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THE GREAT DEPRESSION IN

ARGENTINA, BRAZIL AND URUGUAY

REVISITING VULNERABILITIES AND POLICIES

Proefschrift

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te verdedigen op 1 oktober

door

Marcelo Esteban Gerona Morales

geboren te Buenos Aires, Argentina, in 1973

klokke 10:00 uur

Silvana María Sosa Clavijo

geboren te Maldonado, Uruguay, in 1976

klokke 11:15 uur

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For Esteban and Francisco, the engines of our lives, for the light of their eyes.

For our mothers, Lelis and Elsa, for everything.

Contents

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Foreword

The structure of this work is as follows. In the introduction we the authors Marcelo Gerona and Silvana Sosa present the aim of the research, the hypothesis, the constituting elements of a new concept of complex vulnerability that we deem appropriate to analyse de experience of Argentina, Brazil and Uruguay (ABU) during the Great Depression, the sources of information and the methodology with the respective shortcomings. Then the rest of the text is divided in three parts. Part One includes the chapters concerning the conceptual and historical background of our research. Chapter II contains the conceptual framework that guides our work. Further in Chapter III we write about the historical framework of the Great Depression, with a special emphasis on Latin America, and making a link to the financial crisis that broke out in 2008. In Chapter IV we put Argentina, Brazil and Uruguay in perspective by comparing the economies and structure of commerce between the thirties and the period 2007-2010. Then, in Part Two we describe the situation of Argentina, Brazil and Uruguay before the crash in chapters V, VI and VII, respectively. Part Three constitutes the core of our research as in it we seek to analyse the complex vulnerability of the three countries, including political aspects (Chapter VIII), transmission of the crisis from the core (Chapter IX), the role of the gold standard ideology (Chapter X), the policies applied to mitigate the negative impact of the crisis (Chapter XI) and the influence of the patterns of complex interdependence that linked each country to the world-system (Chapter XII). In our Chapter XIII we make a link to the Financial Crisis of 2008 by comparing it with the Great Depression of 1929. Finally and always taking into account each of the elements that shape our concept of complex vulnerability, some concluding remarks are presented, focused on the experience of Uruguay as the smallest country, and applying a historical-comparative approach with the other two major neighbours.

In compliance with Leiden University’s regulations, the text should be attributed as follows. Both co-authors jointly wrote the different sections of Chapter I (Introduction). In Chapter II (The conceptual framework), Silvana Sosa worked on the channels of economic transmission and the mechanics of the gold standard, whereas Marcelo Gerona tackled the section on power and interdependence and structural constraints. In Chapter III (The historical framework of the Great Depression) Marcelo Gerona wrote the first section mainly about national policies and the second regarding the failure of multilateral diplomacy, whereas Silvana Sosa addressed in Chapter III the experience of Latin America and the link with the Financial Crisis of 2008. Sections i) and ii) of Chapter IV were written by both co-authors, but Section iii) (testing the patterns of trade dependence) was the responsibility of Marcelo Gerona. From then on, the text regarding Argentina shall be attributed to Silvana Sosa, that on Brazil to Marcelo Gerona, and the remaining text concerning Uruguay, or wherever a comparison between these countries is made, shall be considered as a joint work of both co-authors. Consequently, Silvana Sosa is responsible for Chapter V, Section i) of Chapter VIII, various parts of Chapter IX, part of Section ii) of Chapter X, Section i) of Chapter XI and parts of Chapter XII. Marcelo Gerona wrote Chapter VI, Section ii) of Chapter VIII, various parts of Chapter IX, part of Section ii) of

Chapter X, Section ii) of Chapter XI and parts of Chapter XII. The remainder of the text, including Chapter VII, Section iii) of chapter VIII, various parts of Chapter IX, parts of Section ii) of Chapter X, Section iii) of Chapter XI, parts of Chapter XII and Chapter XIII, as well as the concluding Chapter XIV, shall be considered a joint responsibility of Silvana Sosa and Marcelo Gerona.

I. Introduction

The interwar period was a special period for humanity characterized by the deepest worldwide economic depression and disintegration of international relations of the twentieth century. The Great Depression was so persistent that it prompted the collapse of the previous liberal economic order and stimulated the dawn of totalitarian regimes. Every country in the world was affected, but the effect was very different depending on domestic policies and the soundness of economic fundamentals. Some countries had a mild recession, others a deep recession and the rest a depression[1]. However, in practically all cases, one outstanding feature is their individual contribution to the most serious recorded breakdown of trade and financial flows, induced by the most severe defensive reactions and retaliations worldwide. That is why many researchers chose this period as a landmark for testing comparative analysis of the different governments' responses in face of major economic worldwide downturns, including the latest Financial Crisis signalled by the collapse of the giant US investment bank 'Lehman Brothers' on September 2008. In spite of the fears brought about by this latest event, the worst scenario has not materialized, and the Great Depression remains the worst worldwide contraction in time.

[1] Marseille (2009, p. 53) argues that a country is going through a recession when its GDP decreases two consecutive months and it is a depression –making reference to a psychological pathology- when the GDP decreases by more than 10% or the contraction lasts for three consecutive years. On the other hand, in line with The Economist (2012b) the popular rule of thumb for a recession is two consecutive quarters of falling GDP. But, some economists such as Saul Eslake, chief economist at ANZ bank, prefer a definition for recession of a 1.5% rise in unemployment within 12 months. However, certainly America's National Bureau of Economic Research (NBER) has officially declared a recession based on a more rigorous analysis of a range of economic indicators. Thus, there is no widely accepted definition of recession or depression. Even a recent analysis by Saul Eslake concludes that the difference between a recession and a depression is more than simply one of magnitude or duration. The cause of the downturn also matters. A standard recession usually follows a period of tight monetary policy, but a depression is the result of a bursting asset and credit bubble, a contraction in credit, and a decline in the general price level. In the Great Depression average prices in America fell by one-quarter, and nominal GDP ended up shrinking by almost half. America's worst recessions before the Second World War were all associated with financial panics and falling prices: in both 1893-94 and 1907-08 real GDP declined by almost 10%; in 1919-21, it fell by 13%. Moreover, Eslake suggests that a depression does not have to be 'Great' in the thirties sense, instead, on his definition, depressions, like recessions, can be mild or severe.

Taking into account the relatively scarce literature on the Latin American region during the Great Depression and with the idea in mind of doing research in depth, we committed to focusing our work on a sample of three highly interconnected South American countries: Argentina *(República Argentina),* Brazil *(República Federativa do Brasil)* and Uruguay *(República Oriental del Uruguay)*. Our choice is not casual and is based on various considerations. Historically, these countries have been closely linked not only because of their geographical position as bordering countries, but also because of social and cultural common ties. In particular, Buenos Aires -the capital of Argentina and the province of the same name-, the Argentine provinces of the '*mesopotamia*' region, Uruguay and the southern federated states of Brazil -Rio Grande do Sul and Santa Catarina- shared deep economic and social interactions. These relations can be illustrated by the fact that the '*caudillos*' or strongmen of the nineteenth century used to cross the borders and fight in each other's internal conflicts. They have always competed for similar markets (notoriously meat) and to attract foreign investment. During the thirties they were highly vulnerable export driven economies dependent on very few core market destinations for very few basic products, so that they could not escape the contracting impact of the international breakdown of trade and capital flows. Economically, they suffered the downturn of commodity prices, global demand, gold value, and the withdrawal of foreign capital, a set of factors that affected negatively their terms of trade and caused severe difficulties in their balance of payments. They reacted with active policies to counteracting the downturn and failed to coordinate international positions. Politically, they suffered remarkable regime changes, in part motivated by the economic hardships, and turned their policies towards more nationalistic approaches.

The picture is not the same in the present because there is a higher degree of productive diversification of the economies, especially in the case of Brazil. They differ in their economic specific weight and market size, and their relative position also changed over time: Brazil a world leader and big economy now; Argentina a South American big player then; and Uruguay, a small country with solid institutions and significant legislative achievements. The latter historically adapted its policies to maximize the benefits of its geopolitical position and to smooth the potential negative effects of the ups and downs of its bigger neighbours. In a way, the Uruguayan position between these countries bears some resemblance to the position of the Netherlands between its bigger neighbours, France and Germany. The case of Brazil, which changed dramatically, is very interesting. From being the world's largest supplier and mono-producer of sugar in the seventeenth century; gold and cotton in the eighteenth, cacao and rubber during the nineteenth, and coffee at the beginning of the twentieth, nowadays this country exports commodities such as petroleum, iron, soya and by-products, poultry and coffee, along with industrial products and high tech jet airplanes. In contrast, the Argentine export structure is still highly natural resource intensive, while the Uruguayan one shows the smallest change in the degree of diversification of the three. The difference in size (large, medium and small), but yet interconnected, export oriented and active economies, enriches the analysis of the thirties and make the comparison appealing with the present.

i. The focus of our work

The problem tackled in our research is the relative vulnerabilities of Argentina, Brazil and Uruguay (ABU), which contributed to a strong impact of the Great Depression, as well as the nature of the policy responses to the economic emergency. The study also explores the a priori relative disadvantages of Uruguay as a small country between its two major neighbours. This problem entails three main elements that influence our research in many ways. Firstly, we concentrate our analysis on three case countries during a specific timeframe (1928-1934). Secondly, we limit our study to the effects and applied policies in the framework of the Great Depression. Finally, we talk about 'vulnerabilities' in general as a concept transversal to many paradigms[2].

Latin America was a dependent area, whose countries were led by changes in spending and lending in Europe and the US. Argentina, Brazil and Uruguay, heavily dependent on the external world, were not the exception. They shared similar problems regarding conflicts around foreign capital, balance of payments and national budget. They also shared the risk of breakdown of national unity and instability of their institutional frameworks. They were open economies, debtor countries, with high dependence on few products and few markets. Moreover, the particular productive structures of ABU were highly concentrated on products of rural origin. Their fortunes depended on seasonality (harvests affected by weather conditions) and the livestock cycle. Other important factors of influence were the swings of global demand and, as mentioned, the policies in major destination markets, such as the US and the UK. Furthermore, the rise of nationalism and the decline of *laissez-faire* led governments to adopt non-cooperative strategies and this also contributed to the collapse of trade and capital flows. For Argentina and Uruguay, the UK was the main export partner. This meant that their problems were compounded by the preferential policies of the UK that directly benefited competitor dominions such as Australia, New Zealand or South Africa. The Great Depression also helped to change the internal balances among emerging pressure groups and traditional landed oligarchies, which in turn prompted regime changes in these countries. Political conflicts, institutional tensions, regional frictions, struggles of interests and social-economic antagonisms were common characteristics of that time. In the case of Brazil, its main export and import partner was the US and the UK was in second place, still a source of sizeable imports. However, Brazil's most striking feature is that its export trade was concentrated around two-thirds in only one product: coffee. Argentina, by contrast, was, along with Mexico, one of the most diversified economies in Latin America. In between these two extremes lay Uruguay, which followed a path of strong government intervention in the economy and self-determination. The presence of Uruguay in the analysis is particularly enriching because it allows us to compare the performance and reaction of a small country vis-à-vis major partners in every possible economic

[2] Here we take the term paradigm used by Kuhn (1970), but it is also possible to work with the terms research programs (Lakatos, 1970), research traditions (Laudan, 1977) or research strategies (Harris, 1979). According to Sanderson (1987, p. 318), these are highly abstract global networks of ontological and epistemological assumptions, theoretical principles and concepts and interlocking theories.

and political aspect. In any case, ABU governments reacted asymmetrically against the global crisis which also had an asymmetrical impact; with differences in timing and policy modalities. For example, Argentina and Uruguay were more negatively affected by the slump in grains and wool prices, but Brazil by the coffee price. In addition, while Brazil defaulted in 1931, Uruguay suspended the amortization of the foreign debt in 1932, and Argentina preferred not to default on its debt and to plan a financial reform. However, they resorted to a range of policy instruments by applying measures such as suspension of the gold standard, control of their foreign trade through exchange controls and tariffs, devaluation of their national currencies, enactment of expansionary policies and more stringent protectionist policies. These all contributed to the process of industrialization based on import substitution.

In the second place, our analysis of ABU addresses these countries from 1928 to 1934, a particularly traumatic period for humanity. The most frequently cited causes of the economic instability during the interwar period were the war-debts and reparations, the global imbalances, the collapse of world trade and the policy mistakes inspired fundamentally by the gold standard orthodoxy. Indeed, during the twenties and early thirties the gold standard was more than a policy. It was a dogma that influenced national policies in the wrong direction and paralyzed the world economy. In this regard, ABU were also constrained by financial reasons. The international community pressured the peripheral countries to adhere strictly to the gold standard and to maintain tight fiscal controls. In return they could expect to obtain some tangible benefits, such as access to main financial markets (London and New York) and therefore the ability to attract foreign direct investments.

Thus, the international context in which each country tried to fulfil its national interest is determinant and makes us look for either statistical information or historical documents regarding foreign policy and decision makers’ thinking. In this way we can expand our assessment of the specific vulnerabilities created by the particularities of the time. And in addition to the structural and political factors that make the Great Depression mainly difficult to analyse, we cannot lose sight of the political drivers operating in each of the countries studied.

Our third element, the analysis of the issue of the vulnerability in our research problem, entails multiple components. A priori, it involves the analysis of the trade figures from 1928 to 1934 to test the relative vulnerability of ABU to the most important transmission channel of external shocks emanating from the major commercial partners at the time. It also leads us systematically, using available macroeconomic data, to compare and contrast short-term effects of the Great Depression. Furthermore, we incorporate in our research the analysis of the applied policies to face the Great Depression, and consequently see if our case countries had at their disposal efficient tools to mitigate its negative effects.

