

Inflation and Underdevelopment: ideas from the creation of ECLAC

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Abstract

The Economic Commission for Latin America (ECLAC) was created in the post-war, when Latin-American countries were facing disequilibria in international trade, capital shortage and rising inflation. The ECLAC intended to aid in the definition of a development strategy that could deal with these issues. Between the first ECLAC publications, three of them are considered to be “the trilogy that founds the structuralist theory” (Bielschowsky, 2011, p.8): the Latin-American Manifesto, the Economic Survey of Latin-America -1949, and Theoretical and Practical Problems of Economic growth. These documents set the center-periphery relation as a conditioning feature to the behavior of national economies, and describe the trajectory of terms of trade deterioration and its consequences to peripheral nations. The objective here is to argue that this trilogy contains an analysis of inflation in underdevelopment, and anticipates the main elements of what would later be called the structuralist theory of inflation. The introduction depicts the context that originated the ECLAC and the debates on how to foster post-war Latin-American development. The second section analyses the Singer Report and the Latin-American Manifesto with regards to the causes of inflation in peripheral nations. The third section discusses the Economic Survey of Latin America-1949, with a focus on the consequences of technology incorporation in underdeveloped structures. Section four discusses “Theoretical and Practical Problems of Economic Growth” and the issue of inelastic production. Section five discusses the incorporation of Prebisch’s approach in the Brazilian debate. The conclusion sets the contribution of Prebisch in perspective with other structuralist authors.

Área 1 – História do Pensamento Econômico e Metodologia

Key Words – Inflation, Underdevelopment, ECLAC, Prebisch

JEL Code – B29

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1- Introduction

“[...] one of the most serious flaws of the general economic theory, contemplated from the periphery, is its false sense of universality.” (Prebisch, 1949, p.54)

The post-war era was of growing tensions for Latin American economies. The idea to create a fund that would guarantee international trade and solve difficulties with currency inconvertibility - formulated in Bretton Woods - did not prosper. As a consequence, several nations faced an increasing shortage of dollars. The new Western order, led by an economy that performed continuous trade surpluses, restricted the availability of the international currency. In this context, Latin American authorities were struggling to legitimize policies to control imports and exchange rates, as instruments to contain the loss of international reserves, and avoid balance of payments difficulties.

At the 1946 International Conference on Trade and Employment, Latin American delegations achieved some progress, and instruments of trade and exchange rate control began to be accepted more naturally². Latin American leaders, however, felt disadvantaged by the post-war resolutions. They were forced to contribute to the creation of the International Monetary Fund, from which they did not benefit, and saw the financed reconstruction of Europe with disgust. They demanded the elaboration of the equivalent of a Marshall Plan for Latin America, and the argument was that some funding would be needed to re-equip productive structures eroded throughout the war. They also demanded mechanisms to stabilize international prices, arguing that oscillations in these prices would have a strong impact on economies that depended on the export of a limited number of primary goods:

“[...] there is a demand of exports from the entire American continent to Europe, without reference, however, to the minimum economic conditions necessary for Latin American countries to carry out these exports. (...) The wear and tear on the equipment suffered by Latin American countries during the depression, and greatly aggravated during the war, demanded, for Latin America, a recovery as urgent as the European recovery, for the benefit of the reconstruction of Europe itself.” (Bulhões, 1948, p.99)

In response to these demands, authorities from Washington argued, in an Inter-American forum, that they could not dedicate themselves to Latin America until the recovery process of the European economy was completed:

“With the end of the war, the underdeveloped nations [...] struggled to obtain resources from North America, in order to proceed with the industrialization of their countries. The clash peaked at the Petrópolis Inter-American Conference, when the Washington government formally declared that it would not grant any assistance to Latin American countries as long as the recovery of the European economy continued. The order was: Europe first; then we'll see what we can do.” (Souza, 1951b, p.53)

The United Nations (UN) had a much broader participation of economies in a similar situation, and approved the creation of a Latin-American commission, as an equivalent to the bodies created for Asia and Europe. At the request of the Chilean delegation, in August 1947, a committee to discuss the

² In this conference, Brazil had the dedicated participation of Rômulo de Almeida, whose contributions are discussed in Bielschowsky (2000). After the exhaustion of dollars in 1947, the authorities decided to impose a direct control on imports, and to review their trade relations, seeking to import greater volumes from countries from which they had the respective currency in reserve: *“(...) Brazil is purchasing locomotives and oil refineries, from France and Czech-Slovakia; machinery, from England; and from other nations, products they are equally in need of - and products that you would rather prefer to obtain in the United States, but which you cannot, simply because you do not have dollars.” (Torres, 1948, p.58 and 59)*

creation of the Economic Commission for Latin America was established in the UN Economic and Social Council (Gonçalves, 2011). It effectively takes place in February 1948. Initially created on an experimental basis, the commission's first mission was to prepare a comprehensive study on the economic conditions of the region. The repercussions of this study would serve to justify (or to refute) the existence of the commission. The first session - held throughout June 1948- discussed the content that the Economic Survey of Latin America should approach:

"(...) it is important, in the preparation of the Economic Survey of Latin America, to take into consideration the information leading to the adoption of the most appropriate measures to ensure the export and allocation of products, including food, which constitute the basic source of the economies of each of the Latin American countries, and to achieve greater diversification in the respective economies." (Consejo Económico y Social de las Naciones Unidas, 1948, p.16)

Since the creation of the ECLAC, the promotion of export activities and the need to diversify production appear as necessary conditions for the region's progress. The Brazilian delegation, in particular, highlighted the need to obtain resources to accelerate growth and specifically promote industrialization, and argued that there was evidence that the industrialization of rural countries contributed to the expansion of international trade³. The Brazilian demand was incorporated, and the newly created ECLAC reinforced its observations on the harmful effects of commodity price fluctuations, highlighting the fragility of nations dependent on few export products⁴:

"The economic situation of most of them is substantially subordinated to the production and commercialization of a single product or a small number of products so that their placement in conditions of stability and permanence is of urgent and primary interest." (Consejo Económico y Social de las Naciones Unidas, 1948, p.16)

The first period of sessions highlighted, among others, three problems in Latin America: price volatility (particularly in countries dependent on the export of few products), insufficient foreign currency for international trade, and the slow expansion of food supply. These three problems would later be connected to inflation: the volatility of export/import prices put pressures on the internal price structure; the unavailability of foreign exchange restricts access to foreign goods, blocking the evolution of domestic supply; and the slow progress of food supply put pressures on the cost of living. Ventilated solutions included the diversification of production, the establishment of multilateral compensation mechanisms for exchanges, and the mechanization of agriculture⁵. Bulhões - who represented Brazil in the first period of sessions - reinforced these lines of argument, in favor of both the establishment of a multilateral payment system and the stabilization of commodity prices. He proposed, in addition, the study of the evolution of the terms of trade in different countries, suspecting that prices would evolve in an unfavorable direction for primary exporting countries:

3 *"[...] trade between nations tends to increase and diversify as countries become industrialized. These studies contradict the general opinion that the industrialization of new countries would generate competition for the industries of developed nations, and therefore restrict international trade and contain economic expansion."* (Souza, 1951b, p.53)

