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Prebisch's Critique of Bretton Woods Plans: Its relation to Kalecki and Williams' Ideas

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Abstract

*Raul Prebisch is most well known for his work on long term economic development in Latin America, but his contribution to monetary and financial problems of the countries of the periphery in relation to those of the center, are less explored. He thought that the post WW-II monetary plans had important shortcomings that would prevent the achievement of international equilibrium in the balance-of-payments. Prebisch's concerns were shared by John H. Williams and also, by Michal Kalecki***.**

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Esteban Pérez Caldentey and Matías Vernengo[1]

Introduction

The name and work of Raúl Prebisch (1901-1986) are often associated with the problem of long-term economic development in Latin America. Of particular relevance are his contributions, both theoretically and empirically, to the process of industrialization of Latin America, which he developed from 1949 onwards, during his tenure as the second Executive Secretary of the Economic Commission for Latin American and Caribbean (ECLAC). These views are encapsulated in his text *The Economic Development of Latin America and Some of its Main Problems*, known as the "Latin American Manifesto" which provided the basis for the work undertaken by ECLAC until the end of Prebisch's term in 1963.

Less well known and explored is the stage of Prebisch's thinking, prior to the publication of the Manifesto, which he devoted to the study and analysis of the economic cycle, and economic dynamics. He also focused on the monetary and financial problems of the countries of the periphery in relation to those of the center. This led him to analyze and address the shortcomings of the Post-WWII monetary plans of John Maynard Keynes (1883-1946) and Harry Dexter White (1892-1948). Prebisch thought that business cycle fluctuations in the periphery had their origin in external factors and, more precisely, in the domestic policies adopted in the cyclical center, that he saw as changing from the United Kingdom to the United States. The effects of business cycles were disruptive to the process of economic development as these could lead to significant contractions in economic activity and employment, as exemplified by the Great Depression.

Influenced by his experience as first manager of the Central Bank of the Argentine Republic between 1935 and 1943, Prebisch, developed the guidelines of an autonomous national monetary policy that consisted in promoting the full utilization of resources while isolating the domestic economy from the fluctuations of the external business cycle. According to Prebisch's proposal monetary and fiscal policies were tasked with the full employment of resources. These were applied within a monetary circuit controlled in its connections with the rest of the world through the mechanism of import exchange controls. Exchange controls were the most innovative feature of Prebisch´s monetary policy proposal. The regime of exchange controls was based on a hierarchy of imports that identified those that were essential to the workings of the economy and that, as a result, should be isolated from business cycle fluctuations.

Prebisch's observations on Keynes' International Clearing Union and White's Stabilization Fund focused on their *de facto* applicability, and, on the degree to which these were compatible with his national autonomous monetary proposal. Prebisch praised certain aspects of the plans, such as their countercyclicality. He also commended Keynes' use of the banking principle as the basis for the Clearing Union. At the same time, Prebisch believed that the plans suffered from fundamental weaknesses which would prevent them from achieving their objective, international equilibrium in the balance-of-payments within an expansionary context.

Prebisch argued that the plans, and more specifically Keynes' plan, incurred into automatism that would forestall the adoption of full employment policies by the cyclical center which was fundamental for world expansion. More importantly, the international monetary plans ignored the fact that the world comprised a set of heterogeneous countries with different levels of development. As a result, economic and monetary phenomena could not be viewed through the same lens and countries could not be subject to comply with the same norms in monetary policy. Prebisch argued that the countries in the periphery should have greater latitude to pursue full employment and especially, to mitigate the domestic impact of external fluctuations. This involved granting greater policy autonomy in the management of exchange rates, which was limited by the international monetary plans. Prebisch ultimately thought that the John H. Williams 'key currency' proposal provided a more effective and realistic approach to achieve international equilibrium.

Prebisch's concerns regarding the country homogeneity assumption in Keynes and White's proposals were also voiced by Michal Kalecki. Kalecki's recognition that countries were at different stages of development led him to criticize the current account equilibrium norm as the basis of the American and the British plans, as it would exert a recessionary bias to the world economy. He proposed replacing it with the concept of unbalanced equilibrium. The latter combined balancing trade with lending through an investment agency for production purposes. Kalecki adopted a threefold classification of countries: the surplus countries, the deficit countries whose imbalances responded to needs of industrialization and reconstructions, and the deficit countries whose imbalances responded to other factors. Following the same line of thought as Prebisch, Kalecki also contemplated the possibility of using exchange controls in deficit countries to change the composition of imports in order to respond to their development needs.

This paper is divided into four sections. The first section explains Prebisch's proposal for a national autonomous monetary policy, and his dismissal from the Central Bank of Argentina (BCRA in Spanish) just as the new international monetary plans were being developed. The second sections centers on Prebisch's critique of Keynes and White's international monetary plans. The third section focuses on Prebisch preferred option, Williams 'key currency proposal,' and highlights the existing similarities between Kalecki's views on the international monetary plans and the changes needed to transform these into a workable alternative with those by Prebisch. A short section concludes.

Prebisch as an Outsider

At the time the international monetary plans of Keynes and White were being developed, Prebisch was mainly concerned with an autonomous monetary policy proposal for peripheral countries, with an obvious focus on Argentina. As a result, by the time he got the plans and analyzed its proposals his main preoccupation was with their compatibility with such his autonomous policy proposal (Prebisch, 1944 (1991), pp.189-190).[2] During his tenure as general manager, effectively in charge of the BCRA, which started in 1935 with its creation, Prebisch arrived at the conclusion that the policy objectives of central banks should expand beyond the traditional ones limited to mitigating the up and down phases of the business cycle in order to ensure their orderly occurrence and maintain the stability of money. He became aware that the central bank had a double objective, price and, also, output stability, and that protecting the balance of payments position was central for both.