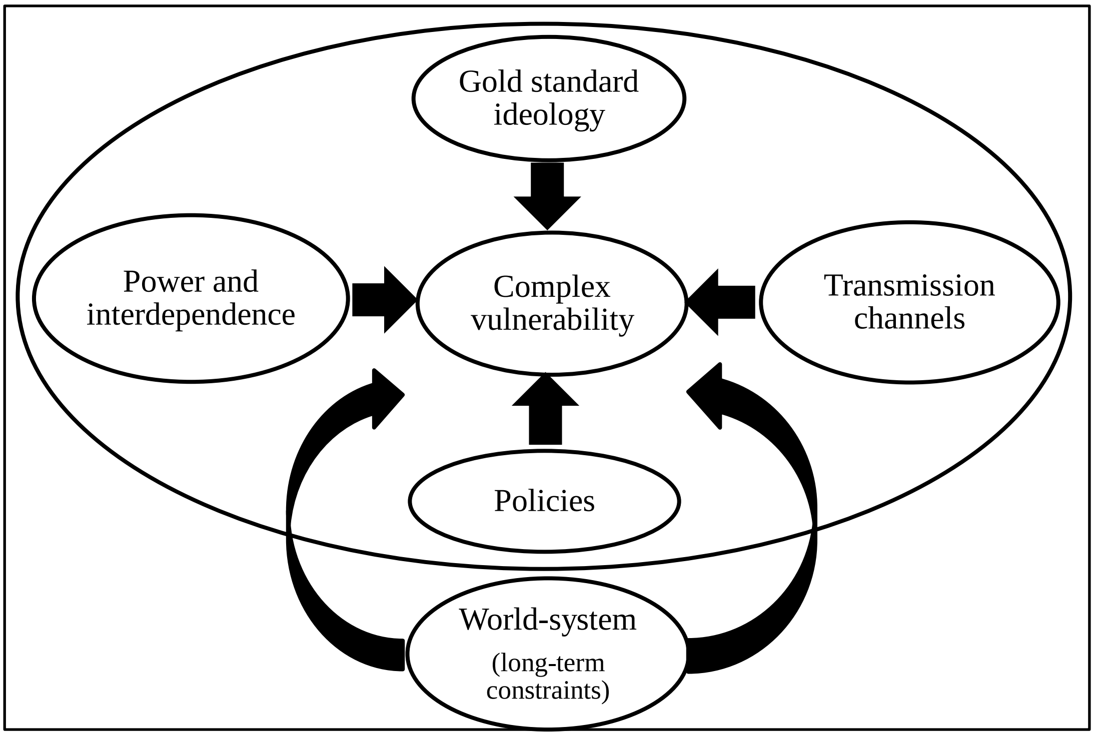
However, our research is more ambitious. And for this reason, we consider our concept of vulnerability complex. These countries were connected to the world in ways more complex than macroeconomic figures and policies can tell. Thus, we need to take into account the influence of multiple structural links to the world and the internal social and political actors that could change the nature of things. We think that an eclectic approach is required, because for us 'vulnerability' is included in many paradigms and as such it can be assessed from different perspectives. Each paradigm is logically constructed and capable of providing sound conclusions for understanding the complexity of the challenges faced during the early thirties. However, each one starts with key simplifying assumptions that do not necessarily correspond to reality or that might overlook other useful elements to comprehend the phenomena that we seek to analyse, and consequently can lead to wrong or partial conclusions. The originality of this work lies in taking concepts from different paradigms and using them to explain the different aspects of the experience of ABU during the thirties. The main objective is to make adequate connections among those concepts in order to obtain a better picture of the complex reality. In this regard, we agree with Immanuel Wallerstein in that it is possible to use core concepts borrowed from different disciplines, such as history, economy, sociology and politics. Similarly, Deugd & Hoen (2010, p. 3) use international political economy (IPE) concepts from the perspective of the basic paradigms of the international relations theory, namely realism, liberalism, Marxism, mercantilism and structuralism, among other schools of thought. At this stage, it is important to point out that our aim in this work is not to expand on the reasoning behind relevant paradigms, but to extract and interact with key economic and political concepts that can guide us during the rest of this text, following an eclectic approach[3].

Our reasoning is illustrated in Figure 1. We believe that our concept of vulnerability is built on four pillars. Firstly, we need to start our analysis with the transmission channels of a crisis. In

[3] There is philosophical debate about the use of eclecticism in the Academy. On the one hand, most of the scholars tend to work under sets of assumptions that fit a certain paradigm. Accordingly they pose research questions, establish boundaries for investigations and evaluate research products that fit those assumptions (Sil & Katzenstein, 2010, p. 1). For example, Kuhn (1970, 1962) affirms that the basic unit guiding scientific research is the paradigm, a constellation of ontological, methodological and theoretical notions represented by an outstanding, prototypical piece of research and associated to a concrete body of researchers interested in a particular research speciality, and that in a period of normal science one of those paradigms tends to be dominant. On the other hand, some authors believe that the strict adherence to single paradigms tend to be counterproductive because they disregard the complementarity among paradigms (Dahrendorf, 1959, p. 163); the complexity of the reality and forces at work (Hirschmans, 1970, p. 341; Tetlock, 2005, p. 214); and the flight from reality among academics that distance their findings with the demands of policy relevance and practicality (Shapiro, 2005, p. 2). In general, eclecticism proposes that multiple theoretical approaches must be used jointly in order to arrive at acceptable explanations (Sanderson, 1987, p. 316). Sil & Katzenstein (2010b, p. 1) believe that it is possible to work in the framework of an analytic eclecticism that looks for middle-range theoretical arguments, incorporate more complexity and messiness of particular real world situations and generates complex causal mechanisms. However, this eclectic approach has been criticized by many authors. Sanderson (1987, pp. 314-315) argues that eclecticism is a seriously flawed perspective that leads to hopelessly self-contradictory arguments, increases unnecessarily the number of explanatory concepts and principles and fails to fulfil the basic mechanism of rationality that implies theory testing and evaluation in a comparative context. Harris (1979, p. 290) holds that eclecticism results in theories that do not link up or interpenetrate each other and that are often mutually exclusive. There is also the argument of incommensurability, meaning that because different theories drawn from different paradigms are based on distinct ontologies and epistemological assumptions, the specific concepts, terms and standards used in one ontological approach are not interchangeable with those used in another (Feyerabend, 1962; and Kuhn, 1962). However, this criticism is less compelling when it comes to integrating elements from different theories (Sil & Katzenstein, 2010, p. 14, Davidson, 1974; Putnam, 1981; and Hattiangadi, 1977). Beyond this debate, we think that there are some research programs such as ours that necessarily need not to compromise one single paradigm, but to use and link concepts from different paradigms to analyse the issue of vulnerability from different points of view.

this respect, we focus on the effects on ABU. Secondly, we introduce the comprehensive concepts of ‘power’ and ‘interdependence’ borrowed from realism and neoliberalism within the theory of international relations. This helps us to situate these countries in the international context of the time. Thirdly, the analysis of the gold standard ideology constitutes a specific source of vulnerability during the twenties and early thirties. And finally, we put emphasis on the reactions of the respective governments mirrored in the implemented policies. This approach to relevant concepts shall not, however, be done in a vacuum. Indeed, we need a long-term conceptual framework that can give some insight into the forces working in the background, that meets the academic standards and that fits the particular context of our three case countries. There are several paradigms that we can use for the analysis of the long-term structural elements that shape and enlighten our wide definition of vulnerability. But in this case, we take some of the concepts contained in Immanuel Wallerstein’s world-system analysis.

Figure 1 A scheme for our eclectic reasoning



We can explore the related paradigms that we could make use of. The Marxist paradigm is indeed useful to give some explanation to the role of landed classes in the political events and the new role of working classes and urban bourgeoisies of ABU during the thirties. It also contributes to better understanding the role of the accumulation of capital among social classes[4].

[4] The Marxist framework of analysis explains that in the capitalist system the imbalanced accumulations of wealth and over-accumulations of capital creates booms and busts that encourages intensified class conflict and eventually would force societal change. Accordingly, the experience of ABU during the thirties was just the outcome of free-market capitalism. Marx was firmly opposed to blaming crises on financial speculation, or on the recklessness of single individuals (Marx & Engels, 1975, p. 401). Speculation and panic may trigger crises, but to trigger something does not mean to cause it. For Marx, the ultimate origins of all crises lie in the ‘real’ economy of production and exchange, and consequently the inherent contradictions of capitalism are beyond human control (Ivanova, 2011, p. 2).

However, it does not explain the short-term vulnerabilities so clearly, or other elements regarding the complex interaction among each of ABU. Furthermore, it is not conclusive about the role of other actors different from social classes and the effects of wrong policy decisions. Similarly, Latin American structuralism led by Raúl Prebisch follows the idea of unequal distribution of capital among nations and gives an explanation to underdevelopment. For that it uses the perception that terms of trade tend to be unfavourable to mainly food and raw materials exporting peripheral countries, which get poorer and poorer, for the benefit of the ever-industrializing developed world. Indeed, in many academic circles there is an immediate association of Latin America to an almost deterministic underdevelopment of peripheral countries created by the unfair links controlled by core countries[5]. These perspectives do help to analyse ABU as belonging to the peripheral or semi-peripheral countries which were vulnerable to the asymmetric links with greater powers. These nations used the stronger accumulation of capital in their own benefit and imposed detrimental conditions on others.

Certainly there are more elements to consider than the terms of trade, the accumulation of capital or the possession of the means of production to explain why one country manages its policies better than another. That is why we consider that the approach of Immanuel Wallerstein's (1974) 'world-system analysis' as a method of studying the social sciences approximately fits our needs[6]. As a neo-Marxist approach that led the field of the new international political economy into the critical research paradigm[7], it rejects the existence of free markets, affirms that imperfect competition is the rule and builds on the Marxist tradition of

[5] See Baran (1973).

[6] It is worth mentioning that Wallerstein (2004) does not consider his approach as a theory, but a method of studying socio–economic phenomena.

[7] The objectives that we define for this work entail the resource to concepts related to a specific discipline, known as International Political Economy (IPE). In general, political economy starts with the problem of choice in a society with heterogeneous agents, but with a very different focus than multi-agent welfare economics. The focus is on the process by which it is decided what policy to adopt and on what policy choice emerges from a specific political process. The society as a whole may have preferences over economically efficient outcomes, but the political process may be different from what society finds optimal. Moreover, the political process by which economic policy is chosen generally absorbs resources in one way or another, leading to an economically inefficient outcome (Drazen, 2000, pp. 15-16). The international branch of political economy developed specially since the seventies as a consequence of the need for international relations theorists to find new tools to scrutinize relations and the perception that world politics could not be longer characterized as state-dominated action, given the increasing influence of market forces at the expense of state power. As a consequence, more and more authors moved away from political science and started to incorporate the rationale of economic science. Ultimately, political economy is geared towards topics connected with the mutual influence of the State, seeking redistribution of wealth within the society; and market, seeking allocation of scarce resources between individuals. State and markets in this view are always in tension in the international context (Deugd & Hoen, 2010, pp. 2-10). As a reaction to earlier studies of international relations that allegedly placed unwarranted emphasis on law and politics, during the last decades IPE has been significantly shaped by the critical paradigm, which focuses on identifying and stressing patterns of inequality, and asserts that forms of social inequality are historically created and therefore can be changed. One of the main works under this umbrella is the world-system analysis of Immanuel Wallerstein, which, in line with Marxists, dismissed the singular State as a unit of analysis, and emphasized one international system. Finally, and in line with our eclectic approach, as Gills (2001, p. 236) asserts, IPE individual scholars choose their own combinations of contributory disciplinary frameworks and traditions. There is, therefore, not one single IPE, but many, depending on how conceptually hybridised choices are made and deployed.

uneven capital accumulation[8]. Likewise to Latin American structuralism, it maintains that there is a structure of unequal exchange between strong states at the centre and weak ones at the periphery, but includes an interesting additional 'semi-periphery' that emerges between the other two, constituted by newly industrialized countries[9]. This feature is especially appealing because it fits the need to give a conceptual framework for our semi-peripheral case countries during the Great Depression. And in line with our previous discussion, Wallerstein's (2004) analysis is holistic in that sense. That is why it borrows the concept of 'world-system' from history, 'unequal exchange' from economy, 'social classes' from sociology and 'balance of power' from politics. But although it departs from the structural time or secular long-term trends that explain the emergence, development and demise of a world-system, it does not invalidate our analysis of the ups and downs that occur within it. It recognizes a role to the intervention of the State, including the trade, industrial, fiscal and foreign policies, all elements that we seek to analyse for the particular time span of our research[10].

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[8] However, it is important to point out that Wallerstein's approach has several key differences with Marxism. Aronowitz (2003, pp. 508-515) describes these differences. Wallerstein refuses the central concept of structural unity upon which Marxist historical explanation is based. While Marx believes that the transformation of labour power into a commodity contained all the elements of the capitalist mode of production, Wallerstein argues that capitalism is a system of systems, whose elements are relatively autonomous. While Marx thinks that the social division of labour gives rise to classes within the mode of production, for Wallerstein, classes are implicitly formed on the basis of the geographical distribution of labour control and coercion that reproduces the relations of unequal exchange. His theory of class is conflated with his antithesis of core and periphery. Although there are many references in his book to workers, the core logic of his argument would place these workers on the side of their own bourgeoisie in the world-system since they share, however unequally, in the exploitation of the periphery. While Wallerstein emphasises random conjunctures as the factors that produced the present world-system, the Marxist view emphasises the internal relation between forms of property, the division of labour, and the relation of humans to nature in terms of technology and development of labour power. According to Linklater (2003, p. 123), Wallerstein (1979) challenged the classical Marxist view that capitalism brings industrial development to the whole world, although he argued that development was possible in at least some 'semi-peripheral' societies. Following Emmanuel (1972), dependency theory and the world-system approach have been described as 'neo-Marxist' because they do not believe that the spread of capitalism will bring industrial development to poorer regions, and because they shift the analysis from relations of production to such phenomena as 'unequal exchange' in world markets.