4 *"The conditions under which these [basic] products are produced, traded and consumed are such that their exchange may be affected by (...) a persistent imbalance between production and consumption, the accumulation of surpluses and pronounced price fluctuations (...) all of which can be resolved through the establishment of international conventions on commodities."* (Consejo Económico y Social de las Naciones Unidas, 1948, p.14)

5 *"The ECLA Requests the Secretary General to transmit to the IMF the request of a study to be carried out on the practicability and convenience of establishing (...) a system of multilateral compensation of international payments, both among Latin American countries and between these and the other countries of the world."* (Consejo Económico y Social de las Naciones Unidas, 1948, p.16)

"The recommendation addressed to the Monetary Fund is noteworthy, requesting greater fluidity to frozen balances and asking for a study of the evolution of export and import prices in different countries and the reflection of the unevenness of this evolution in the balance of payments. This last examination was requested by the delegation of Brazil, which also demanded the possible cancellation of trade credits increases, from one year to another, that result from a rise in the prices of products exported by the creditor country." (Bulhões, 1948, p.100)

This is the context in which the ECLAC prepared its first publications, made public in 1949. A certain set of perceptions about Latin American problems was already present in the region's economic debates, but the ECLAC functioned as an institutional epicenter for the discussions, and provided empirical evidence for the still incipient analysis of the Latin American economic reality (Fonseca, 2000). Besides, as further demonstrated, the ECLAC - led by Prebisch's pen - developed a theoretical approach to the specific characteristics of underdevelopment, and Prebisch introduced a new perspective to describe the particularities of peripheral inflationary process.

The literature on the ECLAC and structuralist contributions to the inflation theory is large and diverse. Prebisch is recognized as the founder of Latin-American structuralism, but normally considered a conservative author in monetary issues, and in conflict with his followers when it comes to discuss inflation (Craven, 1994, Aprigio and Carvalho, 2018). The following sections seek to demonstrate, based on a close treatment of the original texts, that Prebisch - in the founding trilogy of Latin-American structuralist theory - presented an analysis of inflation associated with the center-periphery relationship and the deterioration of terms of trade. This analysis is eclectic and original, and provides scope for the analysis that would later appear in other structuralist authors, such as Noyola-Vázquez, Sunkel, Pazos and Furtado⁶. If this is verified, then Prebisch should be seen as a pioneer of the structuralist perspective to inflation, even if this approach evolves with the contribution of authors that later emerged.

The following section analyses the Singer Report and the Latin-American Manifesto with regards to the causes of inflation in peripheral nations. The third section discusses the Economic Survey of Latin America-1949 and, with a focus on the consequences of technology incorporation in underdeveloped structures. Section four discusses Theoretical and Practical Problems of Economic and the issue of inelastic production. Section five discusses the incorporation of Prebisch's approach in the Brazilian debate. Finally, the conclusion sets the contribution of Prebisch in perspective with other structuralist authors.

2- The Singer Report and the Latin-American Manifesto

In 1949 two texts gave the contours of the research agenda that remains, to this day, the hallmark of the ECLAC thinking. The first was the study commissioned by the United Nations to the ECLAC that revealed statistics for the evolution of terms of trade between industrialized and underdeveloped countries. It was apparently written by Hans Singer and is therefore known as the Singer Report. The second text - written by Raul Prebisch as an introduction to the Economic Study of Latin America of

6 Celso Furtado, Juan Noyola-Vázquez, Felipe Pazos and Osvaldo Sunkel are largely recognized as pioneers on the formulation of the structuralist approach to inflation. The ensemble of the literature, however, is not very clear about what was the specific contribution of each author. There is a consensus that Furtado, Noyola-Vásquez and Sunkel contributed to the categorization of inflation and the incorporation of the distributive conflict notion, based in Henri Aujac. Pazos is recognized as the formulator of the notion of inertial inflation, later incorporated in both Noyola-Vásquez and Sunkel. The most extensive account on the structuralist approach to inflation is presented in Boianovsky (2012). Craven (1994), Rodriguez (2009), Carvalho (2015), Bianchi (2016) and Aprigio and Carvalho (2018) also discuss the subject, with different perspectives. The conclusion of this article further discusses it, advancing the specificity of Prebisch's contribution.

1948 - developed theoretical contributions, based on the statistics of the first, to describe the particularities of underdevelopment. The former, because of its relevance as a starting point to discuss theoretically the Latin American development, was considered by Albert O. Hirschman (1958) as the Latin-American Manifesto.

The Singer Report takes the distinction between industrialized and underdeveloped countries as a basic assumption to analyze the evolution of trade prices for each of them. The document consolidates the idea that predominantly agricultural countries have a disadvantageous international insertion pattern. The idea of deterioration of terms of trade, which, according to Love (1988), would already be present in authors such as Perroux, Cassel and Manoilescu, gained empirical illustrations. Data showed a continuous trend, over time, of a fall in the relative prices of Latin American export products:

"[The] changes in the exchange relations of underdeveloped countries are largely determined by the general trend in prices of exported primary products relative to the prices of imported manufactured products. Statistical data indicates that, from the last quarter of the 19th century until the eve of World War II, [...] there was a secular trend towards a fall in the prices of primary products in relation to the prices of manufactured goods." (Nações Unidas, 1949 p.17)

The data reveal, empirically, a perception that was already present among the interpreters of the Brazilian and Latin American economic realities⁷: primary products loose relative value compared to industrial products over time. And, this loss of value would imply a loss of income⁸ for the nations that are mainly concentrated in the export of these goods:

"Improvements (...) in the relationship between export prices and import prices affect the national income of underdeveloped countries as profoundly as technological improvements, or increases in the level of employment, or a transfer from less productive occupation to more productive ones, or as in an industrialization process. (...) A favorable change in the exchange ratios (...) enables the underdeveloped country to obtain the previous quantum of imports with a smaller amount of exports (...)." (Nações Unidas, 1949, p.31)

The Singer Report concludes, thus, that the specialization in primary goods - given the deterioration of terms of trade - would result in the progressive loss of national income in relative terms. Prebisch's Manifesto explores this conclusion and possible theoretical generalizations. First, he addresses the possible causes of this process. Latin American growth process depends on the imports of production goods from the USA. Exports grow at slow pace, given the self-sufficiency of the USA. This generates an asymmetry in the center-periphery relation, with opposite impacts on the balance of payments⁹. Besides, interactions with the USA would also tend to increase the imports of consumption goods, through the demonstration effect¹⁰:

7 Simonsen, for example, had already outlined this perception, even before the war. He understood that consumption needs in Brazil, as well as in other underdeveloped nations, were expanding faster than the capacity of the productive system to supply them (Simonsen, 1937, p.48 and 49, apud Bielschowsky, 1988, p.106).

8 In other words: *"An unfavorable long term trend in the prices of primary articles, in relation to manufactures, has meant, obviously, a continuous increase of the quantity of primary articles that a country must provide, in order to obtain a certain quantity of goods for its economic development."* (United Nations, 1949, p.21)

9 *"If this coefficient [of imports from the USA] does not increase, it is obvious that Latin America will be forced to divert its acquisitions from the United States to those countries that supply foreign exchange to pay them. A very precarious solution, certainly, as it often means having to choose in favor of more expensive imports or inadequate to your needs."* (Prebisch, 1949, p.49)

10 *"It is, ultimately, the manifestation of the latent conflict between the purpose of assimilating, precipitously, modes of existence that the countries of more advanced technique have progressively achieved, thanks to the increase of their productivity, and the demands of a capitalization without which we will not be able to achieve a similar increase."* (Prebisch, 1949, p.52)

"The scarcity of dollars means that this country does not buy goods and services or lend money, to the extent which other countries need that currency to cover their needs, whether or not they are justified." (Prebisch, 1949, p.63).

