crisis remained part of the arsenal that Latin American countries would use in the future.

There is a third episode that will be referred to below and which has more to do with ideas than with policy design. Again, it relates to Argentina and, again, Prebisch is a central actor.

A new economic recession occurred after 1937, and the outbreak of World War II brought with it fresh problems, especially in the financial sector and the external sector. European markets drastically reduced their imports from Argentina, having to divert part of their import demand to the United States.

Under this new configuration, the Central Bank and the Ministry of Finance articulated a plan for national economic recovery (*Programa de Reactivación de la Economía Nacional*), which they proposed to the Argentine Parliament in November 1940.[3]

The plan was based on the assumption that the private sector should serve as the dynamic economic agent, and that the state, therefore, had a crucial role in creating conditions favorable to the private sector. The plan argued that state intervention, and monetary policy in particular, could stimulate the economy. In light of this, it was decided to inject an adequate amount of purchasing power and demand towards certain sectors, especially those affected by the crisis, which at the time seemed capable of increasing production in response to increased demand. The plan also contemplated a scheme designed to ensure that economic expansion would not produce insurmountable problems in the balance of payments. It was hoped that economic recovery would be achieved in the following manner:

First, the state would purchase all wheat and corn crops at a price above the world market price. In doing so, they intended to support producers and avoid a drastic fall in international prices caused by an excess of supply.

Second, the plan proposed an ambitious housing and construction scheme, based on the idea that "when construction goes well, everything else will go well." The authors of the proposal highlighted several important characteristics of the construction industry. On the one hand, the existence of a large and unsatisfied demand. Additionally, they suggested that increased demand could rapidly mobilize idle productive capacity. Finally, they stressed the construction industry’s low import ratio and its important connections with the rest of the economy through its purchase of inputs.

Third, the plan aimed to stimulate import substitution of manufactured goods, and proposed financial support measures to achieve this goal. The starting point was the notion that "precisely the periods of greatest industrial development in Argentina had been the world crises and the First World War. In other words, when the country was forced to industrialize in order to offer what it could not import, industrialization accelerated" (Prebisch, 1991-1993, vol. IV, p. 158). Note that here one can find an early rationalization of industrialization by import substitution, a perspective that ECLAC would later develop.

Concerning public expenditure policy, the authors of the plan worked from the following premise:

> In the previous economic depression ... the violent contraction of spending ... exacerbated the problem. It created further unemployment and negatively affected industry, construction, and economic activity. According to the government, [...] [the emphasis now] ... is not on increased administrative expenses, but on increased spending in the field of the private economy, without having to worry about the financial problem for the moment. As the economy recovers, the government will have higher revenues and greater opportunities to recover new tax revenues. Therefore, we will easily solve the financial problem (Prebisch, 1991-1993, vol. IV, pp.157-158).

To finance the entire scheme, the plan proposed that the Central Bank organize an emergency medium- and long-term financial system for domestic economic activity and that it should receive the resources and instruments needed to carry out these activities. The plan also argued for the need to create a long-term capital market, which was almost non-existent in Argentina.

But even more importantly, the plan considered that the essential task of the Central Bank's emergency financial system should be converting short-term deposits into 15-year commercial loans for industry, and 25-year loans for construction. It also formulated a specific procedure to increase the liquidity of the economy, which, essentially, would equate to a decrease in commercial banks’ mandatory reserve ratio, who should transfer funds to the aforementioned emergency financial system. Thus, banks, financial corporations, and other private institutions would lend money using resources provided by the Central Bank, including private loans; the loans would be very low risk, as all the obligations incurred by the supervisory and approval body would be considered to be governmental obligations (Llach, 1984).

