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**BRINGING LATIN AMERICA INTO THE MAINSTREAM: THE 1963 RIO DE JANEIRO  
CONFERENCE ON INFLATION AND GROWTH**

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**Abstract:** In January 1963, distinguished economists from all over the world descended on Rio de Janeiro to discuss the phenomenon of chronic inflation and how it interfered with the developmental prospects of Latin America. A non-exhaustive list of participants included such notable figures as Hollis Chenery, Gottfried Haberler, Arnold Harberger, Roy Harrod, Albert Hirschman, Nicholas Kaldor, W. Arthur Lewis, and Dudley Seers, who shared conference halls for an entire week with high-profile Latin American economists like Roberto Campos, Celso Furtado, Eugenio Gudin, Felipe Pazos, Aníbal Pinto, Mario Henrique Simonsen, Osvaldo Sunkel, and Victor Urquidi. The conference has since been regarded as an early peak in the decades-long controversy between monetarists and structuralists about the causes of inflation in Latin America. While local economists had been grappling with the problem of monetary stabilization for some time, the topic entered the agenda of the economics mainstream as the Cuban Revolution turned Latin America once again into a strategic security concern. The paper shows how the sense of urgency generated by Cold War geopolitical considerations attracted the interest of the economics profession at large to the phenomenon of chronic inflation in Latin America. At the same time, it imposed the standards embraced by the mainstream onto a debate that had so far developed according to regional concerns and priorities. The resulting tension would shape the evolution of monetary and macroeconomic analysis in Latin America for decades to come.

**Keywords:** inflation, economic growth, structuralism, monetarism, Cold War

**JEL Codes:** B22, B25, B52, E31, E52

## 1. Introduction

“Unfortunately, relatively few economists outside of Latin America, aside from those connected with governments or international agencies, have been directly concerned with the analysis of Latin American economic problems.”<sup>1</sup> Thus began the report of a preparatory conference held in July 1960, at the Rockefeller Foundation’s recently inaugurated Bellagio Center, to discuss the problems of inflation and growth in Latin America. This small gathering was one of the important first steps leading to a much larger event, the 1963 Conference on Inflation and Growth in Latin America, which brought a large group of distinguished economists from all over the world to Rio de Janeiro for an intensive week-long discussion of the economic problems affecting the region. The conference proceedings, published in Baer and Kerstenetzky (1964), have since come to be regarded as a still photograph of the controversy then raging in Latin America between ‘monetarists’ and ‘structuralists’ on the causes of inflation in underdeveloped economies (Arndt 1985; Boianovsky 2012). Featuring panel discussions that paired foreign and local luminaries – Sir Roy Harrod and Osvaldo Sunkel, Arnold Harberger and Felipe Pazos, Friedrich Lutz and Celso Furtado – the conference undoubtedly succeeded in sparking more interest in the problems of Latin America among the international economics community.

But why such an effort to draw attention to the struggles of Latin American countries with monetary instability and volatile growth paths? Gathering a few dozen high-caliber economists for an intellectual retreat in an exotic corner of the world requires time, energy, and resources. Accordingly, preparations for the conference began three years earlier, and received generous support from some of the key patrons of postwar science, including the Ford and Rockefeller foundations. The motivation came, in part, from the delicate economic conditions prevailing in the region: countries like Chile, Brazil and Argentina had been living with alarming levels of inflation, which seemed to interfere with their long-term developmental prospects. But inflation, of course, was not a new phenomenon in Latin America. As noted by one contemporary observer, Chile had by then “almost 95 years of fairly continuous inflation” (Campos 1961, p. 73). The reason why international attention was suddenly attracted to this topic lay elsewhere, in much more immediate concerns: the triumph of the Cuban Revolution in the early hours of 1959, which turned Latin America into a new priority for US foreign

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<sup>1</sup> ‘Summary and Recommendations, Preparatory Conference on Inflation and Growth in Latin America, July 13-19, 1960’, November 15, 1960, Reel 0701, Grant File PA 61-340, FA732I, Ford Foundation Records, Rockefeller Archive Center, Sleepy Hollow, NY (hereafter FFR).

policy (Parmar 2012, pp. 180-185). That same year, the Ford Foundation sponsored a series of exploratory missions to Latin America and finally incorporated the region into its overseas development portfolio.<sup>2</sup> Generous funds for development assistance soon followed (Bell 1971; Holmes 2013, pp. 32-55; Calandra 2019).

The chronic inflationary problems of Latin America thus combined with the geopolitical instabilities affecting the region to create the sense of urgency underlying the 1963 Rio conference. The Cold War was also a battle for the ‘hearts and minds’, especially of those who lived in the vast regions collectively labeled the Third World. Following the tenets of modernization theory, the philanthropic foundations specialized in the promotion of cultural and educational activities that could help spread the values of Western liberal democracy to these areas (Gilman 2003; Parmar 2012; Iber 2017). The Rio conference illustrates this philosophy in practice: it created a forum where representatives from the intellectual elites of both Latin America and the Western developed world could mingle and explore their common interests. The choice of subject-matter answered a twofold purpose: on one hand, to stimulate interest from the economics profession at large on the peculiar problem of reconciling monetary stability with the overall goal of accelerated economic development; on the other, to induce Latin American economists to confront their own theories and policies with the academic standards currently prevailing in the field. The result, it was hoped, would show the way to a robust and stable developmental process that minimized political volatility in the region.

The paper reconstructs the preparations, the proceedings, and the aftermath of the 1963 Rio Conference to explore its broader implications for the history of Latin American economics. It shows how the conference planners were genuinely interested in making sense of the dispute between monetarists and structuralists, stimulating both camps to frame their case in ways that could facilitate communication and engagement with other economists not familiar with the terms of this debate. The conference thus brought Latin America more firmly into the mainstream in a double sense: it turned the inflationary experience of the region into a problem worthy of the best minds in the profession, while simultaneously inducing Latin American economists to recast their concepts, methods, and arguments in the standard language of postwar macroeconomics and inflation theory. Seen in this light, the episode

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<sup>2</sup> Alfred Wolf, Lincoln Gordon and Reynold Carlson, ‘Ford Foundation Mission to Brazil, July-August, 1959’, Catalogued Report 000008, FA739A, FFR; Alfred Wolf, Kalman Silvert and Reynold Carlson, ‘Ford Foundation Mission to Argentina, August-September, 1959’, October 1959, Catalogued Report 000027, FA739A, FFR.

illustrates how actions motivated by a dual sense of economic and political instability produced lasting effects on the future of macroeconomic theory and policy in Latin America.

## 2. Preparing the 1963 Rio Conference

The seeds of the 1963 Rio conference were planted during a preparatory conference held on July 13-19, 1960, in Bellagio, Italy. The event was organized by the National Planning Association (NPA), a liberal think tank founded during the New Deal era to support and disseminate research on social and economic planning. A business-sponsored organization, the NPA advocated for an administered market economy where planning techniques were used to guarantee the full utilization of productive capacity. During the interwar years, it campaigned for “a version of democratic planning,” pitched as “a solution to the deepening world crisis that avoided the pitfalls of the communist or fascist versions poised so ominously across Europe” (Whitham 2016, p. 19). The shift in political climate in the US after the outbreak of World War II led the NPA to tone down its message. Besides joining the emerging moderate Keynesian consensus on domestic policy, the organization also expanded the international scope of its activities, preaching a government-regulated, private enterprise system as a developmental model for war-ravaged Europe and the Third World, keeping both safe from communist expansion (pp. 112-130, 167-172).