To this end he proposed, the use of exchange controls which would ensure that any attempt to expand aggregate demand would not spill over to imports, thus ensuring that its effect was mainly felt in the domestic economy while at the same avoiding a balance of payments disequilibrium. White, also proposed the use of exchange controls in 1942 during a United States Federal Reserve Mission to Cuba (Board of the Governors of the Federal Reserve, August 1942). For his part Keynes argued in favor of capital controls. The most important reason to establish capital controls for Keynes was to maintain the freedom to vary the domestic interest rate to respond to a country's internal economic conditions (Keynes, 1980a, p. 149 and p. 275).

Prebisch leaned further towards advocating the full employment of resources at the domestic level while insulating the economy from external shocks, as WW-II compromised Argentina's balance of payments position in 1941 due to the loss of its export markets and as the fear of general economic prostration (Prebisch, 1945 (1993) p. 156-157) set in.[3] The force of events led Prebisch to devise a nationally autonomous monetary policy with the aim of providing a more stable level of economic activity, reduce the vulnerability to external shocks and ensure the most favorable conditions to fulfill the growth potential of the economy. This monetary policy consisted, on the one hand, in ensuring the provision of sufficient purchasing power through the extension of domestic credit to offset the impact of a fall in exports or decline in foreign financial flows on the economy. On the other hand, it contemplated the application of exchange controls to ensure that the expansion of credit would not lead to a disequilibrium in the balance of payments.

Exchange controls also mitigated the potential effects of exchange rate depreciation which included a rise in the price of imported goods, and higher prices, with extraordinary benefits accruing to some sectors of the economy, and the "protection without discrimination of the national industry" (Prebisch, 1944c (1991), pp. 126-127). In practice the scheme of exchange control aimed to administer the level and composition of the demand for imports, as these moved *in tandem*, with the business cycle and were outside the control of the national authorities of the periphery. Prebisch viewed the business cycle as a phenomenon generated by the center economies to which the periphery countries had to adapt. The proposal sought to differentiate between the categories of imports that should adapt to the business cycle from those that should be isolated from business cycle fluctuations. To this end, the government would need to establish a hierarchical order of the different import categories and, according to the circumstances, would have to prioritize the imports most needed to fulfill essential needs and carry out production.[4]

By the time Prebisch's tenure at the BCRA was terminated, in 1943, he was in possession of all the necessary elements to formulate a new view of monetary policy. These were contained in an unfinished form in in his book proposal ‘Money and Economic Activity’ on which he began working in 1943. In that book, he argued that monetary and financial policy should have three fundamental aims: (i) attenuate the incidences of the abrupt changes in harvest conditions and the fluctuations and external contingencies; (ii) create the monetary conditions that stimulate the development and maintenance of full employment of the working force; (iii) foster and support the highest possible rate of growth of economic activity. This new view of monetary policy from the periphery provided the framework within which to analyze and critique Keynes and White’s international monetary plans.

If by this time, Prebisch was an outsider in his native Argentina, and was forced to find work as a Money Doctor abroad, for example in the Federal Reserve Monetary Missions to Paraguay and Santo Domingo under the lead of Robert Triffin[5] (Pérez Caldentey and Vernengo, 2019), the circumstances made him an outsider too when it came to the discussions about the reorganization of the international monetary system. Not only because he was excluded from policy making circles in Argentina, but also because the country itself was boycotted. While Latin America had a broad and important participation in the initial negotiations that led to the Bretton Woods agreements, as well as in the 1944 Bretton Woods conference, Argentina was increasingly excluded from the orbit of influence of the United States. Under Roosevelt’s leadership, the United States engaged in a more collaborative and development friendly agenda with Latin America, including the support of state-regulated capitalism initiatives in line with the spirit and philosophy of the New Deal and more generally, with its Good Neighbor Policy (Helleiner, 2009). The Good Neighbor policy included “a more active idea of an inter-American financial partnership to promote economic development across Latin America” (Helleiner, 2014, p. 29). This cooperation agenda was primarily driven by the economic and strategic interests of the United States and particularly by the fear of the growing German influence in Latin America. Also, Latin American countries had, since the Great Depression, pushed for international cooperation and multilateral solutions, to global finance issues and for the creation of institutions for international development.

The Great Depression not only had devastating social and economic effects in Latin America, but also revealed the existing interlinkages in finance and trade across nations. Examples of Latin American initiatives for the creation of international institutions include the proposal for the creation of a multilateral banking institution for the Americas in 1931 based on the Bank for International Settlements (BIS), the advocacy for international economic cooperation at the World Economic Conference in London in 1933, and later on, at the Seventh Inter-American Conference in Montevideo. Establishing an Inter-American Economic Bank became a standing demand of Latin American countries throughout the 1930s and early 1940s, and, provided the inspiration for Harry Dexter White's Stabilization Fund (Steil, 2013, pp. 377-78). White provided a copy of the first draft of the Stabilization Fund to Mexican officials in 1942 for comments prior to its official circulation the following year. United States government officials highly valued Mexico's opinion on White's plan as attested by the continuous interaction and discussion between both governments.

The British viewed the construction of the post-WW-II order as an Anglo-American initiative and were less inclined to support the participation of developing countries, including those of Latin America and the Caribbean, in the design of the international financial architecture. Keynes' first reaction to the United States' invitation of 44 countries, which included 19 Latin American and Caribbean nations, for the Bretton Woods Conference was that the bulk of these: "…have no power of commitment or final decision and everything is to be *ad referendum*…" and that at least half of the countries invited including those of Latin America and the Caribbean had either nothing to contribute or knew little or nothing of international finance. In fact, as Keynes put it Bretton Woods amounted to: "[t]he staging of a vast monkey-house... in order that the President can say that 44 nations have agreed on the Fund and the Bank…" (Keynes, 1981b, p. 63). Nonetheless, the British embassy in Washington ensured that a copy of Keynes' plan was sent to all representatives of Latin America who attended that meeting. The British government also made an important effort to spread the Keynes plan involving visits to several Latin American countries to explain the plan.