Prebisch then argues that the establishment of a multilateral payment system could mitigate the effects of these structural conditions in global trade relations. Such a system would allow countries in deficit with the USA to trade with each other, regardless of the availability of dollars¹¹. Trading more intensely with other nations, however, would not solve the loss of value of peripheral exports, and the only possible solution envisaged by the author is an import substitution strategy. This strategy has a twofold result: it reduces external dependence; and increases local production and income. The scarce capital available in the periphery should, therefore, be dedicated to industrialization, in particular to sectors where the greatest advance in the level of productivity could be promoted. Industrialization is not an *"end in itself, but the only means available to capture part of the fruit of technical progress and progressively raise the standard of living of the masses"*(Prebisch, 1949, p.48). He defines, thus, a criterion for the selection of projects. The goal is to achieve higher productivity levels¹², and transfer labor from low productivity sectors to the new industrial sectors¹³:

"Since capital is scarce and very much needed, it would be necessary to limit its application to a criterion of strict efficiency [...] it is necessary to define, precisely, the objective that is pursued through industrialization. If an ideal of autarchy is envisaged, in which economic considerations are overlooked, any industry that eliminates imports would be desirable. But if the purpose is to increase what has been called the measurable well-being of the masses, it is important to keep in mind the limits beyond which greater industrialization could mean the loss of productivity." (Prebisch, 1949, p.52)

Productivity gains obtained through the transfer of labor to industrial sectors would benefit the local population with the offer of products obtained from more efficient productive processes. This contains the deterioration of terms of trade, as the loss of relative value in international trade - according to Prebisch - would also be the result of a low appropriation of the additional value generated by productivity gains, precisely due to the specialization in primary products:

"As, in reality, the relationship moved against primary products (...) it is obvious that the remuneration of entrepreneurs and productive factors grew, in the center, more than the increase in productivity, and in the periphery it grew less than the respective increase in productivity. In other words: while the centers have fully retained the fruit of their technical progress, the peripheral countries have given on a part of the fruit of their own technical progress." (Prebisch, 1949, p.56)

The progress of technique in the primary sectors does not necessarily translate into increased national income, given the trajectory of the terms of trade verified. Due to the lack of organization of

11 *"For a country deprived of the dollars needed to pay for its essential imports, the only way out of such a critical situation seemed to be in imports paid in currencies received in payment for exports. If these other currencies could have been converted into dollars, the matter would have been very different. However, the scarcity of dollars affected the rest of the world, and multilateral compensation ended up stumbling when the final balance to be paid in that currency exceeded the availability."* (Prebisch, 1949, p.67)

12 In this aspect, Prebisch seems to be referring to Manoilescu's "Theory of Protectionism and International Exchange", from 1929. Manoilescu proposes precisely the productivity of labor as a defining criterion for the selection of activities to be developed in national economies.

13 *"The growth of occupation demanded by the industrial development could be done (...) through the employment of people that the progress of the technique was displacing from primary production and other occupations (...) relatively low paid. The industrial use of previously unemployed or under-occupied people therefore meant an improvement in productivity, which translated into a net increase in national income, when other factors did not cause a general decrease in productive efficiency."* (Prebisch, 1949, p .52)

workers in the periphery¹⁴ and the dispute for markets, productivity gains in primary sectors resulted in reduced international prices. In central economies, higher productivity meant higher wages for the local population, and a larger local economy. This mechanism, therefore, benefits the center twice. On one hand, it allows higher payments of wages and dividends in the internal market, and, on the other hand, it allows the absorption of the productivity gains perpetrated in the periphery, through the purchase of cheaper commodities.

This set of elaborations form a conceptual framework that, although not directly dedicated to monetary issues, results, with some analytical effort, in original explanations for the phenomenon of peripheral inflation. If the terms of trade follow the path described by Prebisch, the value of peripheral currencies deteriorates simply as a result of the loss of the relative value of the goods produced there, when compared to those produced in the center. If local production, which has a value in local currency, year after year, buys smaller quantities of goods from central countries, and continues to be worth the same amount in local currency, it means that the local currency has devalued against the foreign currency. In practice, what happens is that imported products, which constitute a significant part of the goods consumed locally, and an even more significant part of the production goods, will become more expensive in local currency, which, *per se*, will imply an increase in prices, and therefore on inflation. If that is correct, as long as there is a relative depreciation in the value of local production, there will be continued pressures for price increase, simply because national systems are intertwined. The loss of relative value of local production expresses itself, in the end, as inflation.

Prebisch does not explore this conclusions explicitly in the Manifesto - the aim of the text was not to address inflation specifically - but he suggests this interpretation as one of the structural causes of peripheral inflation. The combination of a inconvertible currency and terms of trade deterioration was, in itself, a constant and recurrent source of inflation in the periphery. This is a perspective continued by the authors of the structuralist approach to inflation, and both Noyola-Vázquez (1956) and Sunkel (1958) point out the difficulties in the balance of payments as elements that cause basic inflationary pressures. Prebisch himself elaborates it further in 1961, in "*Economic Development and Monetary Stability: the false dilemma*". He denies that inflation would be the result of fiscal disorder, and discusses how the deterioration of terms of trade forces peripheral countries to, every once a while, devalue their currency. This frequent devaluation would make imported goods more expensive, introducing basic inflationary pressures to be spread in the economy. Only the development of the economy, and the consequent diversification of production, would be able to avoid the initiation of this mechanism¹⁵.

The same argument, somehow, appears earlier, in the Manifesto, even if in a much discrete version. Prebisch denies explanations that rely exclusively on fiscal disorder to explain the dynamics of prices. More than that, he sustains that it would be very difficult for Latin-American economies to

14 "The characteristic disorganization of the masses of workers in primary production [...] prevents them from achieving wage increases comparable to those achieved in industrial countries, or from conserving them with the same effectiveness. The compression of wages [...] is therefore less difficult in the periphery." (Prebisch, 1949, p.59)

15 Prebisch's 1961 article is extremely rich, and resolves much of the confusion that surrounds the structuralist approach to inflation. It was written after the vague of the mid-1950s, incorporating Furtado's, Noyola's and Sunkel's contributions, and sets a unified benchmark for the Latin-American structuralist thought on inflation: "*Neither inflation, nor orthodoxy. The time has come to formulate a monetary policy which meets the requirements of an economic development policy, which fits into its framework perfectly. Orthodoxy, owing to the dogmatic complacency with which it is administered, owing to the uncompromising finality with which it is generally presented to our countries, acts as a severe brake on the effort to devise this new form of monetary policy. I greatly fear that its continued application will increasingly strengthen the notion that economic development and monetary stability are incompatible concepts.*" (Prebisch, 1961, p.25)

function properly under the prescriptions of the gold standard, simply because the terms of trade evolved against them:

"In all of this it is necessary to avoid dogmatic generalizations. To suppose that the fulfillment of foreign payments and the proper functioning of money depends merely on the purpose of following certain rules of the game is a mistake with serious consequences. Even in times when the gold standard worked regularly in the center, the countries of Latin American faced enormous difficulties in maintaining it." (Prebisch, 1949, p.50)

Prebisch is, therefore, skeptical about the effects of a fiscal organization on inflation in the periphery. The effects of the deterioration of the terms of trade would be enough to cause inflation, even if local economies maintained low and controlled fiscal deficits. A balanced behavior on fiscal and monetary issues is not enough to allow for monetary stability. The dynamics of money and inflation also depend on how international trade relations are set.

