

Roving ambassador Raul Prebisch: British agent in Argentina

by Dennis Small

The octogenarian Argentine economist Raul Prebisch arrived in Buenos Aires on Nov. 8 to assume his new post as “roving ambassador” for the recently elected Alfonsín government, entrusted with devising a strategy for the renegotiation of Argentina’s controversial \$40 billion foreign debt. As he arrived at Ezeiza Airport, he told his first lie: “I have come to serve my nation.”

Prebisch will not serve the interests of Argentina, but rather those of Argentina’s historic enemies, the British, and in particular the City of London financiers who hold Argentina’s foreign debt. Throughout his lengthy career, Prebisch—mistakenly viewed throughout the Third World as a proponent of development—has served the British: In the 1930s, when he helped set up Argentina’s Central Bank on the British model; in the 1940s, when as founder of the U.N. Economic Commission for Latin America (ECLA) he devised the pseudo-economic theory known as *desarrollismo* (developmentalism); in the 1950s, when he returned from exile to impose an early version of an IMF policy of deindustrialization on Argentina, on behalf of the British; in the 1960s, as the secretary general of UNCTAD; and in the 1970s and 1980s, when Prebisch was a leading opponent of the formation of an Ibero-American debtors’ cartel.

In April of this year, Prebisch was resuscitated to attend the Group of 77 meeting of Third World nations in Buenos Aires, where he was assigned the task of stopping motion toward the formation of a debtors’ cartel. “Argentina, like the rest of Latin America, must stop thinking about a debtors’ club,” Prebisch told the press, “and get to work on a formula that will allow it to meet its foreign commitments.” In a speech to the G-77 gathering, he was specific:

I don’t want to second the suggestions coming from the periphery but from the centers themselves, including that of Felix Rohatyn, who has contributed effectively to the financial recovery of the city of New York.

At a press conference the next day in Buenos Aires, this writer publicly grilled Prebisch on his support for the infamous Rohatyn Plan, noting that Lazard Freres partner Rohatyn’s “solution” to the New York City crisis had doubled city interest payments since it was instituted in 1975, while decimating all city services—police, health, sanitation, transportation, and so on. Prebisch piously denied that he wished to see the Third World’s infrastructure dismantled, but he stuck to his endorsement of the Rohatyn Plan—and to his violent opposition to a debtors’ cartel.

Before recounting some of the more sordid features of Prebisch’s personal political history, it is worth saying a few words about his famous “economic” theory of *desarrollismo*.

Prebisch’s theory

Desarrollismo is not a theory of economic development in any sense of the word. It is a fraud, a political ploy whose objective is to disorient and subvert pro-development forces in Ibero-America. Although corroded by time and use, the original image that Prebisch tried to give *desarrollismo* was that of an “authentically Ibero-American theory” in opposition to the orthodox economic conceptions of the “great industrial centers.” Prebisch presented himself as the champion of the poor who supported their aspirations for development, technology, industrial growth, income redistribution, and so on.

The secret of Prebisch’s theory is that each one of his arguments in favor of technology and industrialization is, in the very next breath, a call for *moderation* in its pursuit. Prebisch’s actual purpose is to contain the policies that he supposedly supports.

Prebisch’s standard argument begins by citing the “grave crisis” of Ibero-America, which he blames on an inadequate “absorption of labor” in the cities. He explains that the application of modern technologies in the rural areas has supposedly displaced millions of peasants, who then cannot find

work in the cities. This is, of course, utter nonsense. Objectively, there has not been—unfortunately—any widespread mechanization in the rural areas of Ibero-America. The influx of peasants to the urban areas is very real, but it is the result of policies of monetarist looting: Peasants flood into the cities to avoid starving in the countryside.

On the subject of technological advance, Prebisch will often defend the concept. For example, in his 1963 *Toward a Dynamic for Latin American Development*, he says: “It is not good to return to old forms of technology.” But three paragraphs later, he adds: “Although it is true that it is not practical to step back to earlier technologies, it is also the case that it is possible to opt for greater or lesser employment of manpower.” Prebisch’s conclusion? Don’t employ capital-intensive technologies or there will be surplus labor and “social convulsions.”