The most important Latin American absentee at the Bretton Woods conference was Argentina. Argentina was excluded by the United States, with the tacit agreement of Britain, from the planning of the post-war world, as a result its policy of neutrality towards the Axis countries.[6] Also, Argentina did not take part in the consultation process leading to the Bretton Woods conference. One glaring example is the fact that Argentina was not included the calculations of the quotas implied by the Keynes and White's plans for the initial members of the Bretton Woods institutions prepared by the British delegation in May 1944.

As part of this process of isolation the Argentine government never received a copy of the Keynes and White's plans. This was a cause of deep concern amongst Argentine officials. In fact, in April 1943, both the Minister of Finance of Argentina and Prebisch, before he was forced out of the BCRA requested information to the United States Ambassador in Argentina on the stabilization plans of Keynes and White. In turn, the United States Ambassador referred the matter to the United States Secretary of Foreign Affairs who replied: "[o]n March 4, 1943, Secretary Morgenthau addressed the following letter to the Ministers of Finance of the United Nations and to countries associated with them, including all the American Republics except (repeat except) Argentina."[7] The available evidence points to the fact that Pinedo and Prebisch probably obtained the requested information on the Keynes and White's plans from British channels.

Keynes and White's Plans in the Periphery

Prebisch's analysis of Keynes and White's plans indicates that overall, he thought that they were compatible with his views on monetary policy autonomy in the periphery.[8] He argued that these shared maintaining the level of economic activity as a key priority which implied controlling for the growth of imports. As long, as, the plans provided some type of financial mechanism to pay for these imports, there was no incompatibility between the plans and a national monetary autonomy policy. He also explained that since credit was not provided in unlimited quantities, having the levers to compress imports, with the utilization of exchange controls when necessary, would allow for the adequate functioning of the plans. Since controls would affect only certain categories of imports, these would have no impact on the national or international price levels.

Prebisch thought that the organization of an international monetary system based on the granting of credit was not new. The novelty of both Keynes' International Clearing Union Proposal and White's Stabilization Fund resided in the organization of an anti-cyclical international system (Prebisch, 1944a (1991) 189-191; 1944d pp. 237-238 and 242-243). In this sense, both plans were a big improvement over the gold standard system which granted credit but on a pro-cyclical basis expanding liquidity in the upward phase of the cycle and contracting it during the downward phase of the economic cycle. Prebisch and Keynes shared an aversion to the gold standard. Prebisch became very critical of the gold standard following the onset of the Great Depression and its devastating effects in Latin America.[9]

As a logical corollary, Prebisch favored Keynes' idea of altering the value of gold, which he termed an idea of great logical force, over White's "absolute orthodox idea of maintaining the indestructible value of gold and that of foreign currencies" (Prebisch, 1944d, p. 243). He recognized however, that altering the value of gold would require a "great international prestige on the part of the international monetary authorities that administer the Fund, in order to avoid adverse psychological consequences as those that occur each time that gold is mingled with, which is highly ingrained in the international monetary affairs" (Ibid. p. 242). Overall, Prebisch preferred the International Clearing Union Proposal to the Stabilization Fund, which obviously pleased Keynes.[10] Prebisch thought that the Clearing Union Proposal reflected "the elegance, audacity, and imaginative force that characterizes the economic thought of Keynes" (ibid p. 237). He argued that the idea underlying the Currency Union Proposal, that is the generalization of the banking principle, the necessary equality of credits and debits (Keynes, 1980a, p. 44-45) or closed monetary circuit, in Prebisch's words, was a bright idea (Prebisch, 1944a (1991), p. 205). He also was of the view that a limited liability fund such as White's Stabilization Fund would encourage a race among countries to obtain financial resources leading them to pursue unnecessary expansionary policies.

At the same time, that Prebisch praised certain logical and general aspects of the international monetary plans, he thought that they did not include a mechanism that could ensure the attainment of international equilibrium in the balance of payments. Fulfilling this condition required abiding by one principle, namely, that any increase in the monetary circulation within an economy resulting from an increase in exports must spill over into an increased demand for imports. Given their importance in the world economy and global trade, the adequate functioning of a closed system of credits and debits required the compliance of developed countries, and, particularly, of the United States with the rules of the game.

According to Prebisch, in the post-WW-II, the United States took on the role of the cyclical center of the world. The cyclical center referred to the country, or perhaps group of countries, whose economic repercussions due its importance were transmitted to the rest of the world. In the nineteenth century and up until WW-I, Great Britain was the cyclical center only to be overtaken by the United States thereafter, as it became indebted in dollars.[11] The countries subject to the influence of the impulses of the center, the periphery, included all Latin American countries. As Prebisch put it (Prebisch 1946 (1993), p.224):

> "The United States… fulfills the role of the main cyclical center, not only within the continent but also in the world: and the Latin American countries are in the periphery of the economic system… Why do I call the United States, the cyclical center?

> Because from this country, given its magnitude and economic characteristics, start the expansionary and contractionary impulses of world economic life and particularly those of the Latin American periphery, whose countries are under the influence of those impulses just as they been had before, when Great Britain had the role of main cyclical center."

Within this context the only way in which the countries in the periphery, that due to their economic structure happened also to be deficit countries, could increase their exports in a sufficient degree to boost their economic growth and pay for their credits was through an expansionary policy in the cyclical center, the United States. In its absence, the countries in the periphery could only deal with external imbalance by compressing imports through a contraction in economic activity. Hence, Prebisch (1944d, p. 245) argued: "[t]his is why I insist on the fundamental point that I have so many times mentioned: I consider of capital importance for reconstruction of the economy and of the world monetary system, more than plans of this nature, full employment plans in the main advanced countries in the world and especially in the United States." Prebisch thought that the United States economy was distant from a full employment situation and that it faced significant obstacles to its achievement.