[9] Wallerstein (1976, p. 465) includes in the semi-periphery the economically stronger countries of Latin America: Brazil, Mexico, Argentina, Venezuela, possibly Chile and Cuba. It also includes Portugal, Spain, Italy, Greece, most of Eastern Europe, Norway and Finland, Algeria, Egypt, Saudi Arabia, Israel, Nigeria, Zaire, Turkey, Iran, India, Indonesia, China, Korea, Vietnam, Canada, Australia, South Africa and New Zealand. As it is crystal clear, it is a very varied list of countries, many of them difficult to justify in the semi-periphery and not in the periphery. Nevertheless, Argentina and Brazil are mentioned as part of the semi-periphery for being among the economically stronger. Uruguay, of course, is not even mentioned, but taking into account that Wallerstein's approach is concerned more with regions than with countries, we also include this country in the semi-periphery. This is because of its undeniable links with the other two major neighbours and the similarity of the patterns of dependence with core countries.

[10] This assessment about states has to be taken with care. On the one hand, Wallerstein (2004) holds that Sovereign States do play a central role in contributing to the process of capital accumulation within the modern world-economy. It assigns an important role to the intervention of the State, including trade policy, property rights, working legislation, externalization of costs, industrial policy, fiscal policy and foreign policy. On the other hand, the State is merely functional to the system. Following Aronowitz, (2003, pp. 509-513), Wallerstein disregards national borders. The role of successful states is linked with the ability to absorb some of the costs of expansion of the capitalist system. Nation states are both the condition and the barrier to expansion of the system. Class struggle has meaning solely on a global plane and is not necessarily intrinsic to the national State.

However, we are aware that this method has been criticized for many reasons that we share; especially its determinism and lack of consideration for other drivers in capitalism than the accumulation of capital[11]. One key problem we have to face with Wallerstein's framework is the lack of analysis of specific short-term country vulnerabilities. Indeed, the world-system analysis is concerned with long-term analysis of regions rather than states. This feature is anchored on Wallerstein's long-term historical analysis from 1500 to 1840 and specific interest in the Kondrantieff cycles that last 50 or 60 years. Moreover, the only reference to that concept is linked with the perceived vulnerability of capitalism in face of the frequent revolutions against the system, such as the ones led by Lenin, Stalin, Mao or Kim il Sung[12]. But of course, those are not the kind of revolutions we see in our case studies. Wallerstein (1980, pp. 113-114) also accounts for the weakness or strength of states according to the role of their owner-producers in the extraction of the economic surpluses within the world-system. However, there is no immediate conclusion about how this strength or weakness relates to the vulnerability of each country. Although it is possible to presume that countries on the core are less vulnerable than those in the periphery because the former benefit more from the unequal accumulation of capital. Furthermore, as it is more long-term focused, Wallerstein's approach does not address adequately why governments reacted to the Great Depression not by following clear industrialization plans, but in a more reactive way, following instinct, by trial and error. It does not explain the role of the gold standard in the collapse and the vulnerabilities implicit in that

[11] For example, in line with Marxism, Wallerstein's analysis follows a materialistic approach that concentrates on the role of accumulation in the capitalist system. As a consequence, actors are just driven regardless of their will. It neglects notions of entrepreneurship, innovation, individual choice and the importance of investment. It refuses to acknowledge an active role of the capitalist entrepreneur in the addition of value along with labour, as clearly showed by Keynes. And on top of that, it does not provide adequate evidence about elements such as surplus value (Savchencko, 2007, pp. 1038-1043). Its methodological tools come from levels of analysis that are essentially incommensurable. The concept of the division of labour is inadequate because it excludes any specification of the social division of labour. There is never an understanding of the category of exploitation within the core on the basis of the divisions between mental and physical labour, which is a social and not a technical division, and the relations of property that separate the workers from control of the conditions of production. Wallerstein's approach implicitly ascribes all mass action to economic self-interest that is oblivious to ideological influences such as religion, cultural ideals or aspirations. There is no concrete examination of daily life within core or periphery societies, but merely an account of various economic, climatic, geographic and demographic factors that operate on a fairly high level of abstraction. It does not explore the specificity of politics and culture within the underclasses to find how and why they acted, or whether their actions severely modified or constituted an aspect of the determination of the direction of history. There is a persistent reliance on the concept of conjuncture to explain history because there is no concept of internal relations (Aronowitz, 2003, pp. 508-518). It is difficult to believe that, for example countries such as South Africa, Venezuela, Finland and China occupy homologous positions in the capitalist world economy or that they benefit similarly from downturns in the world economy, and in any case it is hard to know how to prove it (Evans, 2007, p. 17). The most cogent criticisms of the world-system approach have come from Marxists who argue that Wallerstein's emphasis on the effects of the overall structure of the system have led him to neglect the extent to which historically given class structures determine local responses to the market (Skocpol, 1977). As Robert Brenner (1977, p. 27), Wallerstein fails to take into account either the way in which class structures, once established, will in fact determine the course of economic development or underdevelopment over an entire epoch, or the way in which these structures themselves emerge.

[12] See Savchencko (2007, p. 1048).

ideology. As such, the conceptual framework of Wallerstein needs to be adapted to our goals, by incorporating the notions of short-term vulnerabilities derived from the specific transmission channels of the crisis. However, it is important to consider the evident shortcomings of the Marxist tradition of analysis employed. In this regard, following a similar path to Laudan (1977), it is relevant to state that we take the world-system analysis as a general framework. That is not because we think it is fully suitable for the research, but because it has some interesting features that help us to give a conceptual framework for our quest for a better explanation about the vulnerabilities of ABU during the Great Depression.

Another aspect to take into account is the unit of analysis upon which we depend. Every paradigm has a different perception about the role of the actors that influence the international system and give shape to economics and policies. Although we are interested in analysing three case countries from a comparative perspective, for Wallerstein the unit of analysis is the world-system and not the national states[13]. Regarding this issue, we can take advantage of the common simplifying assumption of the neorealist or neoliberal views within the international relations theory, about the State as a rational actor in an anarchic international structure seeking the fulfilment of the national interest and the underlying notion of power accumulation. For realists and nationalists, the national states are the only actors in international economic relations. Even though the national interest can be influenced by classes, elites and groups within the State; the geography, power relationships and the need to ensure national survival are its primary determinants[14]. Alternatively, we can rely on the neorealist view that the State is a unitary, coherent and rational entity. Or we can resort to the neoliberal view of Keohane & Nye, for whom whenever complex interdependencies are present, countries avoid military struggle and are more open to seek cooperative strategies by building rules, regimes and institutions[15].

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[13] According to an interview with Immanuel Wallerstein, "(…) the choice of the 'unit of analysis' was crucial. I became increasingly aware that all of modern social science presumes that the state boundaries constitute the boundaries of 'societies'. I came to be convinced that this was a very misleading assumption. Instead, I came to argue that the only plausible unit of analysis was a 'world-system', or more generally, an 'historical social system'." See http://sociology.yale.edu/people/immanuel-wallerstein, page visited on April 2014.

[14] See Deugd & Hoen (2010, p. 28). Economic realists emphasise the primacy of political influences and interests in the shaping of the foundations of the prevailing economic order and many of its central developments. They share the view of many forms of Marxism that international economic associations can generate frictions and potential conflict, not merely harmony and general prosperity. The relative power and influence of states and other actors on the world economic stage remains a function of their control of appropriate resources. The direct control of peoples, territory and the preponderance of armed force, by states has to be set against the mobility and flexibility of many transnational actors and, in particular, the wealth and informational strengths of the transnational corporations (Jones, 1995, pp. 38-39).

[15] Definitions of interdependence that embrace the importance of the stakes involved emphasise the notions of dependence and mutuality. Dependence suggests the reliance of an actor upon some other; mutuality implies that all the actors involved in some relationship, or set of relationships, are dependent upon one another in one, or more important respects (Jones, 1995, pp. 6-7). The liberal perspective identifies a benign condition of international interdependence. Free trade is held to be generally beneficial and the resulting patterns of production and exchange merely a reflection of prevalent patterns of comparative advantage. Trade and specialisation contribute to new patterns of interdependence amongst societies, who neither wish nor are able to go to war with those trading partners (Ibid., pp. 38-39). Furthermore, liberals go on to argue that protectionism adopted by one country provokes retaliatory protectionism in others, setting off a vicious spiral, and for this reason it is essential to maintain the momentum of multilateral diplomacy aimed at the reduction of trade barriers to curtail that vicious circle (Strange, 1985, p. 235). On the contrary, the Marxist perspective is generally hostile towards patterns of interconnectedness, and hence interdependence within a capitalist

However, these paradigms do not help to explain the conduct and role of actors other than states, such as economic classes, interest groups, governmental institutions and individuals[16]. In our research, we make reference to the relevant actors according to our explanatory needs, although we keep in mind its relationship to the global world-system.

Finally, it is important to justify why such an effort to construct a complex concept of vulnerability is needed. Most of the researchers who have studied the Great Depression in Latin America tend to concentrate on the economic side of the crisis, and conclude that those countries were very vulnerable to the trade transmission channel. Was that really the case? If we concentrate only on trade, that is the case, but if we incorporate the internal politics, the applied policies, the complex interdependences, the power relations, etc., that initial assessment could be relativized or even contradicted. It could happen, for example, that a small country such as Uruguay could be the most vulnerable to the external economic shock. But if its political context is more stable and allows the enactment of certain policies, its relative vulnerability could not be so determinant. Moreover, if those elements are immersed in a more structural framework of the world-system analysis, we have to assess the degree to which the structure is so stringent to annul the effectiveness of short-term policies, if any. Following our previous example, it could happen that the patterns of uneven exchange between Uruguay and its major trading partners, e.g. the UK, are so tight that even its more stable political context cannot outbalance the constraint of the world-system, and in the end its vulnerability is the most determinant of all. In any case, given our set of countries, the vulnerability can be checked against the relative size of the countries, by contrasting Uruguay with its major neighbours.

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world-system. Exploitation and instability are integral to the capitalist system for all Marxists, and the positive underdevelopment of many of the less developed countries is attributable to their past and present relations with the capitalist metropolis (Jones, 1995, pp. 38-39). Strange (1985, pp. 233-255) criticizes that conventional liberal opinion because trade experience tells us that protectionism in fact poses no great threat to the world's trade system. Trade in the international system has to be seen as a secondary structure. It is subsidiary to four primary structures of the international political economy (security, finances, production and knowledge). The security structure includes both external security and internal security; it determines whether there is war or peace in the international political system of states and whether and how governments within states are able to maintain domestic order. Trade is highly vulnerable to both. It is also responsive to the production structure, which together with the knowledge structure decides what is to be produced, how (i.e., with what technology), where, by whom, and for whom; and it is vulnerable to the money and credit structure, which decides who can pay for traded goods or services and how. From Strange's contention, and by applying a reasoning in reverse, it is possible, for example, to infer that a combination of political and economic interests that cannot be counterbalanced by the structural change in the international division of labour brought about by the mobility of capital and technology, in a context of a significant world depression can seriously exacerbate the collapse in world trade, as happened during the thirties.

[16] In the Marxist analysis, the basic actors in both international and domestic relations are economic classes, so that the dominant class determine the foreign policy of the State (Gilpin, 1975, p. 28). In particular, we find that the concept of interest groups and their influence in the foreign policy of states has an important role in this research. In the liberal approach, as George Stigler analyses in his 'capture theory', interests groups seek to circumvent markets, and for this reason seek government regulations that far from benefiting the society, tend to protect the interests of those groups. In other words, the governmental institutions tend to be colonized by the regulated interest groups (Deugd & Hoen, 2010, p. 41). And according to the rational choice approach, it is not the State, but the individual as the main actor. There is a focus on the rationality derived from self-interest and the institutional context in which they define their interests. The State is made of politicians, decision makers and public servants, who are ultimately influenced by other individuals, such as journalists, lobbyists and voters. Although individuals act rationally and guided by self-interest, that perception of the self-interest is partially shaped by the institutional environment in which they act (Deugd & Hoen, 2010, p. 75).

With such complexity, we can reach innovative conclusions that might even question the general trend of explanations. Indeed, we could question mainstream researchers who place Latin American countries in the position of price takers and subordinate standing. Or by contrast, give up and accept as valid the determinism of the world-system analysis. As a final point, it is important to recognize that, as clearly evidenced in nineteenth century's Orientalism so well portrayed by Edward Said (2003), there is a tendency to generalize and give for granted mainstream preconceptions. In this regard it is a key element not to forget that even though the Great Depression has been researched exhaustlessly in most core (e.g. the US, the UK, Germany, France, etc.) and some emblematic semi- peripheral countries (e.g. Argentina), there are some countries that have not been really studied deeply enough (e.g. Brazil and Uruguay). Thus, the findings of these particular cases for the historiography are certainly innovative and meaningful, and possibly contradictory with the mainstream.

To sum up, given the shortcomings of well-established paradigms, as well as the complexity of the concept of vulnerability which is transversal to many analytic frameworks, we need to follow an eclectic path. We build on some of the key concepts within the method proposed by Immanuel Wallerstein, but go beyond and incorporate elements from other paradigms. We do not take one single paradigm, but neither do we reject the contribution to knowledge of the relevant paradigms already mentioned. We believe that these different intellectual approaches help us to better explain the experience of ABU during the thirties.