Last but not least, the plan understood that Argentina should remain an open economy. The idea was that the country should make the best use of its natural comparative advantages, while also developing new comparative advantages. The measures to achieve this goal would be as follows:

a) Promoting exchange with neighboring countries. The plan considered reaching a trade agreement with Brazil. Argentina was to extend the treaty to other countries in the continent, with common trade protectionist and preferential measures.

b) Incentives for the exchange of industrial exports, especially exports to the U.S., given that Argentina had a large trade deficit with that country.

c) Broadening of the draw-back regime.

d) Special stimulus for the national raw material processing industries.

e) A complete revision of tariffs and anti-dumping legislation (Llach, 1984).

The plan’s general approach had clear Keynesian characteristics. Particularly noteworthy is that it also included monetary and financial measures, rather than being restricted to merely fiscal policy.

However, one feature was entirely original and departed from the usual Keynesian policy perspective. Namely, this consisted of strict control of the external sector, however, without seeking to close the country to international trade and capital flows. This was done with a view to ensuring that the injection of purchasing power and demand would not put excessive strain on the balance of payments, as well as to drastically control the monetary circuit in its external connections, which would be achieved through import controls and differentiated exchange rates for the different forms of external payments. This idea represented, in Prebisch's words "a clear evolution of notions of how to make exchange control work. In its early conception, exchange control was merely a restrictive instrument to achieve equilibrium in the balance of payments; we now saw it as an instrument for strengthening the movements of the domestic economy" (1991-1993, vol. IV, p. 159).

However, Argentina never implemented the plan, as parliament refused to approve it. Nevertheless, it remains the most noteworthy Keynesian-oriented policy proposed in Latin America.

The episodes described here forced both the authorities and Latin American intellectuals to engage in an autonomous reflection on economic policies. The recurrent crises had hit all countries in the region, but they had not been as deep or as prolonged as that of the 1930s. Partly because of this, Latin America had not comprehensively reflected on the peculiarities of their economies and societies, or on economic policies and strategies to deal with external shocks. It was then that the above-mentioned experiences stimulated new economic thinking in the region.

3. PREBISH AND KEYNES

As noted, Prebisch was an important economic actor in his country at the time of the crisis of the 1930s and during the early stages of the crisis, he contributed to developing a restrictive policy to deal with it. It was only later, and partly due to Keynes' influence, that he changed his approach to economic policy.[4]

This influence derived from a series of articles Keynes wrote for The Times in 1933, which he later published as The Means to Prosperity (Keynes, 1939, in Moggridge and Johnson, 1971-1982, vol. 9). In these articles, Keynes posited that governments should stimulate or engage in large-scale spending financed by loans (deficits). He also pointed out that this would require international coordination among the major capitalist countries. The author presented his ideas in the hope of shaping public opinion, with special emphasis on influencing the participants of the World Monetary Conference organized by the League of Nations.

The League of Nations had invited Prebisch to Geneva to take part in the preparatory work for the World Monetary Conference. A few years later Prebisch would recall:

> I was motivated by those five or six articles written (by Keynes) two years before his great book [...] Keynes departed from orthodoxy towards a new, heretical path [...] I think, after all this time, those articles were far superior to the theorization he later developed in his great book [...] He won me over because [...] I felt guilty for having proposed and implemented in Argentina a very orthodox economic policy, in 1931 and half of 1932, when I was Undersecretary of Finance. It was a contractionary policy, consistent with the then-dominant orthodox theory, according to which the crisis could only be overcome by a series of austerity measures [...] But later, reflecting on this experience and seeing that the global depression was continuing [...] I began to have some doubts about the orthodox theory. And I began to think about an expansionist policy. This is why I was very attracted to Keynes' articles, which converted me to the expansionary policy (Magariños, 1991, p.100).

Prebisch would also express his disappointment that the World Monetary Conference did not take Keynes' ideas into account. Neville Chamberlain, then Chancellor of the British Treasury, gave a speech that contained no references to Keynes' proposals or expansionary policies. The US delegation also remained within the confines of orthodox thinking.