Prebisch, however, states that the continued issuing of currency should be avoided, because of its potential impacts on balance of payments. He suggests a parsimonious use of available foreign currency, an argument that reappears in 1961. The issuing of money could be effective in promoting employment growth, but it results in an increase of imports and, therefore, on increased pressures on the balance of payments, and indirectly on inflation. In this sense, Prebisch's interpretation differs from more traditional monetary perspectives. Fiscal deficits is not necessarily a direct cause of inflation – as monetarists would think. It causes inflation through the increase of imports, an earlier devaluations on local currency. Given the scarcity of dollars, imports should be carefully guided by the needs of the internal productive structure. Irresponsible and unplanned deficits could, therefore, cause the waste of scarce foreign money available:

"the excessive growth of the money, in many cases, has unduly accentuated the pressure on the balance of payments, leading to the use of foreign currencies in a way that, not always, corresponds to the genuine requirements of economic development." (Prebisch, 1949, p.51)

Besides, Prebisch has, somehow the perception that the scarcity of resources in itself is a source of inflationary pressures. Because peripheral economies are characterized by predominantly low productivity levels, the demands of peripheral societies tend to exceed local production. Local elites, however, imitate and reproduce consumption patterns of central societies, and tend to import a large part of these goods. In other words, *"[T]he considerable pressure of those private and collective needs on a relatively scarce amount of resources, not infrequently brings about inflation phenomena such as those that concern, very rightly, these governments."* (Prebisch, 1949, p.74)

Prebisch, then, argues that this characteristic of underdevelopment reduced the effectiveness of a forced savings mechanism. He sees the expansion of money as capable of mobilizing resources. A maximization of the occupation of factors provoked by the a monetary stimulus could potentially increase the average productivity of the economy, and promote the migration of labor from subsistence to modern activities. This perception is only made explicit later, in 1961. But he refuses clearly the idea of maximizing investments through the concentration of wealth in the hands of few. He argues that social strata benefited by forced savings end up spending a significant portion of the resources on imports of superfluous goods, instead of pouring it into productive activities:

"The rise in prices, generating extraordinary profits, puts in the hands of a relatively small group great savings possibilities as always occurs when income distribution is altered in this way. (...) In this case, the proportion of consumption goods would have been important. And since high income groups also have a high import coefficient, it is not surprising that an appreciable part of the accumulated foreign exchange has been spent on items not essential to economic development." (Prebisch, 1949, p.75)

The distributive effects of forced savings would enhance pressures on balance of payments, instead of favoring investments¹⁶. The author praises - for the purpose of accumulating savings - taxes as a more efficient instrument for the purpose of fostering development, precisely because of its focal capacity. Taxes on unessential imports, for example, alleviates pressures on the balance of payments at the same time it generates resources for investments:

“The State has processes that allow it to stimulate the inversion of a large part of the inflationary profits and remunerations through the progressive imposition of what is spent and consumed, while releasing or exempting from taxes what is inverted, and deviating, by controlled exchange rate, what tends to be used in imports incompatible with a strong pace of economic growth.” (Prebisch, 1949, p.75 and 76)

At least three conclusions arise from a close reading of the Manifesto through the lenses of inflation and underdevelopment. First, Prebisch denies that the cause of inflation in the periphery is fiscal disorder. Instead, external deficits and inflation are the indirect results of the deterioration of terms of trade. Second, he denies the effectiveness of the forced savings mechanisms as a tool to promote investments. Altering distribution of wealth in favor of upper classes would rather have an impact on imports, pressuring external deficits, and consequently inflation. It is a bad strategy for the purpose of fostering development. His last conclusion is that taxation on profits and incomes is a much better instrument to generate savings and discourage imports.

3 - The Economic Study of Latin America - 1949

In the Economic Study of Latin America of 1949, published in 1950, Prebisch aims to analyze the effects of growth processes in the economic stability of peripheral countries. It has a different purpose than the Latin American Manifesto, as it focuses on the description of the processes of propagation and dissemination of technology in the periphery, while the Manifesto described the characteristics of the Latin American underdevelopment *tout court*. It is thus an analysis of growth and industrialization in underdevelopment.

One of the first perceptions brought about by the text is the notion that the introduction of technology in the periphery, although desirable, always brings along inherent imbalances. Technology, when applied to exporting sectors, tends to translate into a reduction in export prices, reinforcing the trajectory of terms of trade deterioration. When applied to sectors dedicated to the domestic market, it has two possible effects: a reduction of prices for the internal market, or an increase in the revenue of local producers. Prebisch argues that, in both cases, it represents an *“increase in the collective income”*, and that external imbalance still occurs, given that the additional income would be at least partly spent on imports¹⁷. An increase in exports could compensate for the larger demand of imports, but it depends on the rise of external demand, an exogenous factor with little chances of occurring in the post-war context¹⁸. The insertion of technology, therefore, because it raises local revenue, would be a trigger for additional pressures on balance of payments, with later consequences for monetary stability:

16 *“(…) if forced savings (…) come from many layers of the community that are not able to collect their fruits, since they go, once and for all, to the favored groups, it would be a serious question to ask if there is no possibility of finding other forms of savings (spontaneous or determined collectively), which, without the serious inconveniences of forced savings, would allow for more adequate application of resources for productive purposes.”* (Prebisch, 1949, p.77)

17 *“From this increase in the collective income, a part will have to be used in imports, which rise above what they would have increased thanks to their normal growth rate, therefore, exceeding exports.”* (Prebisch, 1950, p.161)

18 *“(…) There would be no imbalance if, when a country's income increases to a greater degree than the population, exports also increased more than demographic growth. This was not, however, what has generally happened in Latin American countries in the last quarter of a century.”* (Prebisch, 1950, p.162)

“If the import coefficient, in one way or another, is not readjusted when total income increases to a greater degree than exports, and if, in the meantime, foreign investments have not been made in order to allow time for this readjustment to take place, the tendency towards imbalance will be constant, with unavoidable monetary consequences (...).” (Prebisch, 1950, p.162)

Prebisch, then, describes a channel through which the incorporation of technical progress could cause a reduction in the demand for labor. Imported techniques from central economies are mostly labor saving, as central economies design technologies that save their scarce factor. In the periphery - where labor is abundant and in expansion - it generates an additional downward pressure on wages. The reduction of wages could ease pressures on local prices, if production was oriented to the local market. In the periphery, however, it is normally applied in primary-exporting activities. It ends up reducing export prices, and further enhancing the deterioration of the terms of trade, with all of its consequences to structural inflation.