Having discussed the main elements that underlie our problem, the hypothesis that guides our research is that *Argentina, Brazil and Uruguay were highly vulnerable to the Great Depression, and of them the smallest country was the most vulnerable of all.*

Probably this is not a priori a very surprising hypothesis. After all, countries are vulnerable to crisis and it is plausible to think that the smallest country was the most exposed. However, if we consider the concentration of trade, Brazil could be the most vulnerable during the thirties. Thus, the originality of our research is based on our main strategy of using a new conception of vulnerability with a historical-comparative perspective.

The first measure of vulnerability is directly linked to the economic transmission channels of a crisis from core to periphery and semi-periphery. In order to do this, we have firstly to assess the way in which the Great Depression was transmitted to ABU. Then, how asymmetrical was that transmission to those countries. And, we have to analyse the applied policies. The relative vulnerability of ABU should result from the costs that policies could not prevent from falling over the respective societies. The idea can be explained with an example. If we have a country A that is strongly dependent on exports to country B, it is possible to conclude that A is strongly vulnerable to a prohibition of such imports in B. However, if diplomacy in A is sound enough to grant market access to a third country, the costs for A in terms of lost economic activity might not be so significant.

In this regard, there are some similarities in the applied policies by our case countries during the twenties and thirties. Along with the sudden stop of foreign inward capital flows, the most important transmission was through trade. The proof of this assessment lies in the comparison of trade figures and other macroeconomic variables among the three countries. It is commonly accepted by researchers that during the thirties the foreign trade structures of most peripheral and semi-peripheral countries were highly vulnerable in terms of market and commodity dependence. Thus, when the Great Depression began the transmission was strong for them. If we have to add anything to this we need to approach this matter differently. From a substantive point of view, no one has yet researched if the smallest country, Uruguay, suffered the most from the negative effects of the global contraction vis-à-vis its major partners. We also adopt a new methodological approach. Firstly, we develop a methodology to make comparable the trade figures of ABU from the extinct League of Nations and construct indices such as the Herfindahl-Hirschmann index (HHI) to study the degree of structural trade concentration. Accordingly, it is possible to infer the relative economic vulnerability of each one of those countries during the Great Depression. Secondly, we compare these results with the similar calculations for the period 2007-2010 that corresponds to the outbreak of the Financial Crisis of 2008. In this regard, the main idea is to know how much more vulnerable these countries were in the past as compared to the present. Although there are many works that compare the Great Depression with the Financial Crisis of 2008, this is an effort that has not been attempted so far for ABU[17].

The transmission through trade carries several implications for the economies of ABU and triggers policy responses by governments. In order to verify those economic effects, we have to gather and compare other economic aggregates with the idea of obtaining a macroeconomic picture of the crash for these three Latin American countries. At the same time this process allows us to recover information and addresses with a renewed perspective the research on this period, especially for the cases of Brazil and Uruguay, where the literature tends to be scarcer[18]. This is the first time that a comparative systematic comprehensive research is

[17] First of all, we have to create a new methodology to make the trade figures of ABU comparable for the time, and for that task we have to reconstruct those series using sparse statistics from League of Nations trade statistics included in the statistical yearbooks, the “Trade Statistics of Sixty-Four Countries” and the “International Trade Statistics” contained in the “Memorandum on International Trade and Balances of Payments”, so that we can analyse each country’s individual trade structures and related vulnerabilities. This task involves the conversion to current US dollars from Argentine gold and paper pesos, British gold pounds of the Brazilian trade figures, Uruguayan pesos; and gold US dollars, so that we could find comparable sets of trade data. Secondly, after a rigorous analysis of the trade structures of ABU, we test the trade dependence using the Herfindahl-Hirschmann index (HHI) for destination markets and export products during 1928-1934 in order to study the degree of structural concentration.

[18] In order to work with the hypothesis and its corresponding subsets of questions of economic character, we have to make a significant gathering of the relevant statistical information needed to reconstruct the macroeconomic panorama of ABU from different sources. This constitutes an important contribution for the academic world. And it is not an easy task, because as Díaz Alejandro & Seibert (1979, p. 150) argue, the data are scarce for the interwar period in Latin American countries, especially for small or passive countries. Indeed, we have at our disposal several statistical yearbooks, monthly bulletins of statistics, surveys, and reports from the League of Nations, United Nations, economic history databases and several statistical contributions from specialists. However, it is difficult to find, for example, information on financial variables and/or capitals flows due to the early stage of development of statistical skills. Each country has its own

undertaken for these three countries altogether. Furthermore, we focus on the comparison of Uruguayan economic aggregates vis-à-vis Argentina and Brazil, in order to test if that country was indeed the most vulnerable from the economic point of view.

When we match the economic effects with the policy responses in the analysis, we can give a picture of the relative vulnerabilities of each country. ABU were among the most 'active countries' according to an expression of Díaz Alejandro, because they were prone to test an interesting package of heterodox policies in order to face the crisis[19]. In this regard, therefore, the comparison of policies among these three countries is especially relevant. Following this reasoning, we can assume a priori that these three neighbouring and semi-peripheral countries would have strong similarities in policy responses during 1928-1934 to face the same global downturn. This is so because when facing similar strong trade contraction, their weak fiscal structure initially required orthodox cuts of expenditure and their governments were politically

statistics, and when those are lacking, there are estimates from local researchers such as Cortés Conde in Argentina; Haddad and Versiani in Brazil; and Bértola in Uruguay. But they are not comparable because of diverging methodologies. Our work engages those sources of information and provides conclusions as much as possible taking into account their shortcomings.

[19] It is common to hear that the Great Depression prompted 'heterodox' policies. Although it is widely used, this is not an easy term to define. Many dictionaries and encyclopaedias define 'heterodox' as all that is not conforming to accepted or orthodox standards or beliefs. But in fact this concept has evolved over time and the line that divides 'heterodox' from 'orthodox' is very thin. This complex conception is related to the evolution of schools of economic thought and represents all that is considered outside of 'mainstream economics' and sometimes contrasted by followers of neoclassical economics (Foldvary, 1996; Lee, 2008; and Lawson, 2005). According to Dorfman (1970, pp. 3-4) the German Historical School dating back to 1870-1880 needs recognition in this evolution. As the rigid restrictions of British classical economic thought were criticized, a much broader definition of the scope of economics was demanded, and a systematic gathering and interpretation of statistical and historical data was suggested. This School influenced, for example, Henry Carter Adams, who in the US warned about the risks of unrestrained *laissez-faire* economics and the need for greater government intervention in the economy. Wesley C. Mitchell's Business Cycles of 1913 work led to the possibility of substantially controlling and reducing the worst fluctuations of economic activity. Walter W. Stewart contributed to the famous Annual Report of the Federal Reserve Board for the Year 1923 (1924), which contained a full and careful statement of principles and consequences of open market operations as a major instrument of policy, supplementing the discount rate. And John R. Commons contributed to the US bill of 1928 that for the first time directed the Federal Reserve Board to perform a positive role in helping to guide the economy. Although the bill stated that the Federal Reserve System should use all its powers to maintain a stable gold standard, Commons did not necessarily preclude altering it, and in 1931 successfully argued for substantial devaluation of the dollar in order to stimulate employment and recovery. These are all examples of heterodoxy at a given point of time that went beyond mainstream economics.

However, the definition of 'mainstream' is diffuse. Following Colander, Holt, & Rosser (2003, pp. 3-6), sociological issues impinge upon and constrain what is possible intellectually. The reproduction of ideas involves the social, political and economic structures of the academic and policymaking establishments in which ideas are developed and transmitted. They further explain that the mainstream consists of the ideas that are held by those individuals who are dominant in the leading academic institutions, organizations, and journals at any given time, especially the leading graduate research institutions. This touches on the definition of ideology, which as Lawson (2005) explains, carries the connotation of a theory adhered to irrespective of its method or level of justification and is maintained because of some purpose it serves. Keeping in mind this analysis, we show in this text that the Great Depression led to the adoption of policies that were clearly heterodox, far beyond the 'gold standard ideology' that in our view at the time was still part of the 'mainstream'. In fact, the depression left the gold standard out of the mainstream for good, proving in this way the changing nature of orthodoxy. After all, as Dorfman (1970, p. 21) affirms, even Adam Smith was in his day a heterodox thinker. In any case, the state of mind of authorities regarding their willingness to consider changes to policies and to break with the predominant orthodoxy is an important issue to take into account when the Great Depression arrived, and we address throughout this thesis.

unstable. The comparison of effects and policies allows us to see if this assessment is right, and which of the countries was more vulnerable from the economic point of view.

Besides the transmission of the crisis, another important element that spread vulnerabilities worldwide during the Great Depression was the strength of the gold standard ideology. This is a unique feature that cannot be avoided in any analysis of this period. Over the time, there has been a consensus among researchers in that the gold standard was actually during the twenties an ideology that prescribed the allegiance of governments to the orthodoxy that the system enshrined. As we explain in detail in the next chapter, the argument goes on to conclude that this orthodoxy, along with the lack of international cooperation, was one of the main ingredients to exacerbate the strong impact of the Great Depression. One of the chief reasons was that it prevented the adoption of Keynesian style policies. For example, governments could not boost the demand because this prompted gold exports and therefore, they had problems to maintain the fixed value of their currencies. As a consequence, those countries that were more free to decide on an early suspension of the gold standard and to enact other heterodox policies (among them, expansionary policies), were in a way less vulnerable in the long-run. In fact, they could adopt policies to smooth the crisis sooner and seek a faster recovery. We believe that for some countries, mostly in the core, the gold standard developed as a choice during the twenties, but for others, such as Latin American countries, it was more a result of the lack of alternative options. The international context was of unequal exchanges between core and peripheral countries as the Latin American structuralism and the world-system analysis hold. The intrinsic hierarchy in the world-system also ensured that the financial rules of the world were dictated from the core. Trading relationships and capital flows between core and peripheral countries were influenced by the fact that most of the countries within the former group were fully engaged with the gold standard and orthodox thinking. In this context, the allegiance of ABU with the gold standard surely was a result of these relationships and the need to secure loans from core countries rather than a clear conviction of the benefits of that ideology. This allegiance was also functional to the financial and commercial interests of the main internal pressure groups. In line with Wallerstein's assessment, the global downturn gave semi-peripheral countries, such as ABU, more freedom to pursue autonomous heterodox policies. In this regard, ABU might have not been so much vulnerable after all during this particular point in time.

Our analysis cannot be complete if we do not incorporate concepts from the theory of international relations. Essentially, in the international system states are nominally equal in terms of sovereignty and functions. But they do have different capabilities to achieve their national interest and they do asymmetrically accumulate power resources to achieve their goals. However, from a neoliberal perspective, Keohane & Nye (1988) analyse the new patterns of 'complex interdependence'[20] among unequal powers, in particular the increasing transnational

[20] The concept of complex interdependence entails vulnerabilities and sensitivities in international relations. Following Jones (1995, pp. 6-8) vulnerability could be restated as the simple unavailability of a policy option that would protect an actor from any future costs generated by the given external event. More precisely,

interconnectedness and mutual dependence between states and societies. From their semi-peripheral position, the patterns of interdependence of ABU with core countries translated into a limited capacity to obtain a better bargaining position. This in turn means a new source of vulnerability, for example in face of the protectionist measures taken by core countries. In this regard, for example, the unequal exchange between Argentina and the UK meant for Argentina a very disadvantageous position in the negotiating table, well revealed in the Roca-Runciman Treaty. In fact, in exchange only for maintaining the Argentine presence mainly in the British meat market, the UK was guaranteed the remittances from their old investments, the protection against future devaluation of the peso, preferential treatment to British goods exported to that country and the control of a significant part of the disputed domestic market. In order to research this aspect we used former classified official documents gathered in our field trip to the National Archives of London, mainly from the Foreign Office (FO) and from the Board of Trade (BT), and from the US archives (FRUS). The documents obtained in our field trips to Brazil and Uruguay allow us to complete our panorama on these issues and to confirm what other researchers suggested and intuition advanced. From these documents, for example, it is possible to infer that the real priority of British diplomacy was Argentina, while the Americans were more focused on Brazil. This possibly gave the latter more freedom to pursue independent policies. By contrast, Uruguay was not in any way a priority for either of them. The inclusion of Uruguay in the analysis vis-à-vis the other two major countries is relevant because most researchers tended to skip detailed analysis of small countries. Latin Americanists have not contrasted the documents about economic policies that we managed to obtain for this specific set of countries, and when that effort has been pursued, the emphasis has not been in general about economic and commercial policies and relations, but in the political events and the general historical context. Moreover, we show how similar or different were the positions of ABU, which reveal the priorities of the foreign powers, in particular the British and the US, and therefore, the country's international political vulnerability.

The internal politics also plays an important role in our research. It is not new to say that the international context of growing nationalism and the economic distress suffered during the Great Depression by many countries fuelled the underlying internal conflicts. The struggle among pressure groups seeking power and profit, eventually translated into political instability that propitiated revolutions and regime changes. We know that during 1930-1933 ABU underwent important regime changes. The coups of Getulio Vargas in Brazil, José Félix Uriburu

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Keohane and Nye define vulnerability as an actor's liability to suffer costs imposed by external events even after policies have been altered. Sensitivity involves degrees of responsiveness within a policy framework, or in other words how quickly do changes in one country bring costly changes in another and how great are the costly effects. The vulnerability dimension of interdependence rests on the relative availability and costliness of the alternatives that various actors face. Reference to dependencies in the above discussion has been no mere casual departure from the use of the terms 'sensitivity interdependence' and 'vulnerability interdependence' in Keohane and Nye's work. Interdependencies are instances of mutual dependencies, but the significance of these to the participants in the relationship may vary markedly. Indeed, it is possible for one bilateral relationship to involve relatively trivial sensitivity dependence in one direction, but a critical dependence, of high vulnerability, in the other. This is a clear message that we present from time to time in our work.

in Argentina and Gabriel Terra in Uruguay can be linked to the impact of the Great Depression in the internal political game. Moreover, other relevant factors were the institutional shortcomings that prevented the adoption of decisive policies in face of the economic collapse or simply the direct confrontation of pressure groups not necessary linked to the economic juncture. In any case, at the outbreak of the economic crisis, the incumbent authorities were eager to curtail any revolutionary inclinations among the main pressure groups negatively affected by the economic downturn and to ensure their political survival. That fact certainly affected national policies against the crisis. Here it is important to point out that although many researchers in each country have addressed the events that resulted in change of governments, such a comparison should allow us to say if the landed classes were the key drivers of the politic and economic changes after the outbreak of the Great Depression.