While the NPA took care of logistics, funding came from the Rockefeller and Dearborn foundations. The latter was one of the front organizations used by the CIA to channel resources into the cultural battlefields of the Cold War, as later revealed in a series of investigative pieces published by *Ramparts* magazine in the late 1960s (Wilford 2008, pp. 158-163, 225-248; Iber 2015, pp. 208-210). Dearborn and Rockefeller would soon be joined by the Ford Foundation, which agreed to help fund the large conference initially projected for the summer of 1962.<sup>3</sup> This grant was allocated to Yale University, which had only recently inaugurated its Economic Growth Center, similarly funded by Ford. Yale and the NPA should lead the charge on the US side, while three other institutions were chosen to co-sponsor the event from Latin America: the University of Chile’s Institute of Economic Research, the DiTella Foundation in Argentina, and the Getúlio Vargas Foundation in Brazil.<sup>4</sup> The choice of

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<sup>3</sup> ‘Request for Grant Action, Conference on Inflation and Growth in Latin America’, August 28, 1961, Reel 0701, Grant File PA 61-340, FA732I, FFR.

<sup>4</sup> ‘Proposal for a Conference on Inflation and Growth in Latin America’, Reel 0701, Grant File PA 61-340, FA732I, FFR.

institutions offers a first glimpse of the balancing act the conference planners were trying to perform. The Vargas Foundation was one of the bulwarks of monetarism in Latin America, whereas the University of Chile contained a sizeable group of economists sympathetic to the structuralist approach mostly associated with the work of the UN's Economic Commission for Latin America (ECLA).<sup>5</sup>

The same pattern can be observed in the 17-person list of participants invited for the 1960 Bellagio conference. Both the Brazilian Roberto Campos and the Chilean Aníbal Pinto were present, economists strongly associated with the monetarist and structuralist approaches, respectively. The two institutional strongholds of the controversy were likewise represented, in the persons of IMF economist Charles Schwartz and ECLA executive secretary Raúl Prebisch.<sup>6</sup> But despite the clear effort to contemplate both sides, the planning group tried to steer clear of the more overt political implications of the dispute. According to the Bellagio report, “participants in this preparatory conference came as economists who were interested in the problem of inflation and growth in Latin America, and not as representatives of any specific governments or international organizations.”<sup>7</sup> Likewise, the choice of five private research institutions as co-sponsors followed a recommendation that “the conference should not be sponsored by governments or international organizations, since the problems of official representation and presentation of political positions would be immediately raised.” Even the choice of location was influenced by similar considerations. Rio de Janeiro prevailed for being a neutral territory, since “a conference in Santiago might by some be considered to be too much under the influence of the Economic Commission for Latin America,” whereas a similar event in Mexico City could be perceived as “too North American in its orientation.”<sup>8</sup>

The Bellagio group's recommendations hinged on the hope that a high-profile international conference on inflation and growth in Latin America “would do much to clear up many of the highly controversial questions, and it would permit an intellectual interchange between Latin and non-Latin economists about this very important problem.”<sup>9</sup> While this conferred importance and legitimacy to the dispute between monetarists and structuralists, it

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<sup>5</sup> The controversy between monetarists and structuralists in Latin America has been the subject of an extensive literature, both in English and Spanish. See Carvalho (2019) for a recent in-depth historical analysis of these debates ranging from the 1950s until the 1980s.

<sup>6</sup> The complete list of participants included: Roberto Campos, Hollis Chenery, Gerhard Colm, Alain Debiez, Börje Kragh, Jose Antonio Mayobre, Pedro Mendive, Julio Olivera, Felipe Pazos, Aníbal Pinto, Raúl Prebisch, Nancy Ruggles, Richard Ruggles, Charles Schwartz, Dudley Seers, Robert Triffin, and Pierre Uri.

<sup>7</sup> ‘Summary and Recommendation’, FFR.

<sup>8</sup> ‘Proposal for a Conference’, FFR.

<sup>9</sup> Ibid.

also called attention to how the argument had been mostly confined to the regional limits of Latin America. Gaining traction in the late 1950s amid criticisms of the stabilization programs advocated by the International Monetary Fund for different Latin American countries, the structuralist approach insisted that inflation resulted from the pressures and ‘bottlenecks’ created by accelerated growth in underdeveloped economies, where structural imbalances among productive sectors tended to prevail. Inflation was thus not a monetary phenomenon since it did not originate from an expanding money supply. On the contrary, lax monetary policy was simply an easy expedient to accommodate the distributive conflicts occasioned by structural inflation. As formulated in the classic statements by Juan Noyola Vásquez (1956) and Osvaldo Sunkel (1957; 1958), this hypothesis circulated only among Spanish-speaking audiences until the end of the decade. The conference planners sought to change this by bringing the structuralist case – and the criticism raised against it by economists who embraced the monetarist alternative – to the attention of the mainstream of the economics profession.<sup>10</sup>

The Bellagio conference was not an isolated event in this respect. The influential volume *Latin American Issues*, edited by Albert Hirschman, emerged in 1961 from the work of a study group set up, two years earlier, by the Twentieth Century Fund.<sup>11</sup> The preface to the volume pleaded guilty to charges of neglect by the United States toward Latin America, lamenting that “over the past years little fresh effort has been taken on our part to understand Latin America, to explore its economic, social and political problems, to begin a dialogue with its intellectuals and social scientists” (Heckscher 1961). The sponsors were especially glad to have three contributions from Latin American scholars. One of these was destined to become a touchstone in the monetarist-structuralist literature: Brazilian economist Roberto Campos’ ‘Two Views on Inflation in Latin America’, the first English-language attempt to summarize the terms of the debate. “In several Latin American countries now facing problems of acute inflation,” Campos (1961, p. 69) explained, “there is a sharp theoretical and policy clash

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<sup>10</sup> Brazilian economist Octávio Gouveia de Bulhões published an early statement of the monetarist case applied to Latin America in a volume edited by the short-lived Institute for Brazilian Studies at Vanderbilt University (Bulhões 1950). While recognizing that underdeveloped economies were more prone to inflationary episodes due to their lower elasticity of supply, Bulhões stressed that inflation always resulted from excess aggregate demand, often brought about by loose monetary policy. This argument was further developed by his colleague Eugênio Gudin in an influential Portuguese-language textbook (Gudin 1952). Later in the decade, however, writers in the structuralist tradition were mostly directing their attacks at the position formulated by IMF economists like Edward Bernstein (1956) and J. J. Polak (1957), who offered the first insights into what would later become known as the monetary approach to the balance of payments.

<sup>11</sup> Since renamed The Century Foundation, the Twentieth Century Fund was another liberal think tank created during the interwar years to pursue research in topics pertaining to public policy. When the Latin America study group was formed, the Fund was chaired by legal scholar and veteran New Dealer Adolf Berle. Among its members, the study group featured Lincoln Gordon, Alfred Wolf, and Reynold Carlson – the team responsible for the first reconnaissance missions sent by the Ford Foundation to Latin America in 1959 [see footnote 2].

between two groups which, for want of better terms, I shall call the ‘monetarists’ and the ‘structuralists’.”<sup>12</sup> The latter believed the ‘discrepant’ behavior of inflation in less developed countries required new concepts and analytical tools, which led him to ponder: “Is a new or modified theory of inflation, emphasizing supply inelasticities or bottleneck factors which are judged to be inadequately covered by the ‘demand-pull’ or ‘cost-push’ theory, in fact needed for the understanding of inflation in Latin America?” Finding the answer in the negative, Campos proceeded to qualify the structuralist approach as “an exercise in ‘unnecessary’ originality” (p. 71).