Prebisch then rejects the idea that if imports were made with previous savings, instead of money issuing, there would be no external imbalance, a recurring argument among liberals and monetarists in Latin America. In this sense, the recurring external account difficulties are not a result of inflation, but a symptom of a development process¹⁹. External imbalances are a structural result of the development of peripheral structures, intrinsic to the progression of local productivity and income, and regardless of the existence or not of inflation and money issuing. In short, *“the persistent imbalance trend is, ultimately, a consequence of economic development”*, and not necessarily an expression of wrong decisions in the conduction of economic policy. External restrictions manifest themselves *“whenever the capacity to import does not increase with real income”* (Prebisch, 1950, p.186). Hence, any increase in income that is not a result of a rise in the exported value, or the reduction of the imported value, tends to result in additional pressures on the balance of payment, and, as a consequence, in inflation.

Inflation, however, although not the fundamental cause of external imbalances, may contribute to worsen it. Depending on how inflation is processed, there are three possible dynamics. As long as inflation generates an increase in spending on imports of production goods, it is functional for the process of growth and development. When, however, inflation increases imports of consumption goods, it distorts the distribution of income in a dysfunctional trend, reinforcing difficulties in the balance of payments. A third possible dynamic is the modification of profitability between the different sectors, distorting investment decisions, and potentially leading to an over-investment of capital in some sectors²⁰. In this sense, inflation, even if not the fundamental cause of the external imbalance, it can worsen it, both by concentrating the disposable income in classes with high propensity to import, and by disorienting investment decisions, leading to a misuse of the scarce capital of the periphery:

“[The] effects of inflation or restrictions on imports are not distributed equally among all activities. Therefore, profits are not related to the real increase in productivity obtained with new investments, (...) in such a way that the investments do not correspond to a strict criterion of productivity, essential for the optimal distribution of available capital. (...) This is a space for over-investment, and an artificially high density of

19 *“As inflation usually brings along an extraordinary increase in imports of capital goods, one could imagine that if they were paid with resources from real savings and not with inflationary measures, there would be no imbalance. However, as only a part of the income that was previously consumed, and is now saved, was spent on imports, according to the coefficient, and, now all is spent, the imbalance would still occur, even if the capitalization was carried out without inflation.”* (Prebisch, 1950, p.162 and 163)

20 *“It is clear that in many cases inflation has accentuated this [external] imbalance, but it is also usually related to growth phenomena. While it is used to obtain the necessary resources for capitalization, and when part of these resources is used to import capital goods, the resulting imbalance is a characteristic manifestation of growth. However, when inflation translates into an increase in income for the social groups it favors, and this increase increases imports, the resulting imbalance is not a growth phenomenon, but a typical inflationary manifestation.”* (Prebisch, 1950, pp. 243 and 244)

capital. On the other hand, (...) there are very important activities, such as transport, which, because they do not participate in the high profits of inflation, instead of attracting new capital, tend to decapitalize themselves." (Prebisch, 1950, p. 225 and 226)

Even if this analysis of the results of inflation might sound similar to a monetarist perspective, it should not be seen as so. Prebisch does not put himself in a opposition between inflation-inducing bottlenecks or inflation-induced bottlenecks. Inflation is both a result of bottlenecks, or structural difficulties, and a source for new ones. That is why inflation, if unavoidable, should be kept as low as possible. Prebisch's effort is to show that inflation raises profitability unevenly throughout sectors, and induce investments that do not follow his defined criterion of raising productivity with the least use of foreign money possible. Furtado, in his writings of the mid-fifties, would, at first, resist to this interpretation, because of a possible inflation-industrialization nexus (Boianosvky, 2012). But Prebisch's perspective is gradually incorporated in the following generation of structuralists, in particular in Sunkel's (1958) analysis of the cumulative pressures on inflation, and later in the Furtado's Plano Trienal.

Further on, Prebisch explores the effects of context changes for Latin America. Until the First World War, the fall in export prices of primary goods occurred as a result of an increase in supply. Improvements in communication and transportation techniques allowed the incorporation of new territories into production, expanding total output. This kind of expansion of supply also demanded labor incorporation, with potential positive effects on wages. Since 1929, however, the decrease in the demand for peripheral products led to a fall in primary products prices and reduced the income generated in exporting activities in the periphery. Since then, the political influence of local agrarian elites has been pressuring governments to devalue the exchange, in order to maintain the export revenue generated in local currency. This is a strategy of socialization of losses, as import prices to local consumers rise in the benefit of exporting elites²¹. Political pressure tends, therefore, to anticipate devaluation, and speed up local inflation.

Prebisch, however, understands that the main cause for the recurrent devaluations is the "*pressure that the periphery systematically suffers in the decreasing part of the cycle*" (Prebisch, 1950, p.217). The introduction of technology and the increase in productivity, in their turn, generate additional income and prepare the export sector to absorb the severity of cyclical reversals, thus potentially avoiding the need to promote the socialization of losses through the devaluation of the local currency:

"It is obvious that if the periphery had experienced great increases in productivity, it would be better prepared to withstand this pressure, through the transfer to centers of the newly achieved advantages due to this greater productivity. However, if these advantages do not exist, the periphery will be forced to cede part of what it gained in its previous economic development." (Prebich, 1950, p.217)

Thus, Prebisch sees external imbalances and inflation as undesirable but inevitable results of growth and development processes in peripheral economies. This does not mean that development should be contained. The expansion of productivity and revenue allows the periphery to resist with greater consistency to the cyclical reversals of international commodity prices. Weather or not productivity is rising, cyclical declines still occur anyway. If revenue is stagnant, peripheral economies are forced to regress to previous levels of development in a cyclical reversal of commodity prices.

21 "*(...) The great depression of the 1930s offers us a clear example of how the pressure on the periphery can be so intense that the countries of primary production are forced to devalue their currency in order to adapt to the fall in prices imposed by the decrease demand in cyclical centers. Through this mechanism, the consequences of a readjustment, that would otherwise have a catastrophic effect on those who derive their income from primary production, are extended to the entire population.*" (Prebisch, 1950, p.217)

Prebisch's exegesis highlights the specific difficulties associated with peripheral development process: external imbalances and consequent monetary instability. Dealing with these problems inevitable, if the objective is to guarantee the highest possible level of income for peripheral societies.

4 - Theoretical and Practical Problems of Economic Growth

The third of the texts considered by Bielschowsky (2011) as the founding trilogy of the structuralist thinking is "Theoretical and Practical Problems of Economic Development". The starting point for his argument is the context modification brought about by the end of World War II. Until then, peripheral development was based on the investment of foreign capital to supply raw materials to central countries, and the expansion of central consumption was the measure of the possible progress in the periphery. The post-war period, however, because of the low expansion of consumption in central countries - and the global scarcity of dollars - forced the periphery to make its own investments, and to coordinate growth processes without the expansion of external demand. This implied a strong effort for the peripheral elites who, in order to invest, would have to give up part of their consumption, while popular demands for higher standards of living were increasing.