First there was a question of sovereignty. Full employment was a requirement for the adequate functioning of the international monetary plans rather than an internal policy decision. Thus prioritizing this policy objective meant subjecting internal policy decisions to the dictates of the international economy. Second, and more importantly, a policy of full employment, within the system of generous granting of credit envisaged in Keynes' Clearing Union coupled with what Prebisch termed its 'automatism', prompted fears of inflation which discouraged following expansionary policy objectives. Automatism referred to 'the facility to use international credit without deliberation or direction conducive to equilibrium´ (Prebisch, 1944a (1991), p. 195). Automatism was a characteristic of Keynes' plan, as the credit would not be used according to the situation in the world economy, but rather according to the quotas provided to each country. As Prebisch argued: "… within wide limits there would be a complete indetermination regarding the intensity with which new purchasing power is created, with serious consequences, first on the economy of the United States… and then on the rest of the world due to its natural repercussion" (Ibid p. 195). Thus, one of the main positive aspects of Keynes plan, that is the facility to use international credit also entailed for Prebisch its gravest danger.

In this sense, Prebisch thought that Keynes plan shared the same weakness as the gold standard, which was also a system based on automatism, and this could lead, as in the case of the gold standard, to its own destruction.[12] Other economists at the time, in Brazil, Chile and Mexico, including Eugênio Gudin, Otávio Gouveia de Bulhões, Herman Max Coers, Eduardo Villaseñor Ángeles, also saw in Keynes' plan an inflation-prone scheme and that did not further impose the required discipline on debtors.[13] Prebisch concluded: "I do not believe in any automatic system of credit, neither domestic or international, because I believe in a centralized system... I am convinced that nothing can be constructed in international monetary affairs within the play of an automatic system. A high degree of highly efficient management on the part of the authorities responsible for the provision of international credit, according to countries' needs and those of the world economy, is the reason why I conceive inconvenient any automatic system" (Prebisch, 1944d, p. 241).

A second important critique voiced by Prebisch concerned the limits placed by the international monetary plan on the policy autonomy and, in particular, on the capacity of the periphery to pursue expansionary policies, which he illustrated with the case of Argentina. Prebisch complained that the monetary plans viewed the economic and monetary phenomena of all countries through the same prism failing to distinguish the inequality of situations between center and periphery. Not all countries could adopt the same monetary policy and directives. One important difference between center and the periphery was their sensitivity to imports. The countries in the periphery needed to import capital equipment, machinery and even key raw materials, and inputs, to build up their infrastructure, boost their productivity and output growth potential. In other words, their income elasticity of imports was very high, and as a result, any expansionary policy would leak into an increased demand for imports, even below a full employment position. The case of the center was markedly different, below full employment an expansionary policy would first spill into the domestic economy and only slowly affect the growth of imports.

At the same time, the countries in the periphery faced lower export elasticities of income than advanced economies, and especially, relative to the United States. For Prebisch, the available empirical evidence revealed that any increase in the purchase of goods and services in the United States from the rest of the world tended to increase the purchase of goods and services of the rest of the world from the United States. Contrarily, in the periphery, as in the case of Argentina, increasing imports would not generate a rise in exports. He explained this, on the basis of the small share of Argentina in world trade. According to

Prebisch, Argentinean imports represented 17.1% of the total income of the country, whereas the imports of the rest of world from Argentina accounted for only 0.3% of its global income. The combination of a high-income elasticity of imports and low export elasticity of income, relative to advanced economies and the United States, set the conditions for a chronic tendency to balance of payments disequilibrium.

This imbalance could temporarily be confronted through the type of credit envisaged in Keynes's Clearing Union Proposal, but ultimately, would put pressure on the stock of international reserves. And this was another difference between the center and the periphery. Advanced economies, and particularly the United States, possessed ample stocks of gold. In fact, as much as the pound was the facto the key currency before WW-I, the dollar had become for all practical purposes the key currency, if not after the war, at least with the Tripartite Agreement in 1936, that stabilized the exchange rates of the United States, the United Kingdom and France. This was not the case in Argentina. Hence, any increase in aggregate demand and imports, could, in the absence of a concomitant rise in exports, threaten its international reserve position. This led peripheral economies to forego growth and employment gains in order to maintain financial stability. This remains to this day a fundamental policy goal of developing as attested by the increased demand for reserve currencies for precautionary purposes.

As a result, the periphery did not have, at its disposal, the same monetary tool kit as the center to face business cycles. These arguments led Prebisch to push for his proposal for exchange controls for imports as a way to isolate the Argentine economy from the ups and downs of the external sector. As he put it (RPO,1946 (1993), pp 225-226):

> "… there is a marked difference between monetary phenomena in the cyclical center and the periphery… The situation of the cyclical center, if it is suffering from a strong decline in prices, has in its own hands the expansionary resources to ensure their recovery, without concern for its monetary parities; the cyclical center does not need to move the parity of its currency to act on prices. Contrary the countries of the periphery cannot by themselves initiate an expansionary movement, because immediately these would have to end it due to the impressive decline in their international reserves…. unless these can have recourse to other means such

as exchange controls or the movement in exchange parities to avoid drastic consequences.”

Thus, given the hierarchy of economic power and currencies, and marked differences in economic structures, the countries of the periphery had no choice, but to turn to instruments such as exchange controls, to pursue expansionary policies and insulate their economies from the fluctuations of the global economy. Yet, it was precisely this policy option that the monetary framework of the international plans severely limited and curtailed. According to both Keynes’s International Clearing Union and White’s Stabilization Fund a country could not alter its exchange rate without the consent of the international monetary authorities.