Naturally, one can’t blame mechanization as such [for the labor surplus—ed.]. What I wish to indicate is that there is an optimal point of mechanization which has been surpassed in Latin America. . . . The same can be said of modern technology, past a certain point, in industry.

In other words, from Prebisch’s point of view, capital investment has *already* gone too far in Ibero-America, and labor-intensive projects must indiscriminately introducing production technologies conceived for and applied in the advanced countries.” By the mid-1960s, Prebisch had dropped all pretenses of favoring technological development, and was openly praising Maoist labor-intensive projects.

The feature of *desarrollismo* most widely known and identified with Prebisch’s name is that of “import substitution.” Prebisch proposes that Ibero-America “industrialize” by having its manufacturing sector produce locally those goods that were formerly imported. But he is explicit in limiting this to the realm of *consumer goods*, i.e., he is opposed to the true industrial self-sufficiency that can come only by developing local capabilities in the high-technology capital goods sector. Furthermore, Prebisch argues that if Ibero-America can manage to import all the consumer goods it needs, then there is no need to industrialize at all:

If this greater demand for manufactured goods can be completely satisfied by imports from the industrial centers in exchange for food and raw materials exported by Latin America at satisfactory prices . . . then the necessity for industrializing the region is not so urgent.

How does this differ from the old, British colonial model? It doesn’t. Prebisch’s model for “industrialization” is to

convert Ibero-America into one large looting operation in which cheap labor works in low-skill jobs, producing consumer goods like shoes, textiles, or cigarettes *for export*—and to pay the foreign debt religiously with this revenue and that coming from raw materials exports.

Prebisch’s real preference for the anti-industrial imbecility of rural life is clear in a passage from his *Toward a Dynamic*:

Why can’t [the population—ed.] remain in rural areas, in small and medium-sized villages, employed in industries and services that at least partially satisfy the needs of the countryside itself?

Prebisch’s praxis

But all these theories of Prebisch’s are pure fraud—a coverup for the monetarist policies he implemented in Argentina whenever he was given the opportunity and power to do so.

After early training at Columbia University and the London School of Economics, Prebisch entered Argentine political life in the late 1920s, hoping to land an important economic post. But it wasn’t until 1930, when the pro-British conservative General Uriburu staged a coup d’état, that Prebisch managed to obtain a moderately important post, that of undersecretary of economics. In 1933 he was named special adviser to the economics ministry, and quickly became involved in the negotiations of the infamous Runciman-Roca treaty. This 1933 treaty with Great Britain turned Argentina into a virtual Crown Colony for the duration of the Great Depression: Argentina agreed that Britain would pocket Argentina’s *entire* export income for payment of the foreign debt, in exchange for a British promise to buy a fixed quantity of Argentine meat and wheat. As a result of this Prebisch masterpiece, Argentina was the *only* Ibero-American country which paid its debt faithfully throughout the depression: Every other country refused to continue destroying the standard of living of its population, and preferred to declare debt moratoria. Argentina’s military government gave priority to London.

But the Runciman-Roca treaty wasn’t enough for England, as it did not institutionalize the Argentine treasury as a subsidiary of the Bank of England. That task had to wait until 1934, when the Bank of England’s personal representative, Sir Otto Niemeyer, arrived in Buenos Aires to insist on the creation of a British-style central bank to replace Argentina’s existing national bank. Sir Otto brought in his briefcase detailed plans of the type of bank he was looking for; sadly, he couldn’t find an economics minister quite slavish enough to carry it out. One after another, the ministers resigned, until finally a gentleman named Pineda was appointed.

Pineda, too, resisted, but Prebisch came to the rescue

and, as he himself put it: "I was able to convince him, and a little while later he put me in charge of carrying out the project."

The resulting institution, run by Prebisch personally from 1934 until Gen. Juan Domingo Perón seized power in 1945, was a masterpiece of British monetarism. Argentina's foreign debt was paid punctually, while agricultural exports were emphasized and industry was systematically strangled. In 1945, the last year of Prebisch's control over the bank, a total of 1.5 billion pesos in domestic loans were issued: 1.4 billion of these, over 90 percent, were given to the agricultural sector, with almost nothing going to industry.