The Hirschman volume also contained a critical rejoinder to Campos, written by US economist David Felix, and a statement of the structuralist position by Austrian economist Joseph Grunwald, then working at the University of Chile.<sup>13</sup> Felix tried to elucidate why the dispute between monetarists and structuralists had so far failed to produce any workable policy consensus. On one hand, it was difficult to grasp the underlying assumptions behind the monetary stabilization programs implemented in Latin America. “The official views on development of the IMF are not available,” Felix (1961, p. 83) explained, “since the IMF missions operate as behind-the-scenes advisers and critics of programs which formally are the responsibility of each government.” This, in turn, introduced ideological cleavages that further obscured the terms of the debate. As Felix noted, “domestic support for the stabilization programs has come chiefly from the Rightist parties that have an ideological antipathy to large-scale planned development programs.” Across the divide, where “many of the ‘structuralists’ are partisans of the parties of the Left,” this could only be met with distrust. But while structuralists were united in their denunciation of misguided stabilization programs, they seemed hard pressed to agree on most anything else. “The task of summarizing the ‘structuralist’ position is made more difficult,” Felix concluded, “by the fact that there are really various positions. ‘Structuralists’ are more united as critics than as programmers.”

Grunwald tried to present an intelligible summary of the structuralist position to non-Latin American audiences. His strategy is illustrative for deploying an analogy with another controversy closer to the heart of mainstream economics:

For at least the last five years an acrimonious public debate has been carried on in Latin America between the so-called ‘monetarist’ and ‘structuralist’ schools in regard to the nature of inflation. This

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<sup>12</sup> Boianovsky (2012) credits Campos as the first to introduce the terms monetarist/monetarism and structuralist/structuralism in the English-language literature on monetary economics.

<sup>13</sup> Grunwald had been an economics professor at Columbia before coming to Chile in 1954. In 1961, he returned to the US on a Yale professorship, before moving to the Brookings Institution.



may be considered a corollary of the now overworked ‘demand-pull’ versus ‘cost-push’ discussion in the United States of the last few years, although the ‘structuralist’ and the ‘cost-push’ arguments seem to have little in common. However, both the ‘structuralists’ of Latin America and the adherents of the ‘cost-push’ school in the United States challenge orthodox thinking on the inflation problem (Grunwald 1961, p. 95)

“The underlying policy question in both debates,” Grunwald continued, “is whether monetary stabilization policies are compatible with economic growth.” Given this structural affinity, he purported to present the specifics of the structuralist case “in a neutral fashion.” To Grunwald, structuralism revolved around the claim that “price stability can be attained only through economic growth,” since “the basic forces of inflation are structural in nature.” Though not denying the relevance of “financial factors,” structuralists claimed these acted “only as forces propagating inflation and not originating it.” Even if monetary policy was easy to implement and delivered quick results, “it attacks only symptoms and therefore cannot cure” (Grunwald 1961, p. 96). Like Felix, Grunwald highlighted the importance of ‘basic’ structural causes – such as an inelastic supply of foodstuffs or the state’s deficient fiscal capacity – in structuralist accounts of inflation, which were reinforced by ‘propagation mechanisms’ resulting from the strategies adopted by different social groups to protect their real incomes (including fiscal and monetary accommodation by the government).<sup>14</sup> But while there was broad agreement around this schematic representation, the school had only given rise to “a rather vague picture of economic policies” – a reflection, no doubt, of the lingering absence of a “coherent ‘structuralist’ theory” (p. 117).<sup>15</sup>

The Bellagio group broadly shared this assessment. “The problem of inflation in Latin America,” the main report stated, “differs in a number of important respects from the problem as it presents itself in North America and Western Europe, and the traditional theory of inflation as it has been developed in these latter countries does not always appear to be strictly relevant.” Both demand-pull and cost-push arguments failed to provide “an adequate explanation of the differences which are observed among the countries of Latin America in the relation of inflation and growth.” Even if the planned conference should be mainly concerned with “the

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<sup>14</sup> Here Grunwald (1961, p. 116) reintroduced the analogy with cost-push inflation theories: “It is clear that in much of their analysis, the ‘structuralists,’ just as their ‘cost-push’ counterparts, assume downward price rigidity in the ‘dynamic’ sectors.”

<sup>15</sup> Grunwald (1961, p. 109) also recognized the importance of ideological cleavages for the contours of the monetarist-structuralist controversy: “Some ‘structuralists’ have exaggerated their differences with the ‘monetarists’ for political or other reasons. It is obvious that the ‘monetarists’ would agree with much of what the ‘structuralists’ say and vice versa. If one examines the complete program of the Klein-Saks mission, which came under such strong fire by the ‘structuralists’, one will probably find one of the most ‘structural’ that was ever proposed in Chile on a practical level. It was the International Monetary Fund which helped draw the lines of battle.”

practical purposes to be achieved than with either the explanation of past developments or the development of theory,” several participants indicated “the desirability of having an agreed-upon theoretical framework which could be used as a starting point for the discussion.”<sup>16</sup> After some discussion about the purposes to be served by this framework and the appropriate manner for its construction, the group agreed to organize its own work around the following goals:

- (1) the development of a conceptual and analytical framework that would be applicable to the problem of inflation and growth in all countries;
- (2) the specification of the economic, sociological, and political factors which are important in Latin America, in such a manner that they could be fitted into the more general model to explain why inflation and growth in Latin America is different from elsewhere (if it is) and why differences exist among Latin American countries; and
- (3) the consideration of the arsenal of strategic policy weapons which would be relevant to the problems of inflation and growth in Latin America.<sup>17</sup>

In items (1) and (2), we catch the first glimpse of an underlying tension: on one hand, the effort to translate the Latin American debate in terms of a common language that could facilitate communication with the larger economics community; on the other, concern with doing justice to the historical specificities of the region, along the lines of the trademark ECLA approach. While envisioning the most appropriate format for the future conference, participants at Bellagio “pointed out the need for bringing in both the theoretical framework and the country experience in some way, on the ground that without this background the discussion of problems was likely to degenerate into a rehash of old arguments about the merits of alternative policy approaches.” To fulfill its hopes for an effective theoretical framework, the group considered the possibility “that a background paper should be prepared that could be distributed to all participants in advance, with the object of unifying the discussion.” The quest for this common framework would become a driving feature of the preparatory work for the Rio conference in the years ahead, ultimately reshaping the terms of the monetarist-structuralist controversy.

### **3. In Search of a Common Framework**

After agreeing on the axes that should structure the future conference, the Bellagio group instituted three working parties to lead the charge on each of these fronts. Responsibility for kick-starting discussions about the “conceptual framework” fell at first on Hollis Chenery,

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<sup>16</sup> ‘Inflation and Growth in Latin America: Report of the Preparatory Conference, July 13-19, 1960’, November 15, 1960, Reel 0701, Grant File PA 61-340, FA732I, FFR.

<sup>17</sup> Ibid.