Latin American governments and economists closely followed the debates and proposals that took place several years after the aforementioned episode, and which were finally enshrined in the Bretton Woods agreements.[5] Prebisch reflected deeply on these discussions. He believed that the Bretton Woods rules could bolster efforts for full employment policies around the world. However, he noted that these rules, and the overall architecture of the IMF, did not take into account the needs of developing countries (Prebisch, 1991-1993, vol. II, chapter 107).[6] Moreover, he noted that the rules were not designed to be flexible enough to meet the needs of developing countries, and also drew attention to the central economies' low import ratios which impeded the transmission of domestic and international impulses to the rest of the world, citing the US as a case in point.

For all these reasons, Prebisch considered it crucial that individual countries have the autonomy to implement internal and international defensive measures if the world economy stagnated or in the case of a global downturn. The latter explains why, until almost the end of his life, he defended the so-called "Roca-Runciman Treaty," signed in 1933 between Argentina and the United Kingdom (Magariños, 1991, pp. 85-87). The pact was a bilateral trade agreement, signed at the height of the world crisis, in which each country gave preferences to the other, without extending these concessions to third countries.

Keynes would surely have criticized such an agreement as a classic example of what he called "Schajtian" economics,[7] something which he firmly opposed. However, Prebisch also felt that, when facing a global recession, countries had to take any defensive economic measures they deemed necessary, even if they violated the rules of multilateralism. He also believed that Argentina, the weaker country, had benefitted from the pact, as, although it had to grant significant concessions to the UK, it could nevertheless count on a certain proportion of the British market for its exports. These exports would not have been sold, and perhaps not even produced, without the existence of the pact.

Finally, it is worth remembering the book that Prebisch wrote to introduce the Latin American public to Keynes' General Theory (Prebisch, 1951a). It is an excellent book, which is still relevant today. However, in the publication Prebisch does not align his own thinking with that of Keynes. Although Prebisch concurred with Keynes on many points, he also differed from him in many important aspects. He says in this regard: "[...] I am not a follower of neoclassical liberalism, nor of Keynesianism, nor of Marxist doctrine. There are valuable elements in all of them. But I consider that none of these theories come close to capturing the reality of contemporary capitalism. I am not referring only to the reality of the Latin American periphery, but to the capitalist centers themselves" (Prebisch, 1986, p. 149).

4. PREBISCH, ECLAC, AND LATIN AMERICAN STRUCTURALIST THOUGHT

Prebisch had demonstrated his skills in organizing and leading research groups while at the Argentine Central Bank, where he assembled an outstanding team of economists. When he arrived at ECLAC as Executive Secretary, he repeated the experience, but this time with the advantage of having more material resources at his disposal, as well as a continental working group and field of interest. At ECLAC, he assembled the most exceptional economic research team that has ever existed in Latin America, one which would be of enormous importance to economic thinking and policy design at ECLAC, as well as in Latin American countries.

It should also be mentioned that at the inception of ECLAC, economists from other regions, many of them inspired by Keynes' work, had already formulated an important interpretation of industrialization in the backward economies of Europe and colonial or former colonial countries (e.g., Rosenstein-Rodan, 1943; Mandelbaum, 1947). Similarly, economic thinking from peripheral countries began to find a wider audience in the rest of the world, and, meanwhile, the independence of the former colonies came to occupy a central place in the debate surrounding developing countries' prospects. All these ideas inspired Latin American and ECLAC economists.

A rich exchange of ideas and insights took place at ECLAC, where economic analysis and theory were interwoven with economic and social history and sociology. This was surely the first group of Latin American economists capable of developing a new paradigm in the region, one better known as Latin American structuralism. Below are two topics that Prebisch and the structuralists studied. On the one hand, the theory of economic growth; on the other, the limitations of traditional measures for adjusting external imbalances.

a) Growth and the business cycle in peripheral economies

Prebisch and the structuralists agreed with Keynes on the centrality of effective demand as a condition for production in a capitalist economy. However, they noted that, especially in the backward economies, a persistent increase in demand would result in major bottlenecks. Therefore, the theory of growth that they formulated was different from those which were in vogue at the time, in the sense that they emphasized, almost exclusively, effective demand.

