

# The much anticipated return of Raúl Prebisch

## THE END OF EXILE

Raúl Prebisch has returned. A towering figure 50 years ago in international development thought and diplomacy, Prebisch was eclipsed by the Reagan Revolution and became a mere footnote in the neoliberal period that followed. That his life and work should now be revived as inspiration for a new development paradigm in Latin America speaks volumes about the profound changes in the Americas in the new Obama era.

In the narrow sense, of course, Prebisch's return is justified by his immediate rejection of the Reagan Revolution after his election in 1980: the quixotic beliefs in self-regulating markets or the state as problem rather than solution were ideological, simplistic, and unsustainable and would lead, he claimed, to "the second great crisis of capitalism." The global recession of 2008, coincidental with the arrival of Barack Obama in Washington, vindicated his prediction. However, the more profound reason for re-examining Raúl Prebisch lies in the surprisingly contemporary quality of his work and its current relevance.

## LATIN AMERICA'S KEYNES: A MAN FOR HIS TIMES

Prebisch was a leading theoretician and powerful leader who left an indelible imprint on Argentina, his home country, as well as on North-South relations. He was that rare thinker who was also an outstanding institution-builder and administrator. Born in 1901, he chose economics as a profession and rose quickly in the public service to top positions, creating the Argentine Central Bank in 1935, which he directed until his dismissal by the military government in 1943. Internationally, Prebisch is recognized for his work in the United Nations, particularly as leader of the Economic Commission for Latin America (ECLA) between 1950 and 1963 and as founding

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Secretary General of the UN Conference on Trade and Development (UNCTAD). Prebisch is best understood as Latin America's Keynes, the man who changed the discourse on international trade and development and the struggle for global equity. But, even more than Keynes, Prebisch was virtually forgotten during the 1980s when fashions changed and neoliberalism appeared invincible.

Prebisch was enormously controversial, the "enfant terrible" of *Pax Americana* after the Second World War. During the 1950s and 60s, in particular, he challenged Washington (and other western capitals) at three levels: (1) in ideas, his structuralism advanced an alternative paradigm of the international political economy, which challenged mainstream assumptions; (2) his struggle for a US-Latin American relationship based on development objectives rather than geopolitics confronted entrenched opposition in Washington; and (3) his insistence in UNCTAD on a basic reform of global governance in pursuit of equity and justice in North-South relations was generally opposed by the North.

Prebisch's "manifesto," a landmark paper titled *The Economic Development of Latin America and Its Principal Problems* presented in Havana in May 1949, set out the key concepts of Latin American structuralism, subsequently refined by his research team in ECLA during the early 1950s. It posited the concept of a basic rupture in the international economy between the advanced economies as the *centre* and the *periphery* of commodity-producing countries, created by an unequal diffusion of technical progress to the latter, and maintained by an international division of labour and terms of trade, which favoured the centre. "The currency of international trade," he argued, "is power." Prebisch's framework challenged the doctrines of equilibrium and comparative advantage, advocating instead that countries in the periphery change the systems of production through planning and industrialization. *Integration*—at several levels—between theory and institution building, between state and society, and between countries and peoples in Latin America—formed an essential component of his approach. Another was a new approach to inter-American relations with specific proposals for accelerating development—creating a regional development bank, US development assistance and trade concessions, and so forth.

## THE STRUCTURALIST REVOLUTION OF THE "GREAT HERETIC"

Structuralism transformed ECLA in Santiago into a unique region-building centre united behind a distinctive Latin American paradigm and approach to North-South relations. Brazilian Celso Furtado called Raúl, affectionately, the "Great Heretic." The Washington of John Foster Dulles considered Prebisch a trouble-making and misguided leftist radical; President Kennedy's Alliance for Progress (briefly) adopted his approach

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whole hog and celebrated Prebisch as a visionary leader.

UNCTAD was established in 1964 as the principal voice of developing countries for a new multilateralism, which essentially adapted Prebisch's ECLA vision to the global level. He called for a new "global compact" with policies and mechanisms beyond the General Agreement on Tariffs and Trade (GATT) linking trade and development. Both the rich and developing nations had reciprocal responsibilities, and they had a mutual, long-term interest in a stable and more equitable world order. In a pattern familiar to Raúl's ECLA experience, the United States and other rich nations resisted concessions. To balance their weight, Prebisch convinced the developing countries of Latin America, Asia, and Africa together to form the G77 as a new force in global relations. However, in late 1968 he resigned, dissatisfied with UNCTAD's accomplishments and the waning solidarity of the G77.

What then is Raúl Prebisch's relevance today? His work covered virtually the entire 20th century beginning in the 1920s; much of that work was influenced by the times. A great deal has happened in the global system since his death in 1986. Moreover, many of his ideas, which were controversial a half-century ago, are now accepted as conventional wisdom. Who questions today the importance of value-added production, technological innovation, regional integration, or the reform of global multilateralism?

## PREBISCH'S GRAND VISION

There are, however, aspects of Prebisch's life and work—the more basic orientations—that remain important points of departure for new development thinking in this new era of global transformation.