Once we assess the relative contribution of each of the selected concepts that feed the idea of complex vulnerability we are seeking to construct, it will be possible to say if ABU as a semi-peripheral region was really vulnerable. In other words, if the Great Depression found those countries unable to mitigate its effects, or by contrast to the general understanding, they managed to make use of the advantages of being semi-peripheral in a global context of downturn.

We are confident that this research constitutes an important academic contribution because, to our knowledge, there is no other work about this topic that deals with these three countries altogether. We also consider that the analysis in parallel of these representative realities of the periphery is appealing for historians and policymakers worldwide. In the remainder of this chapter we describe the sources of information and the methodologies used in this work.

ii. A world of information to explore

The initial literature review was conducted mainly in the *Koninklijke Bibliotheek - Nationale Bibliotheek van Nederland* – and in *Bibliotheek van Het Vredespaleis* in The Hague, and in the main library of the *Universiteit Leiden* from 2009 up to now. Then, we did field study in London, Montevideo and São Paulo and we kept permanent contact with colleagues in Buenos Aires. More specifically, in November-December 2010, August 2011 and August-September 2012 we travelled to Montevideo, Uruguay, where we obtained significant information regarding the three countries at the libraries of the Economic History Department of the Institute of Economics of the Faculty of Economic Sciences and Management of the *Universidad de la República* (UdelaR), the Faculty of Social Sciences of the UdelaR, the Central Bank of Uruguay and the *Instituto Artigas del Servicio Exterior* of the Ministry of Foreign Affairs, as well as at the local specialized bookstores. We chose Uruguay to do the bulk of our field trip in South America because, apart from the fact that it is our country and we have research expertise there, this country has always been linked strongly with its bigger neighbours, and consequently it was the most likely place to find relevant literature in relation to the three countries involved. Furthermore, in September 2010 in Montevideo we had the opportunity of exchanging ideas and having feedback on our work in the Southern Hemisphere Economic History Summer School sponsored by the Historical Patterns of Development and Underdevelopment Project (Centre for

Economic Policy Research -CEPR-, London) organized by the Faculty of Social Sciences of the UdelaR. In September 2012 we also visited São Paulo, Brazil, where we managed to obtain various books that allowed us to close our study on this country. In September 2011 we travelled to London to conduct research in the National Archives at Kew, Richmond, England, where we obtained invaluable information to fill the gaps on the available literature. Our analysis in London focused on the files of the UK Board of Trade, the governmental department that made provision for commerce, and was in direct contact with the British embassies in Buenos Aires, Montevideo and Rio de Janeiro. In addition we obtained the important dispatches and memoranda exchanged between those embassies and the Foreign Office. We also included in our research documents obtained from the Foreign Relations of the United States (FRUS), which contains relevant historical information from the Department of State. The reader should be aware that the views expressed in those internal documents include the particular perception of the British and American officials, thus probably tainted and biased to overstate their interest and underestimate their counterparts.

Much has been written about the Great Depression. However, many authors focus on the core countries or regions, such as the US and Europe, and have tackled Latin American countries less. Among many others, Condliffe (1932/1933, 1940), Fox (1937) and Eichengreen & Irwin (1995, 2009) brought into focus the world trade flows during the interwar period. While the reports from the League of Nations and the Royal Institute of International Affairs along with the books of Taylor & Taylor (1943) and Rowe (1965) made important contributions about market conditions and primary commodities in international trade, as important inputs for Latin American research. Many prolific authors such as Temin, Eichengreen and Kindleberger have analysed the Great Depression from every possible angle, and especially its origins and the role of the gold standard. With regard to the topic of trade policies there are some remarkable works, such as the books written by Condliffe (1940), Chalmers (1953) and Irwin (2012). On the other hand, regarding the literature specifically for Latin American countries, it includes famous collective works such as Thorp (2000) or Bethell (1994) or books such as Bulmer-Thomas (1994) or Bértola & Ocampo (2011) who undertake research on the economic history of Latin America. In addition, some authors such as Díaz Alejandro (1979, 1980, 2000), Kindleberger (2000) and Viales (2000) put emphasis on the region during the interwar period. However, those are sources of information less country specific and the period 1928-1934 lacks literature or is not addressed in particular. Furthermore, although the work of Abreu & Svirsky (1985) constitutes an important research input to a good understanding of the international economic relations between the US and the UK and the larger countries of South America, Argentina and Brazil, there are not many works strictly specializing in Latin American trade policies and/or international relations. From thereon, the literature for ABU includes a broad range of authors, whose works in many cases give key debates about the local causes of the downturn and the reasons behind the recovery. We now briefly summarize the main contributions to the state of knowledge during the thirties.

For the case of Argentina, the condition of a key South American big player, combined with a rapid deterioration by the end of the twenties, its significant dependence on the UK and the important package of policies implemented by the government to face the Great Depression have made this country as an attractive case study. Thus, the literature is relatively more extensive than the equivalent for Brazil and Uruguay. Researchers such as Prebisch (1986, 1991), Díaz Alejandro (1967, 1970), O'Connell (1986, 2000) and Rapoport (1988, 2003) are only some examples of the main contributions of enthusiastic scholars on the economic history of Argentina. Other authors focus on some aspects of Argentine history. For example, Scalabrini Ortiz (1965) studies the British policy in the River Plate, Villanueva (1972) the Argentine industrialization, Balboa (1972) the evolution of the balance of payments during 1913-1950 and Salera (1941) the exchange control and the Argentine market in his Ph.D. thesis. Furthermore, Smith (1969) analyses the politics and beef by the twenties and thirties, della Paolera & Taylor (2003) the macroeconomic policies and markets and Cortés Conde (2009, 2010) the Argentine political economy. Alhadeff (1986) makes a remarkable reassessment of the economic formulae of the thirties in Argentina as part of a relevant collective work of di Tella & Platt (1986) who put emphasis on the political economy of this country during 1880-1946. Special mention needs to be made of the work of the brilliant Argentinean economist and statesman Raúl Prebisch, compiled by the *Fundación Raúl Prebisch*, who in his "*Obras 1919-1948* " (1991) relates the decision-making process and the policies implemented by the economic team to rescue the country from the depression. This book was obtained from the *Banco Central del Uruguay* in the framework of our field research and constitutes an important input for this thesis. Finally, and as we have discussed in the previous section, it is worth noting that Prebisch used his contemporary experience of the Argentine Great Depression to later create the structuralist theory.

For Brazil, we are under the impression that the entire period of the thirties lacks economic information and is still open for further research. This is also the opinion of many analysts like Beloch (1986), who relativizes the quality of some of the key journals of the time like the *Jornal do Brazil*, and criticizes the lack of referential books. Of course there are many political analyses of the time, specially centred in the figure of Getulio Vargas, the influence of the coffee oligarchy and the background of the Estado Novo after 1937. In economic terms, a good deal of working papers and books analyse the thirties as a path of long-term change in the industrialization of the country, as part of the literature that relates to the import substitution industrialization process and the relatively quick recovery from the Great Depression. In this regard, the classic view corresponds to Celso Furtado (1985), who suggests that the coffee support scheme applied by the government equated to a Keynesian countercyclical policy. Peláez (1972) contests this approach by concluding that the monetary and fiscal policy of the time was essentially orthodox. Since then, most of the analyses tend to support one or the other position, although authors such as Abreu (1990), Cano (1981), Neuhaus (1980), Silber (1977) and Suzigan (2000) refute Peláez's revisionism. Other important contributions are Fritsch (1988,1990), who studies in detail the economic history of the first Republic up to 1930, including the policies in face of the Great Depression and Marcelo de Paiva Abreu, who has several writings on the period 1930-1945, and has also done comparative analysis about other Latin American countries. Delfim Netto (2009) provides the best reconstruction and analysis of the Brazilian coffee policy. Franco (1985) produces a good description of the different views regarding fiscal policy, and corrects the official numbers to conclude that the policy was more expansionary than actually thought. Stein (1979) provides an excellent description of the key textile industry. And Haber (1992) is one of the recent working papers that analyses the Great Depression in Brazil. Suzigan (2000) details the different views in relation to the industrialization during the thirties and presents new data regarding investment and imports of machinery. Peláez (1972) and Villanova & Suzigan (2001) agree on the role of exogenous factors, such an unplanned expenditure and trade balance on the recovery.

For Uruguay, we also found that the period 1928-1934 is still open for further research. A good deal of working papers and books analyse this stage in political terms, and when addressing the economy tend to be schematic or politically oriented. Nevertheless, some authors make an important effort to shed light on the period. The contemporary account of Eduardo Acevedo Álvarez (1934), who was a member of the *Consejo Nacional de Administración* (CNA, National Council of Administration) is an unavoidable reference, since he gives a detailed description of the policies implemented mainly by that branch of the executive. Furthermore, bulletins, yearbooks and reports of the thirties from the Ministry of Finance and from the *Dirección General de Estadística y Censos* have been valuable sources. Finch (1981, 1991) and Bértola (1990) also present detailed and interesting analyses of the economic history of Uruguay in English language. In particular, Bértola (1990) tackles a sectoral approach focused on the manufacturing industry of Uruguay during 1913-1961. Another important collective work is Bértola (2000) which includes several studies about Uruguay and the region in the world economy during 1870-1990; while the works of Díaz (2003a, 2003b) contribute to enriching the financial history of the country. Nowadays, many authors write from the public university, *Universidad de la República* (UdelaR), and are continuously making useful contributions to this field of knowledge. Some of them are Magdalena Bertino, Reto Bertoni, Benjamín Nahum, Raúl Jacob and, as mentioned, Luis Bértola. For example, Bertino & Bertoni (2003) focus on the role of the Uruguayan State, the fiscal accounts and other policy aspects during 1906-1930, Bertino & Tajam (2000) on the evolution of the livestock sector in 1911-1943 and Bertino et al. (2001b) on the global economic performance of Uruguay during 1900-1955. Furthermore, Jacob (1977, 1981, 1983) analyses some economic indicators of the Great Depression in Uruguay, the livestock depression and the manufacturing development and the economic policies applied by the Terra government. And Nahum (1995, 2008) focuses on the evolution of the Uruguayan foreign debt in 1875-1939 and the economic history of Uruguay in general; and in 2007 he published an important work of statistical compilation for 1900-1950, among others.

In spite of being such a recent event, the financial crisis that started in 2008 has been widely analysed. The internet is full of press and journal articles, as well as many referential books. Some examples are such as Roubini & Mihm (2010) and Stiglitz (2010), who portray the magnitude of the global crisis; Reinhart & Rogoff (2009) who focus on the history of debts and defaults; and Bordo (2009), Eichengreen & O'Rourke (2010), Eichengreen & Irwin (2009b), Ferrantino (2009), Helbling (2009), Krugman (2009) and Romer (2009) who compare the Great Depression with the global recession after 2008 to better comprehend the latter. Moreover, most of those works have focused on the developed countries. Regarding Latin American countries, there are several working papers and reports from the Economic Commission for Latin America and the Caribbean (ECLAC) and the Inter-American Development Bank (IADB), both organizations committed to researching the region. For example, Ocampo (2009), in a work for ECLAC, analyses the impact of the global financial crisis in Latin America and concludes that the contraction of the international trade volumes of key commodities and the deterioration of the terms of trade were the main drivers in the transmission of the crisis. And Kacef and Jiménez (2009) compile for the same commission the macroeconomic policies applied by Latin American countries to counteract the effects of the downturn. Indeed, various documents from ECLAC, among them the “Preliminary Overview of the Economies of Latin America and the Caribbean” and the “Economic Survey of Latin America and the Caribbean”, both published yearly, provide important information to chart the macroeconomic evolution in ABU during 2007-2010 and to complete the picture of the recent downturn. In particular, the document “The reactions of the Governments of the Americas to the international crisis: an overview of policy measures up to 31st December 2009”, which later was updated by ECLAC to December 2011 and published in April 2012, is very useful to describe the policies implemented by the governments in the recent past.

Regarding the conceptual framework that we use as a departure point for our analysis, the economic transmission channels of an international downturn are vast and diverse. Nonetheless, the work of Tugores (2005) on the interdependencies in the world economy gives a general description of those channels that can be easily expanded with other authors. Further, there are many examples of works that focus on this matter taking the Latin American experience throughout history, such as Ocampo (2009), Kacef (2009) and Porzecanski (2009). Meanwhile, for the interwar period, the compiled work of Thorp (2000), that includes for example the important contribution of Díaz Alejandro (2000), also analyses the transmission channels of the Great Depression to Latin America. We also needed to consult literature from the field of international political economy, including among others Brown (1997), Cox (1983), Deugd & Hoen (2010), Gilpin (1987), Jones (1995), Keohane & Nye (1988), Kindleberger (1973), Strange (1985) and Waltz (1988). In order to progress in the mechanics of the gold standard some of the main authors are: Bernanke & James (2000), Eichengreen (1992), Eichengreen & Temin (2000), James (2001), Kindleberger (2002) and Temin (1993). Finally, with the aim of looking inside the structural constraints for the Latin American structuralism, we refer to works from Prebisch (1949, 1959), Bielschowsky (2006), ECLAC (2010), FitzGerald (2000), Furtado (1964), Kay (1989) and Ocampo (2001), among others. And, in addition, for the world-system analysis, we took the works of Wallerstein (among others, 1974, 1976 and 2004), Chase-Dunn & Grimes (1995), Emmanuel (1972), Evans (2007), Simon (2011), etc.