The structuralists proposed, or at least suggested, that the rate of growth of output over a long period could be understood as the result of the interaction between two growth rates.[8] First, the growth rate of productive capacities. Second, the growth rate of output compatible with external balance.

Concerning the growth rate of productive capacities, structuralists used Domar's well-known formula to specify the growth rate of productive capacity (Prebisch, 1951b; Furtado, 1953). Their contribution was not particularly significant. They simply employed the following equation:

$$y^K = \frac{i}{k} - \delta$$

Where y^K is the growth rate of productive capacity (equal to the growth rate of output when all productive capacity is used), *i* is the gross investment ratio, *k* is the capital-output ratio, and δ is the depreciation coefficient.

In contrast, its important contribution lies more in the second aspect mentioned above, namely its conception of the growth of output compatible with external balance. Prebisch expressed the latter idea as follows: "The income growth rate will be equal to the export growth rate divided by the "[import] elasticity coefficient" Prebisch (1951b, p. 410). Readers will have noted that this expression is what is known in the post-Keynesian literature as "Thirlwall's Law," exactly as expounded by Thirlwall (1979).[9] If anything, it should be called "Prebisch-Thirlwall's Law", and it would be expressed as such:

$$y^x = \frac{x}{\pi}$$

Where y^x is the growth rate of the output compatible with external balance; *x* is the growth rate of exports, and π is the income elasticity of imports.

Prebisch and the structuralists argued that any economy, in particular underdeveloped economies, should seek to preserve the external trade balance in the long term. Therefore, it will generally be the growth rate compatible with external balance that ultimately determines the long-term growth process. In other words, the effective output growth rate cannot exceed the growth rate compatible with external balance for extended periods.

As we have seen, Prebisch's approach constitutes a significant departure from his contemporaries' economic thinking. Most growth models based on the principle of effective demand were initially premised on the assumption of closed economies, with the currency barrier only being taken into consideration later. In contrast, the structuralist school's growth theory, from its inception, stressed the need to balance the external sector in the long term. Additionally, structuralist theory placed greater emphasis on the supply side; structuralists asserted that the dynamization of exports, like import substitution, required constructing new productive capacities, which in turn required capital accumulation, especially in export and import-substitution industries.

Here, it should be noted that the structuralists privileged reducing the import ratio via import substitution industrialization rather than by promoting exports. In fact, they were actually skeptical regarding how the demand for traditional Latin American exports would develop in the long term. They also felt that the export of manufactures was unviable without a well-developed industrial base. Instead, they saw greater potential for import substitution, given the high import ratio of manufactured goods. Furthermore, they also predicted that problems would occur in the medium and long term, as the import ratio could stop declining and stabilize, and perhaps even start growing again. There are two main reasons for this. First, as import substitution progresses, it inevitably leads to problems, as the production of consumer durables and capital goods requires greater technical knowledge and larger markets, which is often beyond the reach of underdeveloped economies. Additionally, income concentration tilts consumer demand in favor of sophisticated goods with high imported content. In light of this, it was predicted that, in the long term, import substitution could become more difficult and any growth process based on import substitution might be unsustainable (Tavares, 1964; Furtado, 1966; Furtado and Maneschi, 1968; Furtado and Sousa, 1970).

In addition to the theory of long-term growth, Prebisch also proposed a theory of the economic cycle in peripheral economies.[10] Once more, this theory differed from the economic theories that were in vogue in developed countries at the time.