Börje Kragh, Julio Olivera, Richard Ruggles and Robert Triffin. After establishing that “no single definition” of inflation “seems to fit all possible cases,” the working group proceeded to identify three basic causal factors that might explain the occurrence of inflationary episodes: “excess demand”, “autonomous increases in costs”, and “structural changes”. These could be usefully considered as “autonomous impulses”, but once the inflationary process gained momentum, “the same factors become links in a chain of causation by which price rises and excess demand are perpetuated.”<sup>18</sup> Not unlike Grunwald, therefore, the group tried to incorporate the structuralist argument – including the conceptual distinction between basic causes and propagating mechanisms – alongside the more established cases of demand-pull and cost-push inflation. Their sympathetic attitude toward the structural approach came off even stronger in later passages. “As some downward flexibility of prices generally exists,” their notes explained, “and the elasticity of supply and demand to relative prices is not infinitely large, changes in the structure of demand or supply generally lead to an inflationary bias. This may be particularly strong if important sectoral bottlenecks exist, or if the changes in the pattern of demand are wide and frequent.” Moreover, the “magnitude of inflation” resulting from any of the primary causes “varies considerably with the economic and political power of the various groups of income recipients.”<sup>19</sup>

This attitude was not entirely surprising considering the group’s composition. Both Ruggles and Chenery had visited the ECLA headquarters during the late 1950s, where they were certainly exposed to the structuralist theory of inflation (Seers 1962; Boianovsky 2019). Triffin had a long history of involvement with money doctoring missions to Latin America, through which he became closely acquainted with Raúl Prebisch (Helleiner 2009; Pérez Caldentey & Vernengo 2018). The Swedish economist Börje Kragh was formally affiliated to ECLA while attending the Bellagio meeting, whereas Julio Olivera, then still a young economist from Argentina, worked as a consultant to Commission. As we will see, Olivera would become one of the main theoretical articulators of structuralism in the 1960s. According to the working group’s report, it was him who drafted the final section discussing the effects

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<sup>18</sup> ‘Notes by Working Party 1 on “A Conceptual Framework for Analyzing the Relations Between Inflation and Growth”’, November 15, 1960, Reel 0701, Grant File PA 61-340, FA732I, FFR.

<sup>19</sup> The notes also mentioned it was “the effect on growth (and income distribution) rather than the fact of rising prices that makes inflation of particular importance in Latin America.” These effects could be positive – increased labor mobility, rising business and government savings, more total investment – or negative – distorted composition of investments, falling exports, balance of payments disequilibria.

of growth on inflation – sketching, among other things, the argument that “unbalanced growth may counteract demand and cost inflation, but may imply structural inflation”.<sup>20</sup>

When the results of the working group’s discussions were presented before the remaining Bellagio participants, it fell upon Olivera to explain their reasoning on the propagating mechanisms of inflation. While doing so, he highlighted how “the traditional view of the determinants of the level of prices rests on the intersection of global monetary supply and demand schedules, with a highly artificial division between the real world and the monetary world.” Even if one could conceptually distinguish between different ‘types’ of inflation, in practice these were “usually intermixed.” The most fruitful approach, therefore, was to identify “typical sequences of reaction.” One of the sequences described by Olivera rested on changing relative prices resulting from autonomous demand shifts, which led to an increase in the overall price level due to downward inflexibility of prices. Since “prices are in fact relatively inflexible downward,” Olivera concluded, “any change is likely to be in an upward direction,” thus leading to a “permanent inflationary trend.”<sup>21</sup> At this point in the discussion, Dudley Seers intervened to reinforce the position that propagation mechanisms, rather than basic causes, should be the focus of an appropriate general model of Latin American inflation:

[...] the framework for analyzing the causes of inflation developed in the working party’s notes would apply primarily to developments in industrial countries, and bears a strong resemblance to ECLA’s early drafts. ECLA had departed from this type of analysis, however, because they felt that it was possible to accommodate most of these points within a general discussion which would cover both countries with inflation and those without inflation. This analysis, furthermore, does not distinguish between self-sustaining inflation and self-limiting inflation. The important consideration [...] is propagation patterns, not causes. These patterns tend to be common to the region, whereas any attempts to classify countries by cause of inflation usually leads to the wrong policy conclusions.<sup>22</sup>

A British economist later known for his deep personal involvement with the Institute for Development Studies at Sussex, Seers had been stationed at the ECLA Santiago headquarters since 1957, an experience that converted him into a passionate supporter of the structuralist cause (Jolly 1989; Toye 1989). By 1960, he was engaged in the task of translating the insights of Noyola, Sunkel and other Latin American economists into an analytical framework that could be brought to the attention of the economics profession at large. Rather than investigating the initial disequilibria that gave rise to inflation, Seers believed it would be

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<sup>20</sup> ‘Notes by Working Party 1’, FFR.

<sup>21</sup> ‘Report of the Preparatory Conference’, FFR.

<sup>22</sup> *Ibid.*

better to start from “a definition of dynamic equilibrium” that could be stated “in terms of an absence of excessive price rises or import deficits.” From this common benchmark, one could then identify the reasons why different countries failed to reach “a satisfactory dynamic equilibrium,” such as insufficient growth, structural imbalances in the foreign sector or an inelastic supply of foodstuffs. To Kragh – Seers’ colleague at ECLA at the time – the extraction of policy implications from this theoretical framework would be made easier by the adoption of “an explicit model of the behavior of the economy.” Besides making it easier “not to lose any ends,” such a model might “obviate the need for distinguishing between demand and cost inflation, etc.” Kragh believed “some of the Tinbergen models” were applicable to the Latin American context, and suggested a specification based on “autonomous shocks, policy targets, and structural coefficients, all of which can be varied to suit the case in hand.”<sup>23</sup>

Seers was enlisted to participate in the working group dealing with the specific features of different Latin American economies (item [2] in the list transcribed above), together with Pierre Uri, Gerhard Colm, José Antonio Mayobre and Aníbal Pinto. Their brief notes contained a list of potentially relevant factors for explaining the disparate combinations of inflation and growth observed in Latin America.<sup>24</sup> The group suggested these factors should be used to prepare an analytical summary of a series of country studies prepared by ECLA – under the supervision of Seers – which the Commission had made available to the Bellagio group “on a confidential basis.”<sup>25</sup> Accordingly, their results were presented before the larger group in the form of preliminary country-specific accounts, which led to considerable discussion about the causal role attributed to certain variables. When the Brazilian case came up for discussion, Roberto Campos jumped at the opportunity to flex his monetarist muscles. Brazil presented “the only clear case of growth with inflation,” Campos explained, which might lead to “dangerous conclusions as to causality.” The ECLA study refrained from exploring in depth “whether growth occurred because of inflation or in spite of it, and similarly whether the inflation was caused by the growth, or whether it was unrelated.” Over the long run, Campos saw “no correlation between the rate of inflation and the rate of investment,” while the expedient of fixing the prices of public utilities had negative consequences for investment in infrastructure, leading to “acute bottlenecks”. He also believed the ECLA study was

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<sup>23</sup> Ibid.

<sup>24</sup> ‘Notes by Working Party 2 on “A Framework for Analyzing the Characteristics of Latin American Economies from the Standpoint of Inflation and Growth”’, November 15, 1960, Reel 0701, Grant File PA 61-340, FA732I, FFR.

<sup>25</sup> ‘Proposed Ground Rules for Bellagio Preparatory Conference’, November 15, 1960, Reel 0701, Grant File PA 61-340, FA732I, FFR.