Hence as Prebisch put it: “… will we dispose…of our monetary sovereignty, of our faculty to move the exchange rates in accordance with our appreciation of internal and external conditions of the country, for a plate of lentils? Or will we delegate that privative faculty in an international mechanism? I think that… public opinion will not accept such a decision” (Prebisch, 1944a, p. 201). It is important to note that Prebisch did not favor exchange control for exports as their impact would be minimal relative to the fluctuations in international markets. In view of the limitations of the Keynes and White’s plan, Prebisch argued that a feasible alternative could be provided by Williams’ Key Currency alternative (Williams, 1944).[14] Williams’ plan was less ambitious in terms of the provision of credit than Keynes’ International Clearing Union and lacked its inherent automatism. At the same time, it avoided the rigidity that characterized White’s Plan.[15]

Prebisch and the Other Outsiders

While Williams was invited to Bretton Woods as an observer, his participation would have been conditioned by his defense of the American Plan, something he decided he could not do. In his own words, during the Senate Committee on Banking and Currency hearing on the international monetary system, in 1945: “I had fault to find with the experts’ report and wanted to continue to be free to think about the problem” (Williams, apud Endres, 2005, p. 62). Williams provided a similar critique to that provided by Prebisch of the Bretton Woods plans, that were based on the principle of the equality of currencies. The monetary plans viewed the post-war world order as symmetrical consisting in a set of national currencies operating on a plane of equality within a central coordination mechanism, whether it be the International Clearing Union, the

Stabilization Fund or the eventually created International Monetary Fund, whose formal function would be to provide liquidity to supplement international reserves. The principle of the equality of currencies "had its counterpart in the notion of the equality of countries" (Endres, 2005, p. 63). Economic size and economic structure were not relevant to the international monetary plans (Williams, 1943).

For Williams, as for Prebisch, economic and monetary phenomena were different in countries with the key currencies, like the United States and the United Kingdom, than in those countries with less relevant currencies that were not used as vehicle currencies in international trade and finance and the same rules could not apply to both. Within this logic, there could not be a single monetary organization that could respond to the needs of countries that were structurally heterogeneous. As he explained (Williams, 1944, p. xvii):

> "One of my basic notions about international trade and monetary theory for many years has been that we must take into account that this is a heterogeneous world made up of countries unlike in kind, of different economic weight in the general scheme of trade and financial organization, and in different stages of economic development. I have long doubted whether any single type of monetary organization or of monetary and trade policy is applicable to all. This has been my objection to…gold standard and the root idea of what I have called the key currencies approach to international economic organization."

Williams sustained that maintaining international monetary and trade stability in a heterogeneous world, organized along multilateral lines required that countries adopt different responsibilities according to their size, development, and importance within the global economy. He argued that monetary and trade stability called for a compromise with a hard core two-sided external and internal adjustment falling mainly on the bigger and more advanced economies, whose performance "dominated and determined what happened to all other countries" (Williams, 1943 (1944) p. 16). The larger and more developed economies should have the responsibility of cooperating among themselves to maintain a high level or real income and high level of exchange rate stability. For Williams: "[i]f this could be done, the problem of maintaining exchange stability for the other countries, and a reasonable state of economic well-being within them, would probably not present major difficulties" (Ibid., p. 19).

Cooperation implied, for key currency countries, avoiding any type of trade or exchange rate restrictions. The performance of a country like the United States depended on the state of its domestic economy and not on its foreign trade. In the case of the United Kingdom, Williams recognized the importance of its external sector for the rest of the economy but argued that the country had as much of an obligation as the United States to "maintain monetary stability and to practice the rules of multilateral trading" (Williams, 1944, p. xix).[16]

The case of developing economies was an entirely different story. Williams characterization of developing countries are very similar to that provided by Prebisch. Young countries, as he referred to them, and, more specifically young agricultural countries, were highly dependent on foreign trade and, much more so, than any developed country. Moreover, due to their narrow production structure, absence of diversification and the small size of their domestic market, the income flows generated by exports would tended to overspill towards increased imports. There was in Williams analysis a tacit assumption, which was more explicit in Prebisch's writings, that the periphery combined a high import elasticity of demand with a low export elasticity relative to the larger and more advanced economies. The resulting chronic tendency to a balance of payments disequilibrium in the developing economies would place an important constraint to their possibilities to expand demand and reach their full employment potential.

The performance of developing countries depended 'on the maintenance of good markets for their products in the advanced countries, which means upon high production and employment in those countries' (Williams, 1944, p. xix). This would allow provide the space for the former to confront the short-term fluctuations in the business cycle and, also to focus on their long-term development. According to Williams, the structural features of developing countries and their subordinate position in the global economy provided the rationale to argue these economies should not be subject the same market discipline as developed countries. He thought, at first, that developing countries should have the leeway to vary their exchange rates according to their balance-of-payments requirements. These would benefit the most from varying their exchange rates, given the importance of trade for their economic performance, while at the same time due to their small importance in the world economy, would impart the least negative consequences on other countries. This, of course, suggests that Williams have a great degree of confidence on the ability of exchange rates to resolve balance of payments disequilibria, and his general confidence in neoclassical, or marginalist, adjustment mechanisms (Endres, 2005, p. 56).