In relation to the historical framework, about the period of the Great Depression some of the outstanding authors that we studied are Cassel (1936), Chalmers (1953), Eichengreen (1992, 2004), Eichengreen & Irwin (1995), Eichengreen & Portes (1987), Eichengreen & Uzan (2002), Irwin (2012), Kindleberger (1973, 2002), League of Nations (1942), Madsen (2001), Milder (1999), O’Brien (2001), Romer (2003), Schnietz (2000) and Temin (1976, 1993). And for the financial crisis of 2008, focusing on Latin America in general or specific countries of that region, we included Astorga (2003), Bethell (1994), Díaz Alejandro (2000), Díaz Alejandro & Seibert (1979), FitzGerald (2000), González & Pollock (1991), Thorp (2000) and Viales (2000). Finally, for the period 2007-2010 we took Baldwin & Evenett (2009), Friedman & Schwartz (2008), International Monetary Fund (2009), Kindleberger & Aliber (2005), Krugman (2009), Ocampo (2009), Roubini & Mihm (2010), Skidelsky (2010) and Stiglitz (2010), among others.

iii. Methodology and statistical shortcomings: against the odds

As we have stated before, we commit to analyse the Great Depression, putting emphasis on its transmission belts and the policy measures taken by the selected governments. In order to proceed we had to limit the scope of our research, so we selected the periods 1928-1934. Of course, the years chosen are in part subjective, although there is justification. With regard to the Great Depression, it is common to read that the worldwide economic crisis was acknowledged after the New York Stock Exchange crash of October 1929 in the US, which is depicted in the literature as a decisive turning point of the interwar period. As a consequence, it seemed advisable to choose 1928 as a good baseline to start this thesis, because that year in general the world enjoyed prosperity, although some countries were already experiencing difficulties. Similarly, we chose 1934 as an ending point, not only because that year several countries were already recovering from the depression, but also because it is far enough from the pre-war deteriorating political context. This approach is not different from others. For example, Eichengreen & Irwin (2009) chose 1935 as the ending year for their work because they consider it marks a peak in protectionism worldwide. In relation to the Financial Crisis of 2008, we took a similar selection to the Great Depression, although in the latter we do not have the advantage of more than eighty years of economic research.

We started with the year previous to the crash, 2007, and followed events until 2010, the last year for which when we started drafting this thesis there was complete and closed statistical information. It is fair to say that this period entails a clear disadvantage which is the lack of historic perspective because it is possible to affirm that this crisis has not ended yet. It is true that after 2010 the world has recovered, but it is also true that the Financial Crisis of 2008 evolved into a sovereign debt crisis in some European countries, that eventually rebounded, and dragged growth in emerging markets, including ABU. In any case, we used data for three full years since the beginning of the crisis in September 2008. We expect that this academic contribution provides analytical conclusions from the present to better comprehend the constraints given by the patterns of dependence of the thirties. And in this endeavour we find that the period 2007-2010 is quite adequate to compare and extract useful conclusions for the thirties.

In the case of Brazil, the contemporary opinion of Sir Otto Niemeyer and William Godchild, who in 1931 analysed the Brazilian economy, is that the government accounting was hopelessly inaccurate and it proved impossible to get definite and correct figures. Apart from the external debt, the Brazilians were reduced to accepting figures which they believed were faked, or based on vague and shifting foundations. The floating debt and such items as foreign capital investments, invisible imports, remittances outward from Italian immigrants, remittances inward from Brazilians abroad, all had to be estimated to some extent by guess work[21]. Indeed, as recalled by Hilton (1977, p. 108), a commission that was established in 1931 in order to study the external debt found that the statistics at the time were non-existent or disordered. There were no data worthy of trust about inter-state trade, agricultural production, industrial productivity or balance of payments. Only in 1932 the *Departamento Nacional de Estatística* was created, and in 1934 the *Instituto Nacional de Estatística*.

In Uruguay, statistics for foreign trade provide insufficient disaggregated information, whereas the fiscal information has been criticized by contemporaries. For example, as Bertino & Bertoni (2003, p. 7) point out, Julio Martínez Lamas, responsible for the country's statistics at the time, recognized that there was some degree of chaos in the national budget figures. For example, he stressed that many expenditures from autonomous institutions were not included in the national budget and that new laws frequently changed the government's expenditures and revenues. Also foreign powers, such as the British, complained about the lack of transparency of official statistics, like in Argentina, especially for the way in which available exchange was allocated among nations. In relation to this, the British claimed that the statistics purporting to comply with UK requests were issued but were quite misleading by undervaluing by half the exchange produced by sales to the UK. Thus, those statistics showed a fictitious preference for the UK about which other countries' chambers of commerce had protested[22].

Regarding the use of Maddison's (2010) estimates, for example, for population, per capita GDP and total GDP, although it is the most suitable available -and sometimes the only - source to make international comparisons, it is important to point out its advantages and to be critical with its shortcomings. Maddison expresses GDP figures in 1990 International Geary-Khamis dollars[23]. According to Maddison (1995, p. 163) that approach is an ingenious method for multilaterising the results which provides transitivity and other desirable properties (base-country invariance and additivity). It is based on the twin concepts of purchasing power parity (PPP) of currencies and international average prices of commodities. Indeed, if we follow the definition of the OECD[24], the GK method is an aggregation method in which the category 'international prices' (reflecting relative category values) and country PPPs, (depicting relative country price levels) are estimated simultaneously from a system of linear equations. However, this method has also outstanding shortcomings. On the one hand, a change in the composition of the group can change significantly the international prices as well as the relationships between countries. Furthermore, for example, if one takes into account that the GK approach gives a weight to countries corresponding to the size of their GDP, a large economy, like the US, has a strong influence on results. On the other hand, another disadvantage is that the real final

[21] See note from the Commercial Secretary of the British Embassy in Rio, to His Majesty's Ambassador regarding talks with Sir Otto Niemeyer and William Goodchild, dated April 4th 1931, p. 44, in F.O. 371-15063.
[22] See note with reference C.R.T. 1230/33 in "Uruguay Exchange Restrictions" in BT 11/151, 1933.
[23] The so-called 'GK method' was initiated by R.S. Geary in 1958 and developed by S.H. Khamis in 1970.
[24] See http://stats.oecd.org/glossary/detail.asp?ID=5528, page visited in October 2012.

expenditures are subject to a potentially important '*Gerschenkron*' effect[25] that arises because of the negative correlation between prices and volumes and which means that the choice of the base year for an index determines its growth rate. Furthermore, it is relevant to note that the original Maddison data are available for our period of analysis starting 1928 and only until 2008 for each of our case countries. Thus, when we made comparisons between both periods of analysis, the figures for 2009-2010 were obtained by applying to the 2008 Maddison estimates the growth rates calculated from the estimates from TED (2011) which use similar, but not equal methodology to Maddison's for the period 1950 to date[26].

In order to show the figures of sectoral GDP and considering that the figures of national income were non-existent during the thirties due to the difficulties of collecting all the necessary information and processing them in a consistent way, we use GDP estimates from local researchers taking into account the varied shortcomings. In particular, for the sectoral GDP of Argentina, we take the estimates from Cortés Conde (2009, p. 309) expressed as index numbers from original figures in million pesos of 1914, whose original base (1900=100) we recalculated to 1928. According to Cortés Conde (1994, p. 5) the chosen method was to weight the changes in the produced quantities in each economic activity, during the considered time period, by the share of value added of each activity in total value added in the base year. This involved constructing indices of physical volume of production, for which it was necessary to construct annual series of physical volume for a representative sample of economic activity. This procedure was much simpler for agriculture, transportation and government for which data were available. But, for the industry there were no data between 1914 and 1935 when the Industrial Census took place, and therefore, annual production series had to be made based on different procedures according to the availability of data. Finally, the 1914 Census data was used to estimate the value added by each item (*rubro*), minus input values from their gross output values and weighting the share of value added of each item in the branch (*rama*) and of each branch in the sector and so it was possible to obtain the total value added. In this regard, it is relevant to clarify that the year 1914 was chosen because it was the only one for which the Census data provided to some productive sectors and raw materials data which were used to estimate the value added for all sectors of economic activity. Also the structure of Argentina's economy in 1914 reflects quite well the structure from 1900 to 1930. With respect to this methodology, there are various shortcomings in the choice of the base year in order to determine the weight of value added, the initial period (*Laspeyres* index) or final period (*Paasche* index) that may result in under-or overestimation as one takes one or the other. However, there are also other methods to address these problems (e.g. Fisher indices, *Divisia*).

In Brazil, we use the sectoral GDP series from IBGE (1990), which reproduces the original data from Haddad (1978) and Versiani (1984). These are figures that due to the lack of primary and

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[25] See http://stats.oecd.org/glossary/detail.asp?ID=7138, page visited in October 2012.
[26] TED from the Conference Board estimates the GDP at market prices based on national account sources from international organizations and national statistical institutes, expressed in 1990 US dollars and converted at 'Geary-Khamis' purchasing power parities.

reliable sources have to be taken with care. As a matter of fact, until 1950 it was not possible to produce in Brazil consistent and regularly updated industrial statistics that could properly inform us about the evolution of the industry in the country. The main shortcoming in those statistics is that they are mostly inferred from the statistics about the consumption tax, which was obtained from stamps bought by the producers from a specialized office for the industrial products sold by factories. Only after 1938 did it became mandatory for industrial companies to provide statistics about production to the *Departamento Nacional de Indústria e Comércio*. As a consequence, the total index only reflects approximately the behaviour of the activities affected by the consumption tax, which accounted only for around 69% of the local industrial production[27].

In Uruguay, we take the estimates from Bértola (1998, p. 61), whose original figures are index numbers with base year 1913, recalculated by us to the base year 1928. The base line is that the figures from Brazil and Uruguay follow the approach of Haddad (1978, pp. 3-6), who used the *Divisia* index. Following Bértola (1998, pp. 10-12), this index can be defined as a chain of *Laspeyres* indices, in which the series is based in percentage variations from one year to the other of the different components of the productive structure[28]. The main advantages are that it is not necessary to choose a basic basket and it is possible to incorporate products in a long-term process. However, each year the different components are weighted according to their weight on the previous year, both in terms of their incidence on the changes in the value and volume indices. Although the series can be augmented by the incorporation of new products, the sum of the aggregated values at current prices is only a sample of each sector and it is not possible to assess how representative it is of the total. Thus, it is necessary to make a weighted average in which the weights are to be applied following a criterion, that for example in the case of Uruguay was the Industrial Census of 1936[29] and in Brazil was the Economic Census of 1920, 1940 and 1950[30]. In any case, a key limitation of this procedure is the application of weights that do not necessarily represent those valid for the specific period that we are analysing.

The context naturally explains those shortcomings. International attempts to standardize statistics were just beginning, computing capabilities were scarce and the efforts of authorities were more focused on the collection of taxes and fiscal matters than academic analysis. Wars and international political tensions also reduced the effectiveness of international cooperation in this field. Regarding trade statistics, Mears (1935, p. 502) explains that as early as 1935 complexities and perplexities relating to comparable world statistics arose from the fact that countries did not have either identical classifications, practices in statistical compilation, or identical situations with respect to natural resources, commercial conditions and industrial and agricultural requirements. Moreover, even the compatibility along time of each country's own

[27] See IBGE (1990, pp. 364-367).

[28] Formally, an index of quantities q_i *(i= 1,…,n)* is defined by its own percentage variations as: $\frac{dQ}{Q} = \frac{\sum p_i dq_i}{\sum p_i q_i}$, where p_i *(i=1,…,n)* is the relevant price of good *i*. See Haddad (1978, pp. 3-4) or Bértola (1998, pp. 10-12).

[29] See Bértola (1998, p. 12).

[30] See Haddad (1978, p. 37).

trade statistics have to be taken with care. While each country has the cogent reasons of history or tradition for continuing its methods of recording exports and imports, it is exceptional when such practices of any one country remained sufficiently constant over a period of years to afford a satisfactory appraisal of its foreign trade. From a more modern and general perspective, Federico & Tena (1991, pp. 260-263) explain that the causes for divergence in the data relating to the same trade flow in the statistics of partner countries are differences in compilation criteria and actual errors. While the latter make data records diverge from real flows, the former may affect the comparability of data, but not their reliability. In principle, a statistic is reliable if it is consistent with the established national criteria, but it may not be comparable with other countries' records. In general, the problems of trade statistics can be grouped into the following: unavoidable differences arising between non bordering countries (FOB exports vs. CIF value of imports[31]); structural differences in compilation criteria (e.g. trade coverage, classification of goods by items, recording of values and indication of trading partners); and actual errors (e.g. smuggling, inaccurate recordings, negligence or fraud and errors by statistical offices). Another common problem is the greater attention which the custom services used to give to the handling of imports, especially those subject to duty, which explain the greater trustworthiness of import statistics over export ones[32].

The interwar data presents additional shortcomings to this account of possible errors in statistics. It would have been very difficult for economic historians and econometrists to draw a good picture of the interwar period without, for example, the League of Nation's documents such as the statistical yearbooks and the monthly bulletins of statistics, among several others. However, the researcher has to take into consideration their limits. The original introductory notes of the League of Nations yearbooks acknowledge that the majority of the sources used were official, but there were also unofficial sources and warn that users should not attribute to any unofficial compilations any authority greater than that of the source from which they are obtained[33]. Platt (1989) is a very bitter critic of statistics, and regarding the thirties, he notes that the League's own documents warn that statistics depended ultimately on the information supplied by the mercantile community and that the manner in which trade returns were drawn up differed greatly from country to country, and sometimes from year to year. Furthermore, he argues that every League publication echoed another, rendering the real source lost, the importance of the 'findings' exaggerated and the value of the original warnings about the reliability of its statistics diminished.