“overoptimistic” about the effects of inflation on savings and government revenue. His conclusion, accordingly, was that inflation amounted to “a highly wasteful and inefficient method of promoting growth.”<sup>26</sup>

But the most controversial topic was introduced once again by Seers, who presented before the Bellagio group a first draft of an ECLA paper entitled ‘A Provisional Outline of a General Theory of Growth and Inflation in Latin America’. Seers warned his colleagues the paper represented “a drastic simplification of the problem,” but explained how “ECLA had felt the need for a short statement of their position, to show how inflation might arise out of external circumstances and internal actions.” The presence of “certain common patterns” seemed to indicate it was “possible to construct a general theory to explain the relation between changes in production, prices, and money.” While this theory was based on assumptions appropriate to Latin America, they were also “applicable to other underdeveloped regions” and showed “obvious similarities” to the same phenomena as observed in developed countries like the United States. “This suggests,” the paper confidently asserted, “that in a few years it will be possible to develop a theory of wider applicability.”<sup>27</sup>

The argument developed in the paper was restricted to a long-period model based on three assumptions, jointly describing the archetypical underdeveloped economy: (1) “the economy exports mainly primary products and imports mainly manufactures;” (2) “the income elasticity of demand for manufactures is greater than unity;” and (3) “there are various hindrances to the mobility of resources between sectors of the economy, in particular a specialization of certain resources producing almost exclusively for the export market.” The conditions for dynamic equilibrium in such an economy imply that income must grow at a slower rate than exports, otherwise there would be “a tendency to deficit in the balance of payments.” But if this warranted rate of growth were too small – “less than the rate of increase in the population,” for example – governments would be tempted to run either a budget deficit or an expansive monetary policy to induce a higher growth rate. In this new scenario, “demand for imports will grow faster than the supply of foreign exchange for buying them,” thus putting pressure on the exchange rate and eventually leading to a devaluation, with direct and indirect inflationary effects.

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<sup>26</sup> ‘Report of the Preparatory Conference’, FFR.

<sup>27</sup> ‘A Provisional Outline of a General Theory of Growth and Inflation in Latin America’, Reel 0701, Grant File PA 61-340, FA732I, FFR.

This simplified model ignored incentives to import substitution and increased domestic production introduced by the stimulus policy itself, which might seem to point toward “some inherent tendency to correct for the strains on the balance of payments.” The conditions for this adjustment, however, turned out to be very demanding. “Output in some sectors has to expand very rapidly,” not only because imports are constrained, but also because “the pattern of demand is changing so that for certain goods the rise in output has to be very much faster than the growth of national product.” Moreover, certain types of imports – such as “raw material, fuel, and capital goods not produced in the country” – cannot be prevented from increasing rapidly without seriously checking the growth process, thus putting additional strain on domestic producers to replace other previously imported goods. At this point, the paper resorted to the usual structuralist arguments to explain why such an adjustment was unlikely to occur under the conditions prevailing in an underdeveloped economy:

This transformation would raise no great problem if supply conditions were elastic. In fact, however, agricultural land is often in the hands of those who fail to respond to these stimuli. In the manufacturing sectors – which have to make a particularly heavy contribution to the rise in the national product – enterprise is inadequate, or supplies of labor skills are too short, or conditions are too monopolistic, for the increases in output to be induced without price rises. Even if those industries are able to respond to this demand, their suppliers (of energy, of materials, of transport) may not be. Any inflexibility in the chain of inter-industry transactions will lead to rising costs and rising prices.<sup>28</sup>

Once begun, this process “sets in motion its own cumulative forces,” including wage demands, budget deficits, and expanded public debt. The paper recognized that it was, “in principle, possible for the monetary authorities to prevent the whole process from gaining momentum.” If the money supply was kept “completely rigid”, prices would sooner or later have to stop rising. But this policy would also “bring to an end the economic expansion,” which raised the question of political feasibility:

How much room for manoeuvre monetary authorities really have, especially in the long run, is questionable. This is ultimately a matter of what governments can do, for if governments are under pressure to maintain growth, they can (in the last resort by legislation) impose this policy on the monetary authorities. In fact, drastic policies of restricting credit have not been maintained for very long and it is difficult to imagine under what political conditions they could be.<sup>29</sup>

“For the purposes of this model,” the paper concluded, one could “treat the monetary authorities as, in the long run, passive agents in the process by which price inflation develops.”

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<sup>28</sup> Ibid.

<sup>29</sup> Ibid. The last sentence in this quotation eerily evokes the Chilean experience in the following decade.

Rather than being the result of inappropriate monetary policies adopted by incompetent and/or irresponsible governments, the model showed how “chronic inflation can emerge, under the circumstances described, out of the process of growth, without governments taking any rash decisions, unless the decision to expand output faster than exports is so considered.”<sup>30</sup>

This argument generated much controversy when Seers presented the paper before the Bellagio group. Predictably, it was Campos who reacted more strongly, stating he was “disturbed by the fatalistic approach of the paper, and the unceremonious relegation of monetary policy to the scrap heap.”<sup>31</sup> He questioned the crucial assumption of greater-than-unity elasticity of imports as lacking empirical confirmation, and argued the causal sequences described in the paper “could be broken at several points” through the judicious use of appropriate policy instruments. In the case of Brazil, the argument that stagnant exports led to a situation in which growth was only possible with inflation inverted the actual causal sequence: it was higher domestic prices, combined with an overvalued exchange, which reduced Brazilian capacity to compete in international markets. To this, Seers replied: “if one looks at world prices and at the imports of industrial countries it does not look as if the magnitude of this effect could be very great, especially since the principal market for Latin American exports is the United States, which is slower growing than Europe.”<sup>32</sup>

Both Colm and Schwartz agreed the analysis advanced in the ECLA paper was “too fatalistic”, in the sense that policy decisions seemed to be already built into the model. Aníbal Pinto reacted to this criticism stating that policies are indeed inevitable sometimes. “The range of possible policies,” he explained, “is circumscribed by the existing social and institutional situation.” He agreed inflation could be controlled by using the right policies but added that “the right policies are not necessarily those used in the developed countries.” Rather than “building up reserves in good times against the bad,” perhaps a better alternative would be to “use the reserves acquired in good times to change the economy so as to fortify it against the bad times.” Seers, not surprisingly, concurred in this assessment, denying the charge of fatalism and arguing the confusion arose from different understandings about which variables were amenable to policy influence:

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<sup>30</sup> Ibid.

<sup>31</sup> ‘Report of the Preparatory Conference’, FFR.

<sup>32</sup> The argument that the United States offered a slower external motor for the growth of Latin America in the postwar era, when compared to the similar role played by Europe in the preceding decades, was a standard trope of ECLA center-periphery analysis (see Prebisch 1950).



The really interesting question is which factors are open to change in the future. There are two approaches. Those who believe that structural elements are unchangeable are likely to think inflation is unavoidable. The alternative is to change the structure. Accordingly, one is led to conservative or revolutionary conclusions.<sup>33</sup>

At this point, Prebisch himself intervened to explain how “the seeming fatalism of the ECLA approach is a result of a polemic against the behavioristic approach,” which he associated to “a well-known school of thought that attributes inflation to bad behavior.” Bad behavior did exist, he continued, “but the inflation would occur even without it unless something is done about structural factors.”

By now, the lines of battle had been clearly drawn, and they were duly carried over to the steering committee put in charge of preparing the ground for the upcoming conference in Rio de Janeiro. Chaired by Ruggles and having two other US-based economists – Colm and Schwartz – amid its ranks, the committee’s creative tension undoubtedly came from the dynamic pair of Campos and Seers. Tellingly, the structuralist stance happened to be represented by a British economist who had been first exposed to ECLA theorizing only three years before.

#### **4. The 1963 Conference and Its Aftermath**

The 1963 conference in Rio de Janeiro would provide an international stage for the confrontation between monetarists, like Campos, who stood by the active money hypothesis and blamed inflation on the lack of control over monetary emission by policy authorities – the ‘bad behavior’ to which Prebisch alluded – and ECLA structuralists who claimed that supply rigidities generated chronic inflationary pressures, which were then propagated by monopoly pricing and distributional conflicts. As the dispute now moved beyond regional confines to reach a broader economics audience, monetarists naturally held the upper hand, since they built on time honored and widely recognized assumptions in monetary and inflation theory. Structuralists, on the other hand, had to figure out ways of presenting their ideas in terms that were accessible and comprehensible to economists unfamiliar with the controversy as it had developed in Latin America.