Drawing on his experience at the Central Bank of his native Argentina, especially during the period when the gold standard was in force, Prebisch proposed that countries in the center and those in the periphery had entirely different economic cycles. The reason, he argued, was simple: in the latter (the peripheral countries) the external sector has a greater degree of influence on the economy as a whole than in the former. Prebisch apparently viewed peripheral countries' economic structures as very disjointed. If so, this would mean that the process which leads to the endogenous creation of the conditions that drive and cause the downward phase of the cycle does not occur during the expansionary phase of the cycle.[11] Thus, economic cycles are induced by external circumstances, rather than being generated autonomously in the course of these economies' normal functioning.

Prebisch gave special emphasis to the idea that, either because of the abundance of capital in advanced economies, or because expectations in some peripheral economies improve, or perhaps both, capital inflows are often generated. These capital flows can be large, given the rather small economic size of peripheral countries. If capital inflows are not sterilized, liquidity increases, and domestic banks facilitate access to loans, credit increases, and demand expands.

Normally, when domestic demand increases, imports also increase. As exports do not necessarily also increase, however, a balance of payments current account deficit can occur. Furthermore, in such a case, this external imbalance is magnified: the influx of capital causes the national currency to appreciate, meaning that imports become cheaper, resulting in a greater demand for them. The external imbalance can become persistent, as the increase in demand, and the profitability of capital *per se*, do not guarantee that new productive capacities are developed in the productive sector of tradeable goods; the imbalance, therefore, tends to increase, resulting in "financial fragility." Any event, whether in the developed or the peripheral economies, that causes the interruption of capital inflows will lead to a recession or even an economic crisis.

b) External imbalance, exchange rate, and growth

The second issue is the conceptualization of Prebisch, and structuralists in general, regarding the management of the exchange rate and trade policy.[12] Kalecki (1939) had anticipated that an exchange rate depreciation would generally have an adverse effect on real wages and income distribution, and that this may lead to a contraction in demand.[13] This first effect (on real wages) was rediscovered a few years later by Chilean Jorge Ahumada who argued: "The immediate consequence of [a] devaluation is the increase in the price of wheat, meat, sugar, tea, coffee [...] In view of the fact that income is so unequally distributed and generally low, the loss of income for wage earners that exchange rate devaluation entails is socially unsustainable..." (Ahumada, 1958, pp. 126-127).

A few years later, the Argentine Aldo Ferrer (1963) provided a fuller description of devaluation's negative effects on demand that Kalecki predicted. Firstly, Ferrer drew attention to an important characteristic of Argentina: "About 95% of Argentina's exports are composed of agricultural products, basically meat, wool, leather, by-products of livestock farming, cereals, and oilseeds" (Ferrer, 1963, p. 5). He added that "the agricultural products exported are the same ones as those destined for the domestic market to satisfy the food demand of the country's population and to supply the rural product processing industry" (Ferrer, 1963, p. 6).

Ferrer then went on to examine the effects of devaluation: "The devaluation of the peso has immediate repercussions on the general level of prices due, first, to the simultaneous increase in pesos of export prices and, second, to the increased costs of industries that use imported inputs." Thus, "the modification of the price structure due to devaluation not only generates intersectoral income transfers, but also affects each activity sector's share in domestic income. It also alters the distribution of income between the remuneration for work and remuneration for capital and for the company..." More precisely, "there must necessarily be a reduction in labor's share of the income of the economy as a whole" (Ferrer, 1963, p. 11).

Working from this position, he proposed that:

> on the other hand, the contraction of the working population's real income leads to an even greater fall in the demand for non-essential industrial consumer goods, as an increasing proportion of real income is absorbed by the cost of food and housing. Given that most of the country's industrial production is highly concentrated in a small number of firms, adjusting supply to the lower level of demand is achieved by reducing the quantity produced rather than by a contraction in prices (Ferrer, 1963, pp. 12, 13).

He then concluded: "We see, therefore, that monetary devaluation [causes] reductions in real wages, contractions in effective demand, and increased inactivity in the industrial sector" (Ferrer, 1963, p.13).