Another problem is that most of the League's individual country statistics are only roughly comparable. The non-comparability of the League's trade statistics is due to the lack of uniformity in reporting such matters as transit trade, bullion shipments, government purchases,

[31] FOB (Free on Board, named port of shipment) and CIF (Cost, Insurance and Freight; named port of destination) are Incoterms. The Incoterms rules or International Commercial Terms are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) that are widely used in international commercial transactions.

[32] This assertion is from Mears (1935, p. 506) for the US case, but it is valid for many countries worldwide.

[33] See for example, League of Nations (1929, p. 7) or League of Nations (1931, p. 7).

and colonial trade; as well as to the differences in the basis of valuation of imports and exports ('officially declared' values), in classification of commodities, in definitions and in origins and destinations[34]. For example, while in the League's yearbooks, the imports and exports of Argentina are presented as 'special trade, only merchandise'[35]; in Uruguay they are presented as 'special trade, specifically merchandise and bullion'; and in Brazil it is 'general trade, merchandise'[36]. The panorama worsens when it is considered that many of the League's sources are not clear and there was no major standardization of statistics, apart from the Classification of the Brussels Convention of 1913. This nomenclature only identifies five product classifications (live animals, articles of food and drink, raw or partly manufactured materials, manufactures and gold and silver) and 186 items[37]. Actually, as Nichols (1942, p. 340) explains, only after 1939 it was possible for the Economic Intelligence Service of the League of Nations to publish truly comparable trade statistics for about 30 countries which had been compiled according a minimum list of commodities for international trade statistics. Regarding the periods involved, the figures for some countries include calendar years, some beginning April 1st, some ending September 30th and others ending July 31st[38]. Finally, beyond trade statistics, when balance of payments statistics are considered, the problem of reliability worsens as most of the statistics are obtained from private compilations.

From a more practical point of view, a careful analysis of the League's statistics gives an idea of the aforementioned difficulties arising from cross-country comparisons, not mentioning econometrics. The first difficulty comes from the doubtful reliability of the series needed to deflate main variables and render them comparable. Most of the statistics are presented in national current values and for this reason the League's yearbooks provide a complete set of currency conversion tables in order to allow conversion of national values to a common currency or measure. However, the League warns that the coefficients are not exact and are only intended for use when rough approximation is required. And that is just the tip of the iceberg. Most of the time there are key variables missing or of doubtful accuracy. The different approach among countries for the construction of the price indices is a key feature, as the normal procedure to deal with variables such as imports, exports and value of production is to deflate them with the index of wholesale prices or the cost of living, in order to obtain real values and construct index numbers. If it is not possible to rely on those price indices, it becomes hard to evaluate real changes and even harder to commit to international comparisons among variables such as production, consumption and balance of payments components. And even in the case where the right price index is available, its scope might be deficient. In the case of ABU, for example, the information regarding the cost of living refers only to capital cities, and as a

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[34] See Fox (1937) and Platt (1989).

[35] 'Special trade' (S) in merchandise only, which may be roughly defined as imports of goods for domestic consumption and exports of domestic produce or products into which domestic labour has entered (League of Nations, 1942, p. 14).

[36] According to League of Nations (1942, p. 102), the discrepancy between general and special trade is in this case generally or no great importance, since in the case of precious metals figures for imports and exports are as a rule of less significance than the balance.

[37] See Flux (1923, p. 299).

[38] See for example the League of Nations' Statistical Yearbook 1930-1931.

consequence an extrapolation for the whole country is at best a large simplification. In the case of Uruguay there are evident loopholes in the cost of living series for 1930-1931 and 1934. In Brazil, the series presented in IBGE (1990) includes a limited basket of items (food, gas, clothes, property rent, furniture, servants and others) and there is no further information regarding relevant methodological aspects for the construction of the index.

But to be fair, even when we use current statistics, we find that even with the advantages of internet and computing capabilities not existent during the thirties, it is hard to find values registered by country X of goods imported from country Y that match reasonably well with the values registered by Y as exported to X. We take a simple example. If nowadays a researcher considers the bilateral trade flows between Uruguay and the Netherlands as provided by COMTRADE, it is possible to verify that the Uruguayan export trade reflected in that database, with Uruguayan trade statistics as a primary source, is at least one-third undervalued. The main reason is that Uruguayan export figures exclude products exported through Uruguayan free trade zones, which are registered by Uruguay as trade with a foreign customs territory called 'free zone'. By contrast, the Netherlands registers both flows (products imported from Uruguayan customs territory and free zones) as products simply imported from 'Uruguay'. The main consequence is that one of the single most important products exported from Uruguay to the Netherlands, pulp of wood, is registered by Dutch and European statistics (EUROSTAT)[39] as imports from Uruguay, but not by Uruguayan statistics as exported to the Netherlands, a fact that might lead to wrong conclusions to the unaware. The problem is aggravated when it is considered that some of the soya imported by the Netherlands through the Uruguayan free trade zones is registered as Uruguayan produce, when it actually is Argentine, Brazilian, Bolivian or Paraguayan produce passing by Uruguayan free trade zones and ports. If these kind of problems exist today with the most advanced computing capabilities and the extended use of the various harmonized codes under the guidance of the World Customs Organization and the WTO, then the case is even stronger to warn that most of the aging hand-made League figures have to be taken with due care.

According to the varied information available from local sources with different methodologies and considering their shortcomings and in order to make international comparisons among countries, export and import data for ABU were calculated from statistical yearbooks. More specifically the information was taken from the "Trade Statistics of Sixty-Four Countries" and the "International Trade Statistics" contained in Memorandum on International Trade and Balances of Payments, all sources from the League of Nations. But from then on, we had to adjust values for each country. In dealing with those numbers, we were aware of that it was important to express the foreign trade in the currency with which most of the ABU commodities were actually paid and in order to make the corresponding comparisons. For that reason, neither paper or gold pounds, nor gold Uruguayan pesos, nor gold Argentine pesos, nor gold dollars, were adequate for our objective. We needed to convert trade figures into current US dollars.

[39] See http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/, page visited in January 2013.

In Argentina, the export values are FOB and the import values are CIF, '*valores reales*' (real values). In this regard, it is important to clarify that the values of goods used in the trade returns and in the assessment of ad valorem duties were those fixed in the Valuation Tariff of 1906[40], adding the increase of 60% made in 1923. In relation to the latter, that was the position in 1930. During 1931 the valuations of a large number of goods were increased by varying percentages and hundreds of new valuations were established. Those values were not generally reliable and the Argentine Statistical Department in order to reach a rough true value of their imports calculated what they called '*valores reales*', as distinct from 'tariff values'. Although the 'real values' and 'tariff values' for total imports were approximately the same, there were wide differences in detail[41]. The original data were expressed in gold pesos during the period 1928-1931 and in paper pesos during the period 1932-1934, therefore in order to obtain the comparable figures in current million US dollars, the US dollars/gold pesos exchange rates from Lawrence H. Officer (2011) and the parity 1 gold peso = 2.27 paper pesos were applied. In this respect, it is relevant to highlight that the values expressed in current million dollars are the closest possible to the '*valores reales*' taking into account the monetary and exchange rate instability for the period of analysis. In Uruguay, the information from the League of Nations has to be taken with care due to the scarcity of reliable actual prices and quantum of imports and exports that forced researchers to make rough estimates. For example, given the fact that the values of imports reflected official prices (*'valores de aforo'*) that usually did not match trading prices, Finch (1981, p. 277) based his estimates of the import values to Uruguay on figures gathered by the official US and British export trade statistics, which were scaled up from the proportions of total imports from those countries indicated in Uruguayan sources. In any case, our choice was to use the export and import data from the League of Nations, which were expressed in Uruguayan pesos during the period 1928-1934. Therefore, in order to obtain the comparable figures in current million US dollars, the US dollars/pesos exchange rates from Maubrigades (2003) and Vaz (1984) were applied. In Brazil, the calculation was more complex. The League of Nation's figures were originally presented in British gold pounds. Thus, conversion tables from the League of Nations were applied in order to express the figures in current dollars. The procedure allowed us to obtain a conversion rate from US current dollars per British gold pound, as presented in Table 1. It is noticeable that the behaviour of the original converted series from British gold pounds is just affected by the US departure from the gold standard from 1933, and not before. So, the absolute numbers may change for being expressed in dollars, but the percentage changes from 1928 to 1932 are just the same for figures presented originally in British gold pounds or current dollars.

[40] The 1906 Law set an estimated unit value (*aforo*) on each imported item that could be changed only by law (Díaz Alejandro, 1970, p. 281).

[41] This information was taken from "Economic and Trade Relations. Record of conversations between the Argentine Ambassador and Mr. Craigie (Foreign Office) and also with the President of the Board of Trade" in "Argentina-UK", BT 11/79 (1932).

Table 1 Exchange rates applied to trade figures presented in gold pounds

	1928	1929	1930	1931	1932	1933	1934
Gold US$ / Pound (a)	4.87	4.87	4.87	4.50	3.50	3.31	3.01
Gold US$ / US$ (b)	1.00	1.00	1.00	1.00	1.00	0.78	0.60
Gold US$ / Gold Pound (c)	4.87	4.87	4.87	4.87	4.87	4.87	4.87
US$ / Gold US$ (c= 1/b)	1.00	1.00	1.00	1.00	1.00	1.28	1.68
US$ / Gold Pound (c *b)	4.87	4.87	4.87	4.87	4.87	6.23	8.16

Source: League of Nations (various years).

When we considered it possible, we used estimates for the terms of trade. For example, for the case of Argentina, the terms of trade index was taken from *Banco Central de la República Argentina* –BCRA- (1952) and the methodology of calculation from Balboa (1972, p. 172). Its original base year was 1913 which was recalculated to 1928. The terms of trade resulted from the quotient between the export price index and the import price index, denoting the percentage changes of the purchasing power of the export prices of Argentina in relation to its import prices. Regarding the calculation of the price indices, they were obtained by relating the '*valores reales*' (real values) at prices of each year with the respective volume indices calculated as nominal values from the Official Statistical Department, weighted by categories of items by means of a formula of aggregation used by the BCRA. But it is important to be critical with taking volume indices which although formally weighted include a complex variety of different items under a same procedure. Furthermore, regarding export prices it is relevant to explain that the index represents price changes to the type average-seller. In order to obtain strictly comparable data with the information from imports, the export values were increased to the extent that would result if the Argentine sellers had received by the exchange pesos in foreign currency of an identical worth to that paid by importers. On the other hand, in Uruguay we used estimates from Bértola (1990, p. 140), who took and improved the original calculations of import and export price indices from Finch (1981, pp. 154 and 275-279). We have to take care with those series, because as mentioned the '*valores de aforo*' usually did not reflect reality, so that researchers had to find ways around those difficulties. Whilst Finch's Uruguayan import price index was mainly the weighted average export prices of the US and the UK, the export price index was obtained as a result of the value and volume series and deflated by the exchange rate. And the value series is subject to the use of the 'official values', while the volume series was calculated on the basis of a limited number of sixteen commodities weighted by 1938 prices. Bértola, after some corrections, basically divided Finch's export over import price index to obtain the terms of trade index calculated with base year 1913. Thus, the base year was recalculated to 1928.

Finally, following a similar approach to the UNCTAD (2011), we calculate the Herfindahl-Hirschmann index (HHI), which measures the degree of market concentration, both in terms of countries as destination markets and export products, according to the following formula:

$$H_j = \frac{\sqrt{\sum_{i=1}^{n}\left(\frac{x_{ij}}{X_j}\right)^2} - \sqrt{\frac{1}{n}}}{1 - \sqrt{\frac{1}{n}}}$$

where $H_j = country\ j\ index$

$x_{ij} = value\ of\ exports\ for\ country\ j\ and\ product/country\ i$

$$X_j = \sum_{i=1}^{n} x_{ij}$$

and

$$n = number\ o\ products\ (nomenclature\ 1913)\ or\ number\ of\ trading\ partners$$

As this index is normalized to obtain values from 0 to 1, the country with a number closer to 1 displays the maximum concentration, and intuitively is more vulnerable because of its dependence on few countries as destination of its produce, or a limited basket of export products. As a shortcoming, we have to mention that the HHI is highly susceptible to the degree of product disaggregation. Higher product disaggregation reduces both the realised value of the index as well as the minimum possible value. In this regard, the discretionary assessment of the researcher regarding the number of products or countries included in the index becomes relevant. As the reader will see, given the limited number of products and countries for which we have data, we chose to establish a threshold at individual items accounting for 3% or more of total figures.

To sum up, we are dealing with scarce and imperfect national statistics in a time of minimal standardization. The fact that the methodologies applied for the construction of series varied among industries and countries reaffirms the importance of the original League warning that any comparison has to be taken with care throughout the text or any other given research. In our work we have to address very carefully the reliability and causality among variables, not only then, but also now. Only a consistent accumulation of evidence and trends should be regarded as a solid base for consistent assertions. Finally, it is important to point out that this is a historical-comparative analysis with a strong focus on the economic life of Argentina, Brazil and Uruguay during the Great Depression. Our starting point is, of course, the mechanisms of transmission of the crisis and its economic consequences, so that we have to deal with the necessary data, but keeping in mind their shortcomings.