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<sup>33</sup> Ibid.

One of the first such attempts was Julio Olivera's 'La teoria no monetaria de la inflación' (1960), published a few months after the Bellagio conference.<sup>34</sup> Olivera (1960, p. 616) admitted that, as they currently existed, non-monetary arguments about the causes of inflation were still "a hypothesis for special cases rather than a theory," but argued one should nonetheless investigate "the possibility of one such theory, its logical conditions and its connection with the general doctrine of economic analysis."<sup>35</sup> To highlight the distinctiveness of his own non-monetary theory of inflation, he established a contrast with the more commonly-known demand-pull and cost-push theories. While cost-push theories departed from the standard demand-pull approach by recognizing the money supply as an endogenous variable, both hypotheses were similar in their reliance on purely monetary causal factors to explain inflation – in this sense, they remained "perfectly compatible with the stability of relative prices, that is, with what the classicals would describe as the stability of real equilibrium" (p. 619). In Olivera's non-monetary theory, conversely, "the inflationary impulse comes from a change in the conditions determining relative prices and the consequent tendency to variation in the latter," which implied inflation was merely "an epiphenomenon of displacements in the system's real equilibrium position." This induced a change in the variables of analytical interest: "rather than the global volume of demand and supply, what matters is their structure or composition, as the value relations between goods depend on them."

Structuralists were known for avoiding the use of mathematics to portray an institution-laden, complex process such as the mutual dependence between inflation and growth in underdeveloped economies.<sup>36</sup> But Olivera was ready to move beyond these methodological strictures, building a Walrasian general equilibrium model to analyze "the necessary and sufficient conditions for the appearance of the effects contemplated in the non-monetary theory of inflation" (p. 620). Under conditions of downward price rigidity, "changes in relative prices, whatever their cause or direction, *can only take place* through a movement in the general price level." Such effects were irreversible, moreover, since "a return to the original price relations would not cancel the rise in the price level caused by their alteration" (p. 622). These results were specified more formally in a mathematical appendix where Olivera described the properties of his model, comprising  $n-1$  commodity markets plus an  $n^{\text{th}}$  market for money. If

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<sup>34</sup> In his acknowledgements, Olivera thanked Jorge Ahumada, Pedro Mendive, Börje Kragh, Dudley Seers, and Richard Ruggles for useful discussions of his theoretical model. Apart from Ahumada, all the others were present at Bellagio. While they had all been involved with ECLA during the late 1950s, only the first two came from Latin America.

<sup>35</sup> All translations from the Spanish are our own.

<sup>36</sup> See Dutt & Jameson (1992), Ros (2000) and Dutt & Ros (2003) for a review of structuralist economics.

one departed from a situation in which at least one price is specified in monetary terms, “the behavior of real [relative] prices determines the value of money in all subsequent situations.” As a result, each “new constellation” of relative prices leads to a higher general price level, thus configuring an “inflationary movement fed by shifts in real equilibrium” (p. 628). Developing economies – where imperfect markets tended to aggravate price rigidity, while accelerated growth produced acute swings in relative prices – were especially prone to such inflationary experiences.

While Olivera strove to present his argument in the analytical language of mainstream economics, his paper was published in Spanish in the Mexican journal *El Trimestre Económico*, which obviously restricted the scope of its audience. In his ‘A Theory of Inflation and Growth in Under-Developed Economies Based on the Experience of Latin America’ (1962), published in the prestigious *Oxford Economic Papers*, Dudley Seers likewise attempted to advance a generalized account of the structuralist case for inflation, cast in terms of “a theoretical model of the inflationary process in an exporter of primary products” (Seers 1962, p. 173). Seers described his approach as “essentially similar” to the Latin American structuralist school, readily admitting he had “drawn heavily on work on this subject in the Economic Commission for Latin America (ECLA), and on many discussions there, both individual and group.” He singled out Sunkel and Pinto as especially important sources of inspiration: “without committing them to the formulation put forward here,” Seers explained, “I would like to stress that they have each contributed more than I did to the general theoretical explanation.” Through his reverential attitude toward the ‘pioneers’, Seers positioned himself as a legitimate ambassador for the structuralist approach – which he reported having already discussed with colleagues at Yale, Cambridge and elsewhere.

Seers based his analysis on a detailed set of static and dynamic assumptions about the structure of production and trade, factors of production, institutions, and patterns of consumption. From these premises, he devised two stylized models distinguished by different assumptions about the dependence on imports for the supply of manufactured consumer goods. “Version I of the Model” admitted a constant share of imports over total demand for manufactured goods to portray the general experience of countries that “maintained in the years 1929-58 what can be called a dollar-exchange standard, with a consistently high dollar (or gold) backing for local currency, and little exchange control” (p. 184). This version included countries in Central America and the Caribbean along with Ecuador and Venezuela. Seers derived a “condition for dynamic equilibrium” in economies described by this model, requiring

that “the national product will grow more slowly than exports,  $(dY/dt) < (dX/dt)$ ”. Since export performance lay outside the control of economic policy, the main question became how to establish an “adequate” rate of growth  $(dY'/dt)$ , which depended both on the rate of population growth  $(dP/dt)$  and rising economic aspirations affecting the “minimum long-run rate of growth of *per capita* output compatible with lack of social upheaval” (p. 177), denoted by  $dI'/dt$ . Despite admitting to the vagueness of this concept, Seers proceeded to derive the “condition for full dynamic equilibrium, economic *and* social,” described as:  $\frac{dX}{dt} > \frac{dP}{dt} + \frac{dI'}{dt}$ . By this account, whenever the export drive slowed down, the rate of economic growth fell below the threshold of political tolerableness, and social unrest was likely to emerge.

Alternatively, Seers defined “Version II of the Model” – applicable to “Mexico and the rest of South America” – as a stylized decline in the share of imported manufactured goods, due to import substitution and “associated with the rate of urbanization” (p. 178). Under these conditions, both imports and exports could grow slower than domestic output with no destabilizing effect. Tensions were bound to appear, however, due to an urban labor force with significant bargaining power and a rapidly growing demand for manufactures, caused by shifts in tastes and income distribution. As industrialization advanced, the composition of imports shifted toward materials, intermediate products, and capital goods. During a process of import substitution, therefore, continued pressure on the exchange rate leading to periodic devaluations should be counted among the “structural causes of inflation” (p. 179), together with monopolistic market structures, limited scales of output, and overall bureaucratic inefficiency. “Once the price rise gets under way,” Seers continued, “there will be familiar cumulative tendencies as each class attempts to protect itself from the rise in prices” (p. 180). The ensuing wage-price spiral led to adverse effects on multiple fronts: budget deficits, long-term productive investments, personal savings, and the export sector itself. When pondering the role of monetary policy, Seers struck a similar chord to Olivera, arguing that a restrictive policy could “only permit the necessary rate of growth to be combined with price stability if the price rises due to the influences mentioned above were offset by price falls in other sectors” (pp. 180-1) – and unlikely result given widespread downward price and wage rigidity.

Seers concluded his paper with ‘A Note on the Structuralist School’, in which he sketched the context surrounding the emergence of the structuralist approach and gave due credit to the main contributors to the cause – pride of place going to the triad of Noyola, Sunkel,

and Pinto.<sup>37</sup> As he explained, “the Latin American school of ‘structuralists’ is very little known in the United Kingdom or indeed anywhere outside the region,” but one could argue it represented “the first indigenous school of economics in an underdeveloped area” (pp. 192-3). Since concern with the problems of economic growth and development seemed to grow apace, “the school could acquire in the 1960’s an international interest comparable to that of Keynesian economics during the slump-ridden decade of the 1930’s.” Seers also highlighted how “the appearance of the IMF as a major force” in Latin America, putting pressure on governments to adopt recessive stabilization programs, worked as a catalyst for “a major debate between ‘monetarist’ and ‘structuralist’ positions, which has, as always occurs in strong polemics, led to theoretical developments, supported more or less appropriately by empirical research, on both sides” (p. 194). Even if the structuralist case had been so far illustrated mostly through specific national experiences, Seers claimed to be confident “the theory is sufficiently general to cover all Latin American countries, perhaps all underdeveloped countries” (p. 195).