Of course, the particular type of Argentina's exports, i.e. agricultural goods which made up a high proportion of the working population's consumption, resulted in the rapid and visible devaluation of real wages in the country. This is probably why other researchers who studied Argentina also highlighted the effects of devaluation emphasized by Ferrer (see, for example, Braun and Joy, 1968, and Díaz-Alejandro, 1963).

In the 1960s and 1970s, the contraction in effective demand that can cause devaluation and ultimately lead to a fall in wages was "in the air" in economic debates in Latin America. This is hardly surprising, given that when the first wave of this discussion took place in the region, most countries were mainly exporting primary products, with low supply and demand elasticity in the short term and still underdeveloped industrial sectors. Therefore, the positive effect that currency depreciation can have on trade balances was quite limited. Of course, the situation has changed significantly recently. Many Latin American countries have achieved considerable success as exporters of manufactures and have considerably developed their manufacturing sector. Perhaps this is why the subject is being reconsidered in more recent debates.

Latin American economists also called attention to an additional effect of currency depreciation. This effect is closely related to what Keynes viewed as the depressing influence on entrepreneurs of their increased debt burden, due to falling nominal wages and prices. In this regard, the Argentine economist Belozercovsky (1970) was the first author to draw attention to the negative impact that currency depreciation can have on the balance sheets of national companies indebted in foreign currency. If such companies are net debtors in foreign currency, devaluation automatically produces a negative impact on their balance sheets. Of course, Belozercovsky was also heavily influenced by the situation in his native country, where large companies often resorted to foreign borrowing because of the limitations and high cost of domestic credit sources.

The structuralist economists discussed so far also had much to say about exchange rate management and competitiveness. They certainly recognized the importance of ensuring international competitiveness for all countries and, therefore, the need to have a competitive exchange rate. Moreover, they did not reject currency depreciation in all circumstances. However, they were skeptical about the benefits of currency depreciation as the only or main instrument for achieving a competitive exchange rate.[14]

In this regard, Prebisch's view is particularly interesting, as his perspective focused on the problems of backward economies. It will surely be recalled that one of his basic concerns was the declining terms of trade that underdeveloped countries faced in general and, especially, when they tried to expand their exports of primary products. As a result, he considered industrialization to be the only, or at least the most promising, route to catch up. In his words:

> [...] Unless supported by a vigorous process of industrialization and increasing productivity in industry, technical progress in primary production as an alternative to industrialization [...] will be counterproductive, as the fruits of such a process will generally be transferred from the peripheral countries to the rest of the world. The greater the inelasticity of demand of peripheral exports, the greater the proportion of profits that will be transferred (Prebisch, 1959, p. 252).

He went on to say that "import substitution (defined here as an increase in the proportion of goods coming from national sources and not necessarily a reduction in the ratio of imports to total income) is the only way to correct the effects of disparities in foreign trade elasticities on peripheral growth" (Prebisch, 1959, p. 253). He then concluded:

> I have strong doubts about the appropriateness of exchange rate adjustments as an instrument for correcting foreign trade disparities in demand elasticities. The main attraction of depreciation compared to protection is that it leaves private initiative rather than government agencies to decide which branches of industry will be profitable substitutes for imports. But this could also be achieved through a uniform tariff. Protection (or subsidies) seems a more direct and simple solution, as it limits adjustment to those new branches of industry that should be developed within a given period of time. To obtain the same result, depreciation requires the adjustment of the whole price system. In my opinion, a depreciation or devaluation policy should be used only to correct an externally overvalued currency and not as an instrument to effect structural changes in the economy. A policy of selective protection is a preferable instrument, despite the obstacles to be overcome in practice (Prebisch, 1959, p. 257).

5. FINAL CONSIDERATIONS

Fortunately, Prebisch and his collaborators shared the same great concern: above all, they wanted to understand their societies to be able to transform them. They were also convinced that economies and societies have important peculiarities, which determine the economic regularities that theories should try to identify. Thanks to all of them, Latin America had "years of high theory."