The author's position regarding the possibilities of promoting investment acceleration through forced savings is reinforced: it can be effective, but for a limited time and with considerable costs, as it concentrates wealth²². At the same time, the author emphasizes once more the taxation as the most effective mechanism for promoting capitalization and the focal concentration of resources. He goes further and states that taxation should be used as part of an economic development program, with the objective of containing the typical difficulties of peripheral growth: external and inter-sector imbalances (Prebisch, 1951). The author's opinion about the possibility of growing without inflation, in turn, becomes even clearer:

"What is certain is that, in a non-inflationary regime, growth cannot continue for long when a tendency towards imbalance persists, because monetary reserves are depleted and, at the same time, there is no stimulus for growth to continue, since the external imbalance is accompanied by insufficient domestic demand." (Prebisch, 1951, p.279)

The monetary repression of inflation would result in the repression of the economic system as a whole, something that sounds very close to the argument that Noyola-Vázquez would later present, in 1956. Prebisch continues, and argues that the direct restriction to imports, or even the devaluation of exchange rate, could achieve the same effect as an inflationary process: circumvent external restrictions to allow continued growth and boost internal demand. The difference would be that inflation does so by changing the composition of domestic demand, with high social costs and dynamic effects that are not always very significant²³. A development strategy should, therefore, seek to contour external imbalances while minimizing internal distortions:

22 *"The possibility of persistently stimulating economic development through inflationary means is refuted now more than ever. There is no doubt that, in a good number of countries, it was possible to increase investments effectively at certain stages of the inflationary process. [...] It is taken for granted that the social cost of this form of capitalization is very large, since the increase in investments is obtained through the inflationary increase in the income of high-income (...) which also brings along a strong increase superfluous consumption."* (Prebisch, 1951, p.257)

23 *"The difference between this type of growth, thus repressed, and the inflationary growth is not, the fact that inflation allows growth to continue, despite the persistent imbalance, but that inflation corrects insufficient domestic demand and, in turn, causes reactions that modify the composition of imports and allow the continuation of growth, if other conditions are met. (...) Inflation, therefore, (...) highlights the immanent imbalances of the growth process, and, on the other hand, tends to correct it. But it does so at a considerable social cost. And, in some cases, this cost is unrelated to the limited magnitude of the dynamic effect achieved by inflationary means."* (Prebisch, 1951, p.279)

"One of the fundamental problems of economic development in these countries is precisely to stimulate growth without reaching inflation, and to prevent the external imbalance with proper measures to change the structure of imports." (Prebisch, 1951, p.279)

Prebisch also reinforces the idea that imported techniques usually use densities of capital incompatible with the availability of factors in the periphery. He argues that, given the structure in the periphery, it would be more adequate to use labor-intensive techniques, contributing to the absorption of the local labor surplus, and to avoid the misuse of capital. Based on this assumption, he discusses the pattern of land ownership in Latin-America, divided between very large properties (*latifundios*) and micro-properties (*minifundios*), both unsuitable for economic development, each one in its own way. Micro-properties, on one hand, are too small with little economies of scale, and thus low productivity²⁴. On the other hand, very large properties induce intense mechanization, techniques that are capital intensive and that save labor²⁵. The purchase of machinery and equipment for the mechanization of exporting activities demand dollars that could have better application in the creation of new industrial sectors. In this sense, the intensive mechanization of large scale primary-exporting production increase pressures on the balance of payments.

Besides, labor saving reinforces the heterogeneity of peripheral productive structures, as it increases unemployment, or the employment in subsistence. The ideal pattern of land occupation should be one that allows the continuous expansion of supply with the least labor saving and the lowest capital use (Prebisch, 1951, p.292). Prebisch argues that the employment of techniques locally available would allow for an output growth without any additional land use, and independently of new capital investments:

"There are notorious and not uncommon cases in which the increase in land production depends, to a large extent, on the best use of the existing available resources, and not on the realization of new capital investments. In fact, there are poorly used lands, not with respect to the best technique with which they could be cultivated, but in relation to the technique that prevails in the region or country in question." (Prebisch, 1951, p.293)

Inflation, in its turn, contributes to the maintenance of this pattern of land ownership. An inflationary environment tends to make land and other real estate safe assets to avoid monetary deterioration. Elites are then induced to maintain their historically owned properties, perpetuating the large concentration of land in Latin-America:

"land does not deteriorate in its productive force because it is maintained without cultivation (...) and it is valued as much as the cultivated land over time, especially when inflation contributes to the process of systematic increase in soil income. This phenomenon, combined with other social factors, contributes, in many countries, to the maintenance of a considerable part of usable land in a relatively small number of monopolized hands." (Prebisch, 1951, pp. 293 and 294)

By going through these arguments, Prebisch anticipated a central aspect of Noyola-Vázquez's and Sunkel's argument. This pattern of land ownership causes a slow expansion of food supply,

24 *"Landless farmers (...) are forced to invest their limited resources in fractions of land that are too small to generate a higher standard of living than that of the waged peasant, which is very precarious in most countries. Hence the unique spectacle of the division and multiplication of numerous uneconomical lots, which represent a small part of the total surface, in contrast with a small number of landowners who cover most of the available land."* (Prebisch, 1951, p. 294)

25 *"Due to the abundance of human potential on earth and the scarcity of capital, mechanization [...] must be the subject of very careful attention [...] especially when scarce capital can be applied much more profitably in increasing production, especially when the limit is reached beyond which it would not be possible to absorb the surplus labor."* (Prebisch, 1951, p.292)

contributing for inflation of wage-goods, given that the population and the demand for food are both growing at a fast pace. Hence, it is an anticipation of the argument of supply inelasticity. Together with the argument that underdeveloped economies face recurrent external restrictions, these two arguments are what later structuralists would refer to as basic inflationary pressures. Prebisch, therefore, not only had an heterodox view of the inflationary process, but also anticipated most of the arguments put forward by the structuralists that followed suit.

These ideas over inflation were presented amidst an interpretation of the underdevelopment phenomenon as a whole, what might have reduced their visibility. Prebisch's interpretation of inflation in underdeveloped economies would become clearer in 1961, after the emergence of the mid-1950s *vague* of authors that discussed a structuralist approach to inflation. This will be further explored in the conclusion, but, in any case, Prebisch's arguments did not pass unnoticed, and had repercussions in the Brazilian literature.

5 - Repercussions in the Brazilian Literature

In 1949, the Singer Report and the Latin American Manifesto were published with great prominence in the Brazilian Economic Review (Revista Brasileira de Economia - RBE). The presentation of the texts was made by Eugênio Gudim, editor of the journal, who drew attention to the institutional importance that the texts represented. The impact of the dissemination of the texts was meaningful, and was quickly reflected in the Brazilian economic literature.

Vieira (1951), for example, discusses the possibility of monetary issuing to be used as a means to promote the acceleration, a question extensively discussed by Prebisch. Vieira argues that, even if theoretically possible, the calibration of the volume of issuing with a dynamic production development process is extremely complex:

"[The] increase in the monetary volume in circulation is done in a way to stimulate production, provided that the reasons for the increase of both elements are equal, or that the growth in production may be more than proportional to the increase in the circulating environment, prices will remain constant, or even decrease, therefore, there will be no currency devaluation. Theoretically, the problem is conceivable; but in practice, it turns out to be inadvisable; it is not easy to say to what extent the volume of currency in circulation is satisfactory and necessary for the pace of transactions." (Vieira, 1951, p.11)

Rache (1950), on the same matter, seeks to elaborate a sequenced analysis, linking the events that would follow after the use of issued money in the productive system. He criticizes the income-concentrating effects, such as Prebisch²⁶, but does not, establish a link between internal development and the external sector. Rache believes that it is possible for production to be increased via monetary issuance, but the time mismatch between the stimulus and actual production allows inflation to emerge. Besides, the asymmetry of reaction to an issuing impulse between the different sectors would make it impossible to resume the initial situation, in terms of resource allocation, an argument previously highlighted by Prebisch²⁷.