In the end, Williams opted for exchange controls in line with the views Prebisch, out of a pragmatic view that assumed that there was significant difference between the model and reality.[17] Exchange controls, and more to the point, the use of import licenses was a more effective method than varying the exchange rate, and the use of tariffs. It was simply more effective, precise and flexible, with the least negative impact on other economies (Williams, 1944, p. xx; 1934 (1944), pp. 196-197; 1936 (1944), pp. 222-223). Williams concluded (1944, p. xx):

> "Such practices are, of course, a departure from the strict principles of multilateral free trading, but as I have sought to indicate the problem by its essential nature is one of compromise, and I can see no reason *a priori* for barring this one out and letting other in. It becomes a question of the predominance of forces, policies, and practices at work in the world, as a whole, and these depend fundamentally upon the policies of the key countries."

Williams shared with Keynes the view that currency and exchange stabilization was only one aspect of post-WW-II economic and financial reform. In addition to the International Clearing Union, Keynes proposed an international investment institution to provide funds for reconstructions and development purposes, a commodity buffer stock mechanism, and an international commercial policy that allowed for the expansion of trade (Keynes, 1980a, p. 60). Williams agreed with Keynes that international monetary stability and, thus, a monetary proposal should have priority and precedence over the rest of the institutions that would conform the post-WW-II international economic architecture (Williams, 1943 (1944), p. 21; Keynes, 1980b, p. 5).

The views of Prebisch and Williams were echoed in the writings of another outsider in the discussion on the international monetary system, namely, Michal Kalecki. His views on the international monetary plans of Keynes and White and on the problem of international monetary stabilization and coordination also raise some of the limitations of the official plans (Kalecki and Schumacher, 1943; Kalecki, 1946).[18] Kalecki and Schumacher (1943, p. 29) criticized the concept of international equilibrium underlying Keynes and White's plans. Both these plans assumed that international monetary stability depended on achieving current account equilibrium for all countries. However, this ignored the fact that countries forming part of a multilateral arrangement did not have the same levels of development and, thus, obviously, even though Kalecki does not mention specifically, the same size, structural features and importance in the world economy.

Different levels of development entailed that the world trading system was composed of surplus and deficit countries. Current equilibrium could be achieved by pressuring surplus countries to export less and/or import more or by pressuring countries to increase their exports and/or curtail their import. In practice, international equilibrium would be achieved through contractionary policies, deficit countries contract their imports, and surplus countries exports, by definition, would have lower exports. Kalecki and Schumacher's analysis point to a fundamental contradiction in the logic of the monetary plans including that of Keynes. Keynes conceived the International Clearing Union as a plan to put an: "…expansionist, in place of a contractionist pressure of world trade…" (Keynes, 1980a, p. 46), but contrary to design, the objective of achieving international current account equilibrium applied within a heterogeneous world, would lead to the exact opposite result.

Kalecki and Schumacher proposed replacing the current account equilibrium with what they called unbalanced equilibrium, that is the current account plus long-term flows or the basic balance of the balance of payments, which, in fact, amounted to integrate the real and monetary sides of the balance of payments. A multilateral arrangement could realize its potential if all countries, were allowed, to pursue full employment policies, on the basis, of aggregate domestic demand expansion and on foreign net expenditure financed by long-term loans. In other words, "… each country must maintain such a domestic expenditure that this expenditure plus export surplus financed by foreign ending (or minus export deficit financed by foreign borrowing is adequate to assure full employment" (Kalecki, 1946, p. 325). An international investment board, which was a part of Keynes's International Clearing Union plan, would decide the amount of long-term loans provided to deficit countries. In this way Kalecki and Schumacher's plan combined clearing, as Keynes scheme, and lending to solve simultaneously the problems related to world trade and investment.

The plan addressed the situation of three types of countries. The first comprised the surplus countries. In their view, countries whose objective was to have an export surplus should not be penalized for accumulating metallic reserves, gold, or the international unit of account, Bancor in Keynes proposal, but for all practical purposes in the immediate post-war the US dollar.[19] The second type included countries that needed external finance to compensate for their current account deficit due to reconstruction, and readjustment for industrialization purposes. The purpose relating to this group of countries was to safeguard their long-term liquidity. Finally, the third type of countries comprised countries whose deficit responded to reasons that excluded those arising out reconstruction, readjustment or industrialization. In this case, the objective would focus on maintaining a long-term balance in their current account. This could be achieved by using, the power of the investment board to “direct borrowers receiving development loans to use them fully or partly for increasing imports” from this group of countries (Kalecki and Schumacher, 1943, p. 32). The flows directed through the investment board would be complementary to other types of long-term lending, and the greater their volume, the greater would be the possibility of closing the existing imbalances in the private sector.

While Kalecki was not in favor of exchange rate interventions for what he called full employment countries, he argued that licensing of imports, to prevent the rise in prices of those commodities affected by supply restrictions, was fully compatible with multilateralism, as long as the controls aimed to change composition of imports and not be used as a discriminatory tool (Kalecki, 1946, p. 324). More importantly, perhaps, it is worth remembering that while Prebisch and Williams were somewhat concerned with the possibility of inflationary pressures, caused by the automatism of the Bretton Woods agreement, Kalecki (1943) had already understood that the post-war world would be one of stop and go, associated to what he called the political aspects of full employment policies. He understood that full employment policies would create a backlash among capitalists, since it would empower the working class, and that would bring cyclically calls for austerity.[20]

Further, it is worth mentioning that Keynes’ plan was, in fact, defeated at Bretton Woods, and that White’s Stabilization Fund with the dollar as the key currency, rather than the Clearing Union and Bancor, was the one implemented, with Keynes presiding over the less relevant debates about the World Bank, meanwhile White led the discussions about the creation of the IMF. If social cohesion was necessary, in Kalecki’s view, to promote full employment in advanced economies, the working of the international monetary system required a Marshall Plan and significant injections of US dollars, something that was suggested by Williams (Endres, 2005, p. 68).