The program for the Rio conference began with a session titled ‘Theoretical Framework: Concepts and Models’, which put the dispute between monetarists and structuralists squarely in the spotlight. The session featured the presentation of two papers, each advancing the case for one of the competing approaches, followed by comments from designated discussants. Interestingly, however, none of the two papers were given by Latin American scholars. The monetarist perspective was expounded by Graeme Dorrance, from the International Monetary Fund, who questioned the use of inflation as an instrument of development policy, arguing instead that “the control of inflation should be one of the major objects of economic policy in a developing economy,” since price stabilization was “a prerequisite to rapid economic growth” (Dorrance 1964, p. 68).<sup>38</sup> The task of articulating the structuralist position, perhaps predictably, fell in the hands of Seers. The “heart of the controversy” between monetarists and structuralists, he explained, was “not just a technical issue in economic theory,” but involved “two completely different attitudes toward the nature of social change, two different sets of value judgments about the purposes of economic activity

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<sup>37</sup> Interestingly, Seers included Olivera as part of a group of recent visitors to ECLA who had pushed the development of structuralist arguments, “though one would not necessarily call them ‘structuralists’” (Seers 1962, pp. 193-4). This list also included Thomas Balogh, Nicholas Kaldor, Hollis Chenery and Jan Tinbergen.

<sup>38</sup> An early draft program from 1960 listed J.J. Polak as the likely articulator of the monetarist perspective. ‘Outline Program for Conference on Inflation and Growth’, November 15, 1960, Reel 0701, Grant File PA 61-340, FA732I, FFR.

and the ends of economic policy, and two incompatible views on what is politically possible” (Seers 1964, p. 89).

Seers portrayed the monetarist position as an heir to the legacy of classical economic liberalism and proceeded to explain how this doctrine had ceased to be an effective ideological tool in the Western developed world. One of the casualties of this crumbling edifice was the quantity theory of money. “Monetary fundamentalism,” he explained, had “fallen out of favor in academic circles in the Northern Hemisphere,” as it was felt to be “misleadingly facile” – even if it remained “the favorite economic heresy of laymen, including bankers and politicians” (pp. 93-4). Given the prevailing academic consensus on the limited usefulness of classical monetary theory, it was “somewhat surprising to see it reappearing in Latin America like a handed-down suit that no longer fits the original owner.” Seers then built on the results of his 1962 paper to show how the specific conditions of contemporary Latin American societies made it imperative for them to industrialize at a fast pace, going through “a more rapid structural transformation” than the one affecting the early industrializers from the 19<sup>th</sup> century. “The task facing Latin America,” he concluded, “is more like that of Russia in 1917, and the problem might be put as one of achieving a comparable pace of economic development without going through a period of Stalinism” (p. 96). Under such conditions, “monetarist policies are insufficient to insure that economic growth and transformation will take place at a fast enough pace” (p. 99).

Another session, dedicated to a comparative survey of recent Latin American experience, featured two papers by Joseph Grunwald and Arnold Harberger. The latter qualified the extreme monetarist position using a model that connected changes in the domestic price level of an open economy to currency devaluations – analysis of the formal properties of this model under “innocent-looking” assumptions for the relevant parameters showed that “devaluations can have very substantial effects on the level of prices” (Harberger 1964, p. 346). Grunwald, in his turn, sought to illustrate how the structuralist argument offered an enlightening account of the economic problems faced by Latin American countries during their developmental spurts. He mentioned the ECLA study on inflation and growth – the same previously submitted to the Bellagio group – as important “background material” for his argument. But since this was a multi-volume work only available in mimeograph, Grunwald suggested Seers (1962) as “a rigorous statement of the structuralist position,” along with the Hirschman-edited volume where Campos, Felix, and himself had attempted to summarize the monetarist-structuralist controversy (Grunwald 1964, p. 290). Felix likewise had another

opportunity to articulate his position during a session on policy instruments. While his paper contained “a partial critique of standard structuralism,” he still described it as “structuralist in spirit” (Felix 1964, p. 372).

A canon was thus being formed for the consumption of the international economics community. In his introduction to the conference proceedings, Ruggles (1964, p. xi) stated: “The success of the Conference depended in large measure on the extent to which it drew additional members of the economics profession into the analysis of Latin American economic problems and provided a critical reexamination of conflicting points of view.” Scholars like Seers, Harberger, Grunwald, and Felix seemed fully invested in the task, with palpable results. Take, for instance, the influential ‘Survey of Inflation Theory’ published by Martin Bronfenbrenner and Franklyn Holtzman in the Fall 1963 issue of *The American Economic Review*. This paper came out before the conference volume was published in 1964, but the topics that had dominated the proceedings in Rio did not escape their attention:

In several Latin American countries, doctrines called *estructuralismo* and *Cepalismo* affirm that aggregate output responds to price increases with greater elasticity than to equal real-income increases achieved by noninflationary means. For this reason, as well as because inflation tends to lower real interest rates and helps maintain industrial peace, many Latin American writers oppose monetary and fiscal controls over the price level. Their position has been systematized sympathetically by Seers [1962]. These several issues have been discussed, with copious references to Spanish- and Portuguese-language sources, in essays by Hirschman, de Oliviera [sic] Campos, Felix, and Grunwald in *Latin American Issues* [1961] and in two international conferences on inflation and growth (Elsinore in 1959 and Rio de Janeiro in 1963) (Bronfenbrenner & Holtzman 1963, p. 610)

Here we can see, in a nutshell, how the mainstream of the profession was indeed starting to pay attention to Latin American debates on inflation – but also how these, in turn, were filtered by the ‘critical reexamination’ of mostly non-Latin American scholars. Bronfenbrenner and Holtzman themselves tried to make sense of the structuralist argument as a variation on the demand-pull hypothesis, under the assumption of an upward-sloping aggregate supply curve. Figure 1 reproduces their attempt at representing this process diagrammatically. They also established parallels between the Latin American school and another “form of structuralism native to the United States,” articulated in the works of Gardiner Means and Charles Schultze, in which inflation emerged from sectoral shifts of demand in an environment of widespread downward price rigidity (Bronfenbrenner & Holtzman 1963, pp. 612-3).