26 *"Now it is admitted that all this issuing was immediately channeled to production. Some use this affirmation to argue that the collectivity will only benefit from the increase in general wealth. [...] Those financed [by issuing], however, profit from the production and the accumulated profits will reach enormous sums. But the people do not benefit from the enrichment of half a dozen beneficiaries at his expense."* (Rache, 1950, p.130)

27 *"If the prices of all values follow the variation of average prices, [...] it is clear that the new situation would be economically identical to the previous one, [...]. But this result is not possible to obtain completely, not only because the invariability of the relationship for all quantities cannot be achieved naturally, but, additionally, the initial imbalance has an uneven impact on all price sectors, determining unforeseen and even capricious variations."* (Rache 1950, p.130)

Bulhões (1950), in his turn, considers the success of a forced savings strategy as improbable, since there would be no room for a compression of the earnings of lower classes:

"Is it possible in Brazil, through inflation, to accelerate the formation of real capital, at the expense of a lower standard for the majority of the population? We are of the opinion that fortunately the time when such a solution was possible has passed. Social conditions do not allow wages of employees in industries, and those of other urban workers, to fall far below retail prices and rents. Nor can there be an acceleration in capital formation, at the expense of a lower standard of living for the agricultural population, given the fact that most farmers already consume little more than they produce." (Bulhões, 1950, p.123 e 124)

Bulhões, therefore, uses the same line of argument as Prebisch to criticize the idea of forced savings, and highlights that the effects from a distribution of wealth from the middle class to the upper classes is too narrow to cause any acceleration in the capital formation. Menezes (1951) - who had been discussing the relations between issuing, price and production since the beginning of the 1940s - sustains that price dynamics is inseparable from production. With regards to the sequential effects of inflation, he disagrees with Rache, stating that it is possible for the volume of money to increase, to a certain extent, with no effect on inflation. Prices react considerably more slowly than the increase in the volume of money in circulation and, therefore, it would be possible to expand production via monetary issuing without inflation. The author argues, however, as does Prebisch, that after the price increase is triggered, prices would accelerate at an increasing speed, greater than the capacity of the productive apparatus to expand²⁸.

The first issue of the journal *Estudos Econômicos* - organized by the National Confederation of Industry under the leadership of Rômulo de Almeida - also reverberated many of Prebisch's ideas. It highlighted how the Brazilian economy is dependent on the external sector and how it affects the internal multiplier effect:

"The two independent variables that determine the volume of national income are the level of exports and the amount of internal investments. In Brazil, the first, compared to developed countries, has a more important participation. [...] as the marginal propensity to import in Brazil is high, imports will increase rapidly following and [...] the expansion in national income [...] is less than the multiplier would have suggested."

He goes further, and states that if imports are concentrated in production goods, the multiplier effects tend to be higher²⁹. It was Souza (1951a and 1951b), however, who, in that context, reached an analysis of inflation in underdevelopment closer to that of Prebisch. He also criticizes the effects of inflation on the distribution of income³⁰, but elaborated an analysis considering the impacts on the balance of payments, and aware of the distinctions in the behavior of prices in each type of economy.

28 *"[...] any economic science manual shows the inequality between the two curves, that of inflation and that of deflation. They are not symmetrical, they have completely different elasticities. Furthermore, the situations created by inflation would not be resolved by reversing the previous phase. There is a certain irreversibility in the social development and only a very simplistic mentality and apperted from the rudimentary knowledge could judge so naively."* (Menezes, 1950, p.43)

29 *"But there is an indirect effect of exports in national income, which will be higher if production goods are imported with its product, because this represents greater facilities for absorbing savings, that is, greater real investment possibilities. This effect is important in a country where the investment rate is very limited, not only because of the high propensity to consume, but particularly as a result of the limitation of national production of production goods."* (*Estudos Econômicos*, 1950a, p. 103 and 104)]

30 *"Such a [concentrated] income distribution is extremely vulnerable to inflation, and undoubtedly the chronic issuing of underdeveloped nations is one of the main causes of the constant poor distribution of income. This is because the inflationary impulse provokes income inequality, since inflation means high prices, which leads to shifts to profits."* (Souza, 1951a, p. 43 and 44)

Economies would react differently to monetary stimulus, depending on their structural characteristics. First, he addresses the sluggish evolution of the response of supply in underdeveloped economies:

“The different nature of the economic structures existing between the two groups of nations leads to different inflationary consequences. In industrialized countries, production, expanding strongly in the short term, cancels out the inflationary effects of the inflows of money in circulation.” (Souza, 1951a, p.46)

Then, he discusses how the dependence on imports tends to reduce the multiplier effect in an underdeveloped economy, and how inflation could enhance the deterioration of terms of trade, and force devaluations of local money.

“Inflation [...] causes the demand for foreign goods to rise in underdeveloped countries. [...] First, it creates an imbalance in the balance of payments, often forcing exchange rate depreciation. [...] The increase in the demand for foreign goods causes the multiplier to exercise its cumulative effects on the production of foreign countries and not on the domestic market. [...] These countries have been doubly benefited by the inflation that has occurred in nations with incipient economies - as consumers, buying primary products for less, and as producers, selling a greater quantity of manufactured articles.” (Souza, 1951a, p.46 and 47)

Underdeveloped economic structures are characterized by a limited capacity to expand production independently of imports. This makes the effects of money issuing less effective in the periphery than in the center, due to the strong leakage of resources to foreign economies, and the consequent imbalances in the balance of payments. The inevitability of exchange rate depreciation, in a situation of external restriction, reinforces the loss of external value, and thus inflation. Souza's emphasis, despite being essentially a reinterpretation of Prebisch's Manifesto, is therefore placed on the productive structure to react to a monetary stimulus. The inherent inelasticity of independent supply expansion in underdevelopment limits the capacity of monetary tools to foster production.

6 - Conclusion

The structuralist approach to inflation is celebrated as a relevant contribution of Latin American literature, and would have encouraged the formulation of the theory of inertial inflation (Crave, 1994). These developments on inflation theory found practical applications in a diverse range of economies, including Brazil in the 1990s (Carvalho, 2015). Besides, Rodriguez (2009) understands that it was probably the controversial tone and the international repercussions of the debates on inflation that would have contributed to the spread of the Latin-American structuralism, and to give name to the whole of the ECLAC's thought³¹.

The structuralist approach to inflation is mostly associated to Juan Noyola Vasquez (1956) and Osvaldo Sunkel (1958), both considered pioneers in formulating an analysis of peripheral inflation. It is true that Noyola and Sunkel - but also Furtado - have interpretations that are more clearly dedicated to a particular approach to inflation, and that they reach developments that Prebisch did not (Craven, 1994; Aprigio and Carvalho, 2018). These authors created different categories for different kinds of inflation, and this led to different mechanisms to control inflation, and a much richer interpretation of the complexity of inflation (Noyola-Vásquez, 1956; Sunkel, 1958, Bianchi, 2016; Bielschowsky, 2000; Boianovsky, 2012). Besides, Boianovsky (2012) informs us that there was a disagreement between

31 *“This type of analysis of inflation has been called ‘structuralist’ precisely because it highlights some of the peculiarities of the productive structure of economies such as Latin American ones. The term structuralist (or structuralism), which appears in connection with this analysis, immediately applies to ECLAC's long-term contributions and over time extends to all of its thinking, as well as to several authors, directly or indirectly linked to it. It is likely that such designation has spread and generalized due to the breadth and the marked controversial tone with which short-term economic problems were discussed, particularly between 1958 and 1963.”* (Rodriguez, 2009, p.170)

Prebisch and Furtado and Noyola-Vásquez in the mid-1950s. As a result, Prebisch is very frequently presented separated from the structuralist approach to inflation. The objective here was to demonstrate that Prebisch does have a particular interpretation of peripheral inflation, and that it arises in the founding trilogy of the structuralist thought. As it will be shown, there is much more convergence between Prebisch and his followers than normally stressed.