As the Argentine historian Arturo Jauretche explained in his well-known study of Prebisch:

As the first general manager of the new Bank of England subsidiary, Prebisch did everything in his power to maintain our country in a bucolic agricultural state, sabotaging all industrial development other than that of the British meat-packing plants.

Throughout his term as economic czar, Prebisch consistently protected Britain's financial interests and sabotaged every attempt to establish trade or financial links with other countries, especially with the United States.

In 1935, Prebisch was publicly denounced by Sen. Lisandro de la Torre for being an agent of British interests.

In 1936, he granted the oil multinationals a monopoly over the importation and marketing of oil inside Argentina.

In 1937, he used the central bank's growing dollar reserves to pay off the entirety of Argentina's debt to the United States, instead of using these reserves to buy American capital goods, a move which would have threatened Britain's control over the captive Argentine market. As Jauretche noted, "There was a subtle difference between the dollar debt and the pound sterling debt" which must be kept in mind if one hopes to understand Prebisch's loyalties.

Three years later, in 1940, Argentina lost its last wartime opportunity to buy the capital goods which it desperately needed. Raul Prebisch vetoed a \$110 million loan which the U.S. had offered Argentina, to facilitate an exchange of capital goods for agricultural products.

Prebisch vs. Perón

In the mid-1940s, General Perón led a coup which expelled Prebisch and his British controllers from Argentina. One of the first economic measures of Perón's government was to dissolve Prebisch's central bank in 1947, and reinstitute the national bank, which channeled domestic credit toward industry.

By the early 1950s, Perón had presented an economic plan for building up a heavy industrial sector in Argentina (including nuclear energy), and his attempt to implement this plan finally provoked a British-inspired coup d'état in 1955.

The first act of the new military government was to invite Prebisch to return from exile in order to conduct a study of the economy and propose measures which would return Argentina to Britain's imperial fold.

Prebisch descended on unfortunate Buenos Aires with a full contingent of ECLA technicians, and in October 1955 issued his now-infamous *Preliminary Report on the Economic Situation*, better known as the "Prebisch Plan." Here we finally see the true face of Raul Prebisch, free of any *desarrollista* makeup: policies *identical* to those of the IMF today. It should be noted that Perón had refused to join the IMF, and so the imposition of the "Prebisch Plan" can properly be described as a one-man IMF program, under which Argentina was forcibly subjected to a strict monetarist regimen.

Prebisch began his *Report* by asserting that "Argentina faces the worst economic crisis of its history," a lie which he later used to justify the imposition of draconian economic measures. Prebisch then resorted to openly falsifying statistics to "document" the (nonexistent) "grave balance of payments crisis," and to propose a sharp increase in foreign indebtedness to cover the balance of payments crisis that he had just invented. Perón had managed to keep Argentina's foreign debt to a minimum, and had therefore been able to use the country's export revenues for domestic industrialization instead of using it to pay the debt. Prebisch intended to reverse this policy and steep the country in foreign debt.

The rest of his 1955 policy prescriptions read like an IMF printout for economies such as Brazil and Mexico today:

- Establish floating parities (i.e., devalue the Argentine peso) and free profit remittances for all foreign companies;
- Rationalize the "unprofitable" state sector, including the layoff of some 200,000 "unproductive" federal employees;
- Shift the economy away from industry and toward agricultural production for export; raise domestic prices of agricultural goods to help achieve this;
- Raise food prices, causing a drop in the real wages of workers; with no compensating salary increases;
- Cut back on credit issued for the domestic economy, especially the heavy industrial sector; and
- Export everything possible in order to pay the recently acquired foreign debt.

Prebisch concluded his report with the following quote from Nicolas Avellaneda, a 19th century Argentine president who was a total agent of the British Crown:

In the country there are some two million Argentines who, in an extreme situation, will be willing to suffer hunger and thirst in order to meet the nation's commitments to its foreign creditors.

Will Argentine president-elect Raul Alfonsín follow this Prebischite policy today, and wreck his nation in order to please the City of London and the IMF?