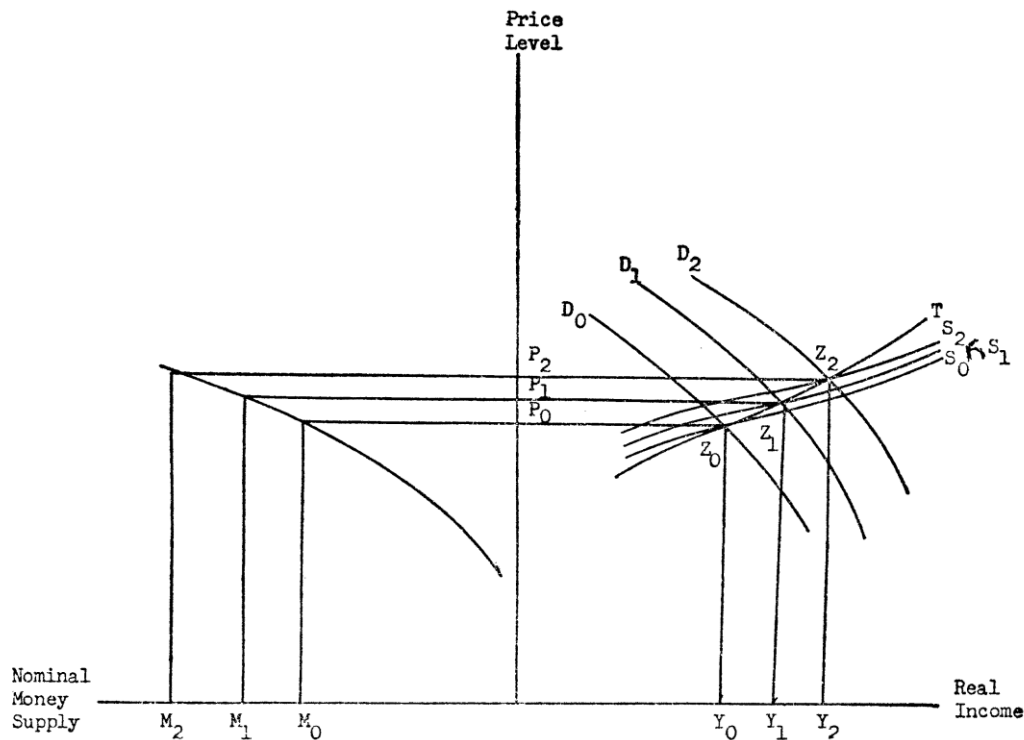


FIGURE 7

**Figure 1: A graphical representation of the structuralist argument about inflation**

Source: Bronfenbrenner and Holtzman (1963, p. 611).

In his closing remarks to the Rio conference, W. Arthur Lewis noted the wide differences of opinion prevailing among Latin American economists, only to slyly add: “Indeed, usually when I take any particular opinion as being typically Latin-American, or in some sense the expression of *the* Latin-American point of view, the typical Latin-American who has expressed this idea turns out to be Mr. Dudley Seers” (Lewis 1964, p. 24). Even a Latin American like Olivera could not resist the same conclusion. In an English-language elaboration of his previous model, he described Seers (1962) as “the most comprehensive and rigorous statement of structuralism” (Olivera 1964, p. 321). After attributing the limited influence of structuralist doctrine to “some relative intricacy of formulation” when compared to the “analytical precision of the monetary method,” Olivera boldly claimed: “The useful core embodied in the ‘structuralist doctrine’ can be easily translated into perfectly orthodox and simple economic analysis” (p. 322). Structural inflation was just another species in the “inflation genus”, alongside demand-pull and cost-push inflation – even if it were, from a policy perspective, the “most unmanageable” of the three (p. 331). Moreover, structural inflation could itself be divided into “demand-shift” and “cost-shift”, the latter pointing toward



important parallels with cost-push inflation theory, while the former – as noted by Bronfenbrenner and Holtzman – had been similarly modelled based on US data by Schultze (1959).

In a later paper, Olivera (1967) would further elaborate his Walrasian model of structural inflation, in which rising prices worked to restore consistency to the system whenever the adjustment between different equilibrium positions was sluggish – as it was bound to happen in underdeveloped economies undergoing a process of structural change. Different parameters for the flexibility of wages and price markups led to a continuum of possible inflationary dynamics. There was no discussion of the historical, sociological, or institutional constraints determining the rigidity of prices or the inelasticity of supply. On the contrary, Olivera seemed concerned with giving a general theoretical formulation to phenomena that had been traditionally regarded as emerging from the specific features of underdeveloped peripheral economies. Even if he still described this as a structuralist model, it was clear we had come a long way since the pioneering insights of Noyola, Sunkel, and Pinto.

## **5. Concluding Remarks**

The 1963 Rio de Janeiro Conference on Inflation and Growth was born out of a double sense of urgency: the economic threat posed by rampant inflation in Latin America and the geopolitical imperative of guaranteeing the region's continued allegiance to the Western capitalist bloc – making sure, in the words of Seers, that Latin American nations could grow and develop at the necessary pace “without going through a period of Stalinism.” In line with usual tactics in the Cultural Cold War, the conference sponsors and organizers sought to contribute to both these goals by promoting mutual understanding and goodwill between intellectual elites from within and outside the region. One key to success was to captivate the interest of the economics profession at large to the specific problems faced by Latin America – which required, in turn, that these problems be translated into a language that was both accessible and comprehensible to mainstream economists. The debate between monetarists and structuralists, which seemed to reveal gaps in the standard theories of inflation available at the time, emerged as a natural candidate for this translation effort.

In an article assessing the place of Juan Noyola in the structuralist tradition, Colin Danby (2005) characterizes the works of Seers and Olivera as a betrayal of the “institutional political economy of class conflict” underlying Noyola's approach. In their hands, he argues,

structuralism became “no more than a special, pathological, case within neoclassical theory” (p. 174). Whether one concurs in Danby’s harsh verdict or not, it seems undeniable that something was lost when the insights of Noyola, Sunkel, and Pinto were translated into the language of mainstream economics. Ironically perhaps, the ‘betrayal’ came from people who believed themselves to be fighting the same battle alongside their Latin American structuralist colleagues. This is most obviously the case of Seers, the author of an influential manifesto against generalizing the ‘special case’ of Western industrial economies to the widely diverse experiences of underdeveloped countries across the world (Seers 1963). His contribution to the Rio conference likewise emphasized how the dispute between monetarists and structuralists was about more than “just a technical issue in economic theory”. In his comments at the end of that session, however, Brazilian economist Mario Henrique Simonsen, while recognizing the “sound theoretical quality” of the structuralist position, argued its advocates would do well to be more “quantitative-minded” (Simonsen 1964, pp. 109-10).

Simonsen himself would soon become a key player in the development of the inertial inflation hypothesis, which used formal methods to recast – in drastically simplified terms – some of the structuralist insights about the role of distributive conflict and institutional constraints in the propagation of inflationary pressures. This analytical framework came to dominate inflation theory in Latin America from the 1970s, being received with enthusiasm as well by scholars in the Northern Hemisphere like Rüdiger Dornbusch and John Williamson (Carvalho 2019). Even if the legacy of Noyola, Sunkel and Pinto lived on in many quarters of Latin America, the international economics community continued to access the structuralist argument through the Anglophone entry point first provided by Seers, Olivera, and Grunwald, and later by the North American brand of structuralist economics elaborated by Hollis Chenery and Lance Taylor (Carvalho 2015, chapter 4).<sup>39</sup> A review of the Rio conference proceedings published in *The American Economic Review*, noting how most of the papers had been written by scholars from outside Latin America, remarked: “It is sad to admit that economic backwardness in Latin America is accompanied, with few exceptions, by lack of economic research by, and professional advancement of, Latin American economists” (Solís 1965, p. 564). While Seers would have surely disagreed with this conclusion, the project of bringing Latin America into the mainstream – in which he played a leading role – contributed to shift

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<sup>39</sup> A JSTOR search using the keywords ‘structural’, ‘inflation’ and ‘Seers’ returned 247 items published between 1963 and 1980. Similar searches replacing ‘Seers’ with ‘Sunkel’ and ‘Noyola’ returned 160 and 14 items, respectively. Searches in Google Scholar using the same parameters produced 1470 (Seers), 373 (Sunkel), and 26 (Noyola) results.

the discussion onto a path that not only overshadowed the work of the scholars who had pioneered the structuralist case but stripped their approach of its distinctive historical and institutional substance.

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