The limitations of the Bretton Woods system were evident to the three outsiders. Kalecki and Kowalik (1971, 472) would go on to note at the end of period that expansion of the welfare state and the full employment in the center would turn the working class, as they suggested, “radically reformist in its attitude towards capitalism,” rather than revolutionary, opening the space for more militant pro-capitalist views even within the lower classes, something that would eventually occur with the rise of neoliberalism and the collapse of the so-called Golden Age of Capitalism (King, 2013). As the first Secretary General of the United Nations Conference on Trade and Development (UNCTAD), Prebisch would also eventually become frustrated with American plans for development in the region, which become more focused after the Cuban Revolution with the Alliance for Progress and the creation of the Inter-American Development Bank (IADB), and would move to a more global rather than Latin American approach to economic development. Even though Bretton Woods was eventually successful and seen as a glorious period of economic growth and prosperity, it would not be out of place to suggest that it was so in spite rather than as a result of the arrangements that were formalized in New Hampshire, and that the outsiders were for the most part correct in their critiques.

Conclusion

Keynes thought of himself as an outsider that for a good part of his life, at least from the time he left the peace negotiations in Versailles until WW-II, a period in which he warned like a Cassandra about the mistakes made by policy makers, like the return to the gold standard, the doomed belief in the automatism of markets, and their reliance on the self-adjusting mechanism to solve the Great Depression without public works. But during the two wars he was effectively at the center of economic policy making at the global scale. His plan for the post-WW-II international monetary system might have been defeated, but he had a sit at the table, and he went on to defend it in his speech to the House of Lords (Keynes, 1980b, pp.4-6 and 9-23). Prebisch, on the other hand, had been at the center of economic policy making in Argentina during the Great Depression, and his somewhat heterodox actions at the front of the BCRA, including some counter-cyclical policies and the use of exchange controls to minimize external problems helped Argentina recover relatively fast, and without defaulting on foreign obligations.

However, when the plans for the international monetary system were being developed, he experimented his own period as an outsider, both because he was expelled from policy circles in Argentina, but also because the country was excluded from the debates on the new international financial architecture. Between 1943 and 1949, after leaving the BCRA and before moving to ECLAC he was, to some extent, like

Keynes trying to influence the debate from the sidelines. Prebisch's views on the limitations of Keynes and White's plans owe a great deal to Williams critiques of the plans, and bear some resemblance with the views developed by Kalecki. They all believed that a symmetric understanding of the adjustment process that did not take into consideration the significant differences between what Prebisch called the center and the periphery were doomed to fail. In particular, balance of payments problems in the periphery would make catching-up impossible. They were ultimately correct in prophesizing the limits of the Bretton Woods, like Keynes that wanted to title his book 'Essays in Persuasion and Prophecy,' since his prophesizing proved to be more successful than his ability to persuade.

Notes

1 The authors are Coordinator of the Unit of Financing for Development. Economic Development Division. ECLAC (Santiago, Chile) (esteban.perez@cepal.org) and Professor of Economics (Bucknell University) (mv012@bucknell.edu). The opinions here expressed are the authors' own and may not coincide with the institutions with which they are affiliated. A draft of this paper was presented at the Seminar Michal Kalecki and the Problem of International Equilibrium (OECD, 26th September 2019). The authors would like to thank the valuable comments provided by Jerzy Osiatyñski and Jan Toporowski. The compiled works of Prebisch before 1949 comprise four volumes and are referred in the text as Raúl Prebisch, Obras (RPO) jointly with the respective volume (I-IV). All the quotations of Prebisch's works in English are translations by the authors of this paper.

2 Prebisch's writings on the international monetary plans are contained in the following works: (i) Money and Business Cycles in Argentina (1943), Volume II (Chapter II, International Monetary Problems, p. 184; Chapter VII, International Monetary Plans, pp. 236-265) This is an unpublished work. Chapter VII is reproduced in part in Vol. IV, pp. 94-112); (ii) "Observations on International Monetary Plans", *El Trimestre Económico*, 1944, July-September, pp. 185-208, and Chapter (105) of his collected works Vol. III, Monetary Policy and International Monetary Plans 1991 (1944) pp.189-206) which is a revised version of the first article cited; and (iii) The Gold Standard and the Economic Vulnerability of Our Countries Mexico, 27th March 1944 reproduced in Vol. III, pp.228-248.

3 Following this line of thought the Argentine government devised a countercyclical action termed National Recovery Plan, also known as Plan Pinedo, for Federico Pinedo, and ex-Finance Minister that had been central in Prebisch's political rise, even though Prebisch was the main architect of the plan, which contemplated an expansionary monetary policy coupled with exchange rate controls (Dosman, 2008, pp. 124-26). More specifically, the plan sought to purchase agricultural surpluses to avoid price declines, increase construction activity and promote the finance of industrial development. Within the logic of the plan fiscal policy played mainly a supporting role by creating the required conditions, incentives and space for private activity to flourish. The Pinedo Plan was never implemented, and exchange controls were not applied. The force of political and external events particularly the war effort of the United States which led to an increase in internal demand and imports, superseded it (Prebisch, 1944b (1991), pp. 110-112; 1945 (1993), p. 160). See also Llach (1984).

4 The exchange control scheme sought to control imports by varying the exchange rate rather than by quantitative controls which Prebisch thought to be too complicated to implement and, also, economically inefficient. The exchange control scheme would be implemented through a process of auctions. Prebisch´s exchange control proposal was praised by a number of economists including Harberler (1947, p. 92, note 12), Nurske (1944) and Triffin.