There are two fundamental causes of inflation in a structuralist perspective. The first is an insufficient productive structure with regards to the necessities and desires of consumption of the population. This is why inflation is much more frequent and higher in underdeveloped economies³². This lack of productive structures forces underdeveloped economies to import a large part of what is consumed locally, and – through the deterioration of terms of trade – it causes a recurrent devaluation of local currency against other currencies, which translates into a monetary source of basic inflationary pressures.

The second cause is the fact that underdeveloped economies are much less prone to promote productive investments – due to the structural characteristics of underdevelopment - and the capacity to expand output (and, thus, the capacity to import) usually lags behind when the economy grows. These are the two sources of basic inflationary pressures presented by Noyola (1956), and they are both present in Prebisch's trilogy. Noyola's contribution was not to introduce those mechanisms, but to categorize them as basic inflationary pressures and differentiate from other kinds of pressures. This enterprise provided a much more analytical perspective to inflation, as it separates cause from propagation, and was further enhanced by Sunkel (1958) through the introduction of cumulative and circumstantial kinds of inflationary pressures.

Besides, structuralists – from Prebisch to Sunkel - believe that inflation is an inevitable effect of development. An underdeveloped economy that grows will face some inflation, precisely because of the basic pressures mentioned above. The design of a stability policy must, therefore, aim to achieve the lowest possible inflation rate, aware, however, that some inflation will be inevitable. In these three aspects there seems to be no disagreement.

Recognizing that inflation is unavoidable does not mean an acceptance of inflation, and this brings confusion among interpreters of Latin-American structuralism. If Prebisch sees inflation as a source of dysfunctional orientation of resources, he also recognizes that it could induce investments in specific sectors. But inflation should be kept to its unavoidable level, otherwise it is predominantly dysfunctional. This interpretation sounds very close to Boianovsky's description of Furtado's perspective³³. Noyola (1956) goes over the propagation mechanisms, inaugurating the categories of inflation. Sunkel (1958) increases the category of cumulative pressures of inflation, and discusses how it distorts investments and generates movements based on the expectation of inflation. There seems to be a certain convergence about the pernicious impacts inflation can bring about, even if they all recognize that dealing with inflation is inevitable.

32 “Furtado's 1952 argument that the main factor behind Latin American inflation was the disparity between the rates of growth of income and the capacity to import - with its effect on the composition and elasticity of aggregate supply—would be repeated by Dudley Seers (1962a) in his restatement of the structuralist approach—without referring to Furtado, though.” (Boianovsky, 2012, p.280)

33 “Furtado (1959a, 140) had argued that [...] Inflation above a certain level leads to distortions in the allocation of resources, especially through the accumulation of inventories and unproductive assets, which tends to depress the marginal product-capital ratio and the rate of growth [...]. Hence, contrary to the prevailing interpretation [...], the notion of perverse allocative effects of inflation did not distinguish monetarists from structuralists”. (Boianovsky, 2012, p.318 e 319)

Another source of debate is the questions of whether the structuralist approach to inflation should be seen as a demand-pull or cost-push perspective. The answer is that the structuralist approach to inflation does not fit in any of these categories, as it encompasses both and other categories³⁴. In an economy that depends on imports, the expansion of demand might cause inflation, both directly, by exceeding supply, or indirectly, through pressures on balance of payments and devaluations of the exchange. This implies having the perception that the expansion of deficits might cause some inflation, specially in the short run³⁵, as it may increase pressures on existing bottlenecks, and investments are sluggish and dependent on imports. But if you avoid the necessary deficits – those aimed at improving the productive structure - pressures on inflation rise in the following steps of the development process. This is a perception that arises in Prebisch (1949, 1950, 1951), pervades Furtado (1954), Noyola-Vásquez (1956) and Sunkel (1958), and is further detailed in Prebisch (1961).

Where there is, finally, some disagreement between Prebisch and the later structuralist generation, was on the consideration of the role of money in the analysis of inflation. Both Noyola and Furtado wanted to analyze inflation prioritizing aspects of the real economy³⁶, and intended to avoid considerations about quantitative analysis of money. Prebisch resists to this movement, even if his theoretical developments implicitly state a perception of endogenous money. In any case, both Furtado and Noyola demonstrated awareness of the impact that the expansion of money has on the real economy:

“Their [Furtado’s and Noyola’s] starting point was that, as far as the analysis of inflation in underdeveloped countries is concerned, “money itself is a veil,” (...) This did not imply disregarding the role of money, for, as Sunkel (1963, 622) put it, structuralists “had not gotten rid of the monetary veil to replace it with a screen.” (Boianovsky, 2012, p.288)

Inflation is indeed not a monetary phenomenon, but it may be triggered by monetary expansion. The impacts of money expansion depends on the channels through which it reaches the real economy, and both the structural and conjuncture conditions of the economy. In economies very close to the limit of the installed capacity, and in circumstances where imports are unavailable or expensive to obtain, inflation is very likely to arise as a result of money expansion that reaches consumption.

The objective here was then to demonstrate that Prebisch does have a particular interpretation of peripheral inflation, and it was continued and improved by his followers. There is common understanding that the internal price dynamics in underdevelopment is profoundly conditioned by the center-periphery relations and the deterioration of terms of trade. The acceleration of prices is ever more violent the greater the relative deterioration of export prices, and the cyclical characteristic of commodity price movements translates into a very unstable internal price dynamics.

Finally, it is interesting to note that Prebisch (1951) also criticizes the pattern of land ownership in the region as an obstacle for the development of productivity and the expansion of agricultural output. This perception is normally associated to Noyola and Sunkel, as they clearly relate it to basic inflationary

34 *“Sunkel (1957b, 361; 1963, 623) (...) stated that his purpose was not to replace the cost-push and demand-pull explanations by a new inflation theory, but to use those and other categories in order to highlight the interdependence between inflation and economic development. (...) The debate, therefore, differed from the demand-pull vs. cost-push discussion that was going on in the United States and in the United Kingdom at the time, since the structuralist approach included both demand and cost elements.” (Boianovsky, 2012, p. 288)*

35 *“The transition from inflation theory to stabilization policy was problematic. The dearth of practical proposals to stabilize the economy in the short run has been regarded by many as the Achilles’ heel of Latin American structuralism.” (Boianovsky, 2012, p.282)*

36 *“From a methodological point of view, I have shown that one can analyze inflation without mentioning “means of circulation,” “means of payment,” and other pure twaddle that still “circulates” at CEPAL. Prebisch’s reaction was very unfavorable.”(letter from Noyola to Furtado, 4 May 1955, apud Boianovsky, p.292)*

pressures. It is a contribution that may be traced back to Prebisch. Inflation, in the end, contributes to the maintenance of this land ownership structure, as the elites use land and other real estate to preserve value and avoid monetary depreciation.

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