Regarding the structure of our research, in the introduction the authors present the aim of the work, the hypothesis, the sources of information and the methodology with the respective shortcomings. Then the rest of the text is divided in three parts. Part One includes the chapters concerning the conceptual and historical background of our research. Chapter II contains the conceptual framework that guides our work. Further in Chapter III we write about the historical framework of the Great Depression, with a special emphasis on Latin America, and making a link with the financial crisis that broke out in 2008. In Chapter IV we put Argentina, Brazil and Uruguay in perspective by comparing the economies and structure of commerce between the thirties and the period 2007-2010. Then, in Part Two we describe the situation of Argentina, Brazil and Uruguay before de crash in chapters V, VI and VII, respectively. Part Three constitutes the core of our research as in it we seek to analyse the complex vulnerability of the three countries, including political aspects (Chapter VIII), transmission of the crisis from the core (Chapter IX), the role of the gold standard ideology (Chapter X), the policies applied to mitigate the negative impact of the crisis (Chapter XI) and the role of the patterns of complex interdependence that linked each country to the world system (Chapter XII). In our last chapter XIII we make a link to the Financial Crisis of 2008 by comparing it with the Great Depression of 1929. Finally, and always taking into account our concept of complex vulnerability, some concluding remarks are presented.

In general the text regarding Argentina shall be attributed to Silvana Sosa, the one regarding Brazil to Marcelo Gerona and the remaining text concerning Uruguay or wherever a comparison among these countries is made, shall be attributed to both co-authors.

Part One – Our research framework

El Bicentenario (1929, p. 477).

II. The conceptual framework

The interwar period was a complex and difficult time for the world from the political point of view. During this time, the world was not only affected by the economic collapse of 1929, but also by the political context left after the defeat of Germany during the First World War, and the subsequent processes of economic collapse, hyperinflation and unemployment. The eventual rise of authoritarianism that ended in the Second World War was the end result of this process. Also in our case studies the political situation was variable, and the interest groups and the great powers played an important role beyond economics. In every study that involves real life, economics and politics are inseparable, and if there is a period of time in which this perception is clearest, it is precisely the interwar period. And for that reason it is more than advisable to depart from some concepts borrowed from the literature that focus on the international political economy.

In working with this complex period of time, we need to engage in this thesis with concepts borrowed from economic science and from the discipline called international political economy. On the one hand, following Tugores (2005) there are transmission channels in the world that explain the interdependencies across countries in varying degrees. Even though the effects of the transmission from one country to another depend on the characteristics of each one, there are channels associated to them in any point of time.

Beyond this economic analysis, economic historians have researched those interdependencies for each time period and in particular have identified channels relevant to the experience of the interwar period. Those include the specific features linked to the ideology of the time. As explained by authors such as Barry Eichengreen, Peter Temin and Charles Kindleberger, the functioning of the gold standard was as a key contributing factor of the depression. The fixation of the values of national currencies in terms of gold, the absence of international coordination, the asymmetry between countries experiencing balance of payments deficits/surpluses, the deflationary forces underlying the gold standard system and the monetary policy of major powers, were all dogmas of the prevailing ideology at the end of the twenties that help to explain the severity of the subsequent worldwide contraction. Eichengreen (1992) also identifies a specific model to the historical gold standard, linked to the behaviour of short-term capital movements that rendered banking systems in smaller countries more vulnerable than those in large ones. And Irwin (2012, pp. 43-46) highlights the difficult trilemma of economic policies faced by the countries under the gold standard in maintaining the gold parity, independent monetary policy and open trade. An outcome of this trilemma is the fact that after the collapse of 1929 many countries resorted to the direct regulation of foreign trade. In this scenario, most countries had adopted the new measures only as emergency or transitory ones, or as a defence against the similar ones of other countries. But as they became accustomed to the new measures and as the prospect of their early abandonment by other countries became less and less promising, there was a widespread trend towards them as more or less permanent.

The work of the League of Nations (1943, pp. 83-85) provides a good summary of the risk factors underlying the international economies of the twenties and the interaction among these channels in a political context that paved the way for a worldwide perfect storm. Certainly, the First World War left many distortions and the policies adopted by governments aggravated the situation. After the war, some countries had returned to the gold standard at old parities no longer appropriate to their existing trade status and their internal price structure, and without adequate reserves in gold or in foreign exchange assets (exchange rate competitiveness). International credit was provided to a larger extent than before 1914 on a short-time basis, although used at least as largely as before 1914 for long-term purposes. The US, which was then the predominant source of international credit, was an inexperienced lender. Many of its loans had been made for purposes not adapted to creating the means for servicing the debt and at interest rates burdensome to the debtors (external debt). Recollections of extreme inflation and exchange depreciations made investors and banks more sensitive to signs of monetary pressure than they had been before 1914, with the result that much of the international lending was liable to sudden cessation or withdrawal upon the appearance of any symptoms of impending difficulties (financial contagion). The German reparation obligations and the inter-allied loans constituted large blocks of international debt obligations which were then rigid and unresponsive to changes in the basic trade or financial position of the debtor countries. Increased rigidities in price and cost structures, resulting from social security programmes, from the growth of collective bargaining and from the extension of monopolistic organization of private business under governmental sanction or tolerance, had lessened the adaptability of the national economies of the industrial countries to downward price-changes in world markets and to international balance of payment pressures (political economy). Overextension of cereal production had reduced the prices of grains in the world market to levels unremunerative for the grain-exporting countries (Mother Nature).

This short introduction is an advance of the elements that we explain in full in the following chapters. It is included for the benefit of the reader, who is expected to read the remainder of this conceptual chapter with an eye on the thirties. From now on we develop three sets of general concepts that we find useful for our historical research, following a structure consistent with the elements that we identified in our introductory chapter in Figure 1. Firstly, we address the transmission channels of an economic downturn and the involved vulnerabilities associated to them that can be identified for any given event in time. These concepts help us to analyse the available information about economic flows and interdependencies. Then, we expand to different perspectives surrounding the concepts of power and interdependence extracted from the specific field of political economy, in order to put the economic facts in political and international context. In addition, we describe the mechanics of the gold standard, which constitutes an important source of vulnerability for the case countries. Finally, we introduce notions from structuralist perspectives, specifically Latin American structuralism and the world-system analysis of Immanuel Wallerstein. In doing this, we seek to make use of concepts such as dependence between core, semi-periphery and periphery, which are key elements of analysis of the political economy underlying the relationship of ABU with the great powers at the core.

i. Channels of economic transmission

Economic literature is full of analyses about the way in which international crises jump from one corner of the world to another. In the context of an integrated world, Tugores (2005, pp. 323-353) details and defines that interdependencies fundamentally work through the channels of income or trade, interest rates and exchange rates (competitiveness and prices). In particular for the Latin American scenario in two working documents written for ECLAC in the context of the Financial Crisis of 2008, Kacef (2009, pp. 12-18) distinguishes mainly the real (terms of trade, aggregate demand, remittances and tourism) and the financial (external debt and international reserves) channels of crisis transmission. And Ocampo (2009, pp. 16-25) identifies worker remittances, international trade and capital flows. Fanelli & Jiménez (2009, pp. 31-62) focus on the following channels: the capital flows, foreign direct investment (FDI) and remittances. Porzecanski (2009, pp. 8-9) works on the credit channel, the international trade and through investor and lender herd behaviour and contagion effects. Titelman et al. (2009) adds that the available evidence shows that the deep and protracted effects are strongly associated with the extent to which countries face restricted access to external finance and contractions in international trade flows.

We now describe the different transmission channels that we find most relevant for the Latin American economic performance in any given period of time. Unless otherwise mentioned, we depart from a classification and analysis similar to that of Tugores (2005, pp. 323-353), because in essence it coincides with the main books on these topics in the framework of international economics, and we expand as necessary with the aforementioned authors.

Income or trade

Based on the simplifying assumption that in the international economy, there only coexist two countries (A and B) whose economies are open, an economic downturn in Country A will eventually transmit the economic contraction to Country B. This is because a decline in income in Country A means that households, businesses and the public sector buy fewer consumer and investment goods, either locally produced or imported. Therefore, as imports from Country A are exports from Country B, there will be a decline in exports in B, and in turn, a decline in domestic demand and economic activity in that country. The degree of transmission of the economic contraction via trade from Country A to Country B depends on how significant is the share of good and services of B exported to A in the total exports of B, that in turn depend on the behaviour of prices and quantities exported.

In practice, commodities represent a considerable proportion of the export basket of many Latin American countries, and as a consequence also an important source of revenue for them. Thus, the volatility in commodity prices normally jeopardizes seriously the soundness of one of the main engines of regional growth. A recession in developed markets and the significant slowdown in emerging economies results in a curtailed demand of exports from the peripheral countries. The fall in commodity prices following the global slowdown results in a deterioration in the terms of trade for primary producing countries, although with different effects in each one. The decline in exports of goods has a greater impact on the growth of the most open economies, of doing more business with core countries and of selling a higher proportion of manufactured goods to developed markets, because it is harder to quickly find alternative markets for those products.

In particular, in the next chapters we explain that the contraction in prices of agricultural products was a significant contributor to the decrease of the output and the international transmission of the Great Depression to our case countries.

Interest rates

The mechanism of transmission of a downturn through the interest rate shifts in an integrated world is driven by the preference of investors who have the ability to move their funds internationally seeking high interest rates. Under the assumption of perfect capital mobility and perfect substitution between assets/debts denominated in different currencies, a higher interest rate in Country A than in Country B would attract capital to Country A from Country B. This situation would occur until the latter is able to also raise its interest rate so that there is no more profitability obtained from that flow.

However, the previous causality may not occur when: a) there are limitations to the mobility of capital, as for example occurs in the case of the ‘exchange controls’ applied during the Great Depression; b) imperfect substitution among assets/debts expressed in different currencies, because investors prefer a particular portfolio composition or because there is some risk associated with the securities denominated in a particular currency; and c) there are expectations of appreciation or depreciation. With regard to the latter, it happens that if the interest rate increases in Country A, but at the same time investors expect that the country’s currency might depreciate, there will be no incentive to move funds to that country.

As we explain later, the membership of the gold standard enshrined a general unwillingness of central banks to lower discount rates to prevent gold from flowing away to the US or France. Specifically, as capital was mobile and exchange rates were fixed, higher interest rates in the US meant higher interest rates in the rest of the world as a result of interest arbitrage. Consequently, the restrictive turn in monetary policy in the US during 1928-1929 provoked an even more contractive policy turn elsewhere. In other words, the downturn was fuelled further through the interest rate channel due to deliberate public policies in those core countries.

Exchange rates: competitiveness and prices

This transmission mechanism implies that whenever Country A devalues its currency in order to increase its competitiveness, its export goods become cheaper, but at the same time Country B loses competitiveness because its export goods become more expensive. This mechanism is called 'beggar thy neighbour' and is a commonplace in our analysis of the thirties. Whenever there is a decline in global demand, domestic demand can only be increased at the expense of other countries, which could retaliate with subsequent devaluations of equal or greater magnitude, fostering a spiral of competitive devaluations that check each other. The resulting conflicts often prompt the enactment of trade barriers that in turn might exacerbate clashes of greater consequence. The corollary could be a collapse of international trade, as was the case during the thirties. Furthermore, the macroeconomic difficulties created by competitive devaluations are always tough to manage, especially if the country is small and the imports have a great influence in domestic prices.

An associated concept is the real exchange rates, which are the relative prices of tradable to non-tradable products. They have a potentially strong impact on the incentive to allocate resources (e.g. capital and labour) among the sectors producing tradable and non-tradable goods. And they are also a measure of real competitiveness, as they capture the relative prices, costs, and productivity of one particular country vis-à-vis the rest of the world[42]. In addition, when Country A devalues, there is a rising cost for its imports and, provided that imported goods represent a significant fraction of household spending of that country, then inflation is likely to rise. Conversely, as devaluation in Country A is actually a revaluation in Country B, imported goods in the latter become cheaper and this situation involves a lesser pressure on its inflationary process.

During the Great Depression, instead of inflation, the biggest problem was the reduction of prices or deflation. Barry Eichengreen, Peter Temin and Charles Kindleberger, among others, refer to the deflationary forces underlying the gold standard system and the monetary policy of major powers that help to explain the severity of the contraction worldwide.

Capital flows contagion

In the context of a crisis imported from abroad through the financial channel, experience proves that the portfolio investment inflows to a region that is a net recipient of foreign capital normally suffer a slowdown or even a significant reduction prior to the formal recognition of a state of an economic recession. As the financial markets of developed countries get into liquidity problems, the international interbank market transfers the internal credit squeeze elsewhere in the world. In addition, stock markets plummet and currencies depreciate sharply, partly as a result of previous speculative positions based on expectations of appreciation of local currencies. Companies with foreign currency debt suffer a negative impact on their balance sheets following the probable devaluation of currencies in the region. The increasingly difficult

[42] See Auboin & Ruta (1984, p. 3).

conditions of access to credit are of particular concern for large local companies that often seek financing in international markets. The liquidity problems of the internal market also put into difficulties small and medium businesses that need access to financial resources. This hypothetical picture can be more complex if the liquidity problems in the core countries boost a banking crisis that can spread abroad and force a full stop in the interbank lending system.

As global economic growth slows, so does the entry of foreign direct investment. The slowdown in developed countries reduces the need for this kind of investment in the search for efficiency and resources elsewhere; while the slowdown of the peripheral economies reduces the incentives for foreign direct investment aimed at finding markets. In addition, the liquidity squeeze limits the ability of firms to finance mergers and acquisitions, which are the most important modalities of foreign direct investment in many economies, in particular the Latin American ones.

Porzecanski (2009, pp. 8-9) analyses further this channel and concludes that in the credit channel, a tightening of liquidity conditions in for example the US, Europe or Japan, likely accompanied by a wave of risk aversion that spills over across borders and, if sufficiently serious and prolonged, can lead to a ‘sudden stop’ of capital to governments, banks and corporations