### External Disequilibrium, Vulnerability, and Diversification

Prebisch believed that market capitalism was inherently unstable and prone to unexpected and severe shocks that

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inevitably affected the entire global economy, including the periphery. Since this vulnerability was inherent in the system, it was essential for Latin American and other developing countries to develop strong defensive and countercyclical tools to limit the impact of such periodic crises on their economies; the performance of Latin American countries in the post-2008 recession demonstrated their importance. Regional integration, both socially within countries and within the region as a whole, remains fundamental as a strategic defence against globalization and achieving critical mass in the global economy. The current recession has also validated Prebisch's concern for lowering Latin America's vulnerability through diversification, particularly the expansion of South-South trade. The issue is not to weaken relations with the United States—it will remain the centre of western hemisphere politics for the foreseeable future—but rather to evolve a more mature balance between global and regional relationships.

### Policy Balance

Prebisch amassed an enormous professional experience during his life; few economists were so grounded: witnessing war, recovery, depression, and war again, he believed in balance—in avoiding extremes even if this made him an easy target for critics. He opposed both Marxism and liberalism in favour of "progressive capitalism" guided by an "intelligent state." While insisting on an

activist state to lead development, Raúl was the first to warn against the abuse of import substitution industrialization by excessive protectionism. Although he railed against Reaganism in the 1980s, he also criticized Latin governments during the 1970s for clientelism and "elephantiasis" in bloated states. He supported conditionality if applied reasonably and equitably as proposed by President Kennedy's Alliance for Progress and later UNCTAD's "global compact." Globalization was neither good nor bad but a process to be managed by both developed and developing countries with shared responsibilities for global development. He spoke of "the discipline of development," of converging interests. Prebisch's unflinching support for rational debate and deliberate policy over ideological thinking of left and right makes him a valuable reference for the future.

### Broadening Economics

Prebisch's thinking over his entire life continued to evolve until his death in 1986. Beginning with liberal orthodoxy in the 1920s, his approach to the discipline of economics expanded stage by stage to internal priorities such as social transformation, institutions, human rights and environmental issues, and above all ethics. Realizing his vision of equitable and sustainable economic and social development in Latin America will require innovative thinking across disciplinary boundaries.

### CONSTRUCTING THE NEW PARADIGM

Faced by today's complexities, Prebisch would certainly counsel opening a fundamental debate in search of a new paradigm appropriate to Latin America's future—a no-holds-barred debate without sacred cows (including rethinking his own work from earlier decades), but with Prebisch's unflinching determination and conviction. "I am objective," Prebisch would declare, "but not neutral."

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### INCLUSION BEYOND INCOME

Emerging evidence suggests that programs like the *Bolsa Familia* may have unintended, positive spillover effects. Potential participants are motivated to seek official documents like birth certificates and labour cards, which they then have for other kinds of entry into the formal political economy. Since the cash payments are distributed via bank-cards, participants become familiar with banks. Educational participation among children is at its highest level ever—97.3 percent of children between the ages 7 and 14 are in school, up from 81.4 percent in 1992. In focus groups of *Bolsa Familia* recipients, Wendy Hunter and Natasha Borges Sugiyama found that participants were able to articulate their claims to basic citizenship rights and were well versed in how to protect those claims—from calling the program's toll-free number in Brasilia to using their votes to make sure politicians continued the program. They are not just less poor, but more engaged citizens.


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### JOB GROWTH RETURNS AT LAST

A final piece of the inequality puzzle is that Brazil's economy finally began to grow in the 2000s after several lost decades, a confluence of high commodity prices, and government policies designed for that result. After dropping throughout the 1990s, formal employment grew from 44.5 to 49.6 percent of the employed population between 2002 and 2008. The global economic crisis

stopped the rise, but Brazil still had among the lowest unemployment rates of the G20. The largest set of these new jobs were in the private sector, and all of them generally mean rising incomes for the poor who move out of the informal sector.

### BRAZIL IS DOING WELL; RURAL, DARK-SKINNED, NORTH/NORTHEASTERN BRAZILIANS ARE NOT

Against this rosy picture of improvement, it is discouraging to note that Brazil is still less equal than 90 percent of the countries of the world. In addition, the same patterns of exclusion remain. Whether the indicator is inequality, income level and depth of poverty, education, life expectancy, or practically any other known measure of development and well-being, the same Brazilians are still clustered in the lowest categories: those who are rural, dark-skinned, and/or in the north and northeastern regions of the country. Some of the gaps have narrowed but others have not. What the Brazilian experience suggests, however, is that creative government policies and the political will to put them in place can further lower inequality. 

### NOTE

All data are from the Brazilian governmental statistical agency, the Instituto Brasileiro de Geografia e Estatística (IBGE)

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- establishing and fostering a network of scholars, policymakers, practitioners, and students who are interested in North American governance issues.

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Prebisch's last words urged a new generation toward this great task. "A new rationality must be sought," he said, "but not one based on hegemonic interests; rather one based not merely on economic and social objectives but on eminently ethical ones." 