[5] In fact, Prebisch's influence on Triffin was great, including his views on the Bretton Woods agreements. Endres (2005, p. 108) argues that: "[p]rior to reflecting on BW [Bretton Woods] arrangements Triffin had spent most of the period 1943–6 studying Latin American monetary problems. During that time he had been strongly influenced by the work of Raúl Preebisch (sic). Later Triffin viewed his own reaction to BW, perhaps in part because of Prebisch's (sic) influence, as providing 'some highly unorthodox policy advice account transactions for the newly born International Monetary Fund'." In that respect it is worth noticing that White had also been a Money Doctor in Latin America, but as Helleiner (2014, p. 26) notes: "Triffin… did much more than White to reach out for advice and assistance to Latin American experts, most notably Prebisch. Triffin was also more successful than White had been in Cuba: his advice was immediately adopted by the Paraguayan government which saw its monetary reforms as key for its developmental ambitions."

[6] Escudé (2006, pp. 2-4) argues that: "Argentine neutrality was not intrinsically pro-Axis (as official USA rhetoric held), but basically pro-British (and anti-American) instead" and that: "action against Argentina was considerably more severe than analogous action towards other neutrals, despite the fact that Argentina was contributing more to the war effort than weak belligerents, through food supplies." It is worth noticing that this anti-Argentinean views, preceded the 1943 military *coup*, that would bring Juan Domingo Perón to the ministry of labor and the vice presidency, which was decidedly against American Imperialism. Dosman (2008: p. 232) notes how after being offered a position at the IMF, Prebisch, which had been fired by the military government, was opposed by the US Treasury, and the offer was withdrawn, even though Prebisch was fired by the government the rose with the *coup*.

[7] Cited in Kedar (2010).

[8] It is worth noticing that Prebisch was well acquainted with Keynes' ideas on effective demand at least since 1933, and would a few years later, in 1947, publish a short guide to Keynes' ideas. In that sense, his economic views were to a great degree in accordance with Keynes and White, even if some specific differences of interpretation existed between his framework and that of Keynes, and even other Keynesians. See Pérez Caldentey and Vernengo (2016).

[9] Prebisch was already critical of the automatic view of the functioning of the gold standard and the notion that the economic cycle in Argentina was essentially connected to the fluctuations of monetary aggregates in the early 1920s. In fact, he cut his teeth in the political debate by arguing that Argentina should not return to the gold standard at the pre-war parity, disagreeing with the leader and founder of the Socialist Party, Juan B. Justo (Dosman, 2008, p. 35). Subsequently he read and translated a book written by Harvard Professor John H. Williams, that suggested that the balance of payments, and the external accounts were the key to the economic cycles in Argentina, ideas that would significantly influence Prebisch (Ibid., p. 35). He also met Williams in Buenos Aires in 1934, and became friends. On Williams influence on Prebisch see Brenta (2017).

[10] Keynes learned of Prebisch's preference for his plan from British officials and "declared that the new was exceptionally important." See, Helleiner (2014, p. 158).

[11] Prebisch's views here are similar and precede the notion of hegemonic stability currency discussed by Kindleberger (1973).

[12] These views were similar to Williams ideas, and perhaps Prebisch was somewhat influenced by his vies. It is worth noticing in this respect that Williams was somewhat skeptical about Keynesian ideas (Endres, 2005, p. 56).

[13] Note that Keynes did not see inflation in the post-war period as being demand driven, but rather as a supply bottleneck phenomenon. Before drawing up his Keynes plan, he mentioned price controls for inflation control in January 1942, suggesting that: "[a]voiding inflationary conditions the immediate post-war period should be provided... not because of credit deflation or monetary pressures, but because of the continuity of controls on raw materials and other products" (Keynes, 1980a, p. 105). His commodity control scheme which was already incorporated into its post-war plan also served to control prices.

[14] Prebisch had a long-standing friendship with Williams dating back to the 1920s decade. See Dosman (2001, pp.89-105) and Brenta (2017). Williams and Dexter White studied under Frank Taussig at Harvard and both tested some of the main hypothesis of the neoclassical adjustment mechanism in their dissertations (Bordo and Scwartz,1984).

Williams work focused on Argentina in the period 1880-1900 and highlighted important limitations in the traditional adjustment mechanism based on relative prices (Williams, 1920).

[15] The issue of the autonomy of domestic economic policy was central to Latin American delegations in the discussions of both plans and at the Bretton Woods Conference. The delegations of the region emphasized the need to create mechanisms to stabilize commodity prices, to have greater exchange rate flexibility, to have the possibility of imposing capital controls, and to be able to protect nascent industries (Helleiner, 2014, pp. 169-172).

[16] Williams proposed to stabilize initially the exchange rate between the dollar and the pound and dictate measures to cooperate in domestic policy matters. Prebisch thought that the problems concerning the relationship between the dollar, the pound in relation to European currencies which were difficult and diverse, should be addressed, at, a later date. See (Prebisch, 1944d, p. 262.)

[17] Endres (2005, p. 57) notes how Williams was one of the first to argue that while the automatic gold standard model worked well in theory, in reality the classic gold standard was a sterling or pound-based system, that required management from the center. Of course, this view echoes Keynes' notion that the Bank of England was like the conductor of an orchestra during the gold standard, fundamentally managing the system with changes of the rate of interest.

[18] For an exposition of the view of Kalecki on post-WW-II monetary order and on Keynes and White's plans see Toporowski (2018a) and (2018b).

[19] Kalecki and Schumacher (1943) also argued that discouraging countries from achieving surpluses would retard the development of developing countries. Also, debtor countries should be granted a symmetric treatment to that of creditor countries, and should not be penalized.

[20] In this respect it is worth noticing, as Toporowski (2013, p. 35) does that: "[a]fter the death of Keynes in 1946, Joan Robinson taught three generations of Cambridge University economists that not only had Keynes been anticipated by Kalecki's 1933 business cycle analysis and studies of wages and employment, but also that the latter was the 'more consistent' Keynesian." In other words, Kalecki, more than Keynes, but also more than Prebisch or Williams was concerned with the need to maintain public investment as a tool for full employment, and he thought than in developing countries planning would play that role.

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