Moreover, many of their teachings are still valid and should be revisited, both to visualize the great problems that afflict the Latin American region and to design policies that promote sustainable growth and development.

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[3] However, I include some unorthodox measures, such as exchange control, progressive income taxes and tariffs.

[4] Prebisch would describe this aspect of his experience as follows: "How could we avoid the negative external effects of expansion? Through exchange control. Keynes had not seen this problem because he did not need to, but we agreed that we had to follow a selective policy that would avoid external consequences and that would make demand perma-neutral within the internal economy" (González del Solar, 2006).

[5] Federico Pinedo, the Minister of Finance, proposed the plan to Parliament, and it became known as the "Pinedo Plan". However, many scholars of the period consider that it was Prebisch who developed the proposal (the full text can be found in Prebisch, 1991-1993, vol.)

[6] Prebisch probably modified his economic approach due to the influence of an intellectual group active in Argentina, led by the engineer-economist A. Bunge, who had been recommended a long stretch of protection of both the internal market and industrialization.

[7] El Trimestre Económico dedicated a special issue (1943, vol. 10(3), to the debate around proposals for international monetary reforms.

[8] It is sometimes forgotten that Keynes was not only a great theoretician and an intellectual revolutionary, but also a leading member and representative of the establishment of an imperialist country. The following opinion that he expressed regarding the Bretton Woods conference reminds us of this: "Twenty-one countries have been invited that clearly have nothing to contribute and [have come] merely to stand in the way of the foundations, namely Colombia, Costa Rica, Dominica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Liberia, Nicaragua, Panama, Paraguay, the Philippines, Venezuela, Peru, Uruguay, Ethiopia, Iceland, Iran, Iraq, and Luxembourg. The most monstrous 'monkey house' assembled in years. To these can perhaps be added Egypt, Chile [...] and Yugoslavia" (Keynes, 1939, in Moggridge and Johnson, 1971-1982, vol. 26, p. 42).

[9] The term was coined in reference to Hjalmar Schajt, a German economist (1877-1970), who was President of the German Central Bank and Minister of Finance from the mid-1920s to the late 1930s. Schajt designed a series of bilateral trade agreements between Germany and less developed countries in Eastern Europe. These agreements were heavily criticized as an attack on multilateralism and, in according to their critics, only befitted Germany alone, to the detriment of its weaker partners.

[10] The structuralist theory of economic growth was never formalized in terms of an algebraic model, but behind the structuralist approaches there is, in my opinion, the

theoretical vision explained here.

[11] The contribution of Thirlwall (1979) should not be minimized. In fact, he was the first to show that, in a large sample of countries, the effective growth rate of output was very close to that compatible with external balance.

[12] Ffrench-Davis (2010) and Ocampo (2011) developed in a very creative way the type of analysis that Prebisch proposed, which is not surprising given that these authors are prominent members of ECLAC.

[13] To give an extremely simplified account of this rationale, the idea common to many of these cycle theories is that during the first part of the boom, profit grows faster than capital, which causes the profit rate to grow. The latter, in turn, stimulates the rate of growth of investment and output. But, after a certain point on, capital starts to grow faster than profits, which reduces the profit rate and discourages the growth of output investment, resulting in the cyclical downturn of the economy.

[14] See Fiszbein (2015).

[15] Kalecki addressed the issue in the context of his criticism of the orthodox view that a fall in wages has an expansive effect on demand, output, and employment. Kalecki argued that a reduction in wages would rather have the opposite effect and argued that an exchange rate depreciation is approximately equivalent to a fall in wages (Kalecki, 1939).

[16] On this subject, Keynes was of the opinion that: 'I do not sympathize with the idea, which [...] I consider to be casual, that if imports have to be restricted, it is somehow better to increase their price via depreciation of trade than by any other technique'. He added: "surely, the best plan is to have both import restrictions and exchange rate depreciation at hand, and to use each of them to the appropriate degree and on the appropriate occasions" (Keynes, 1980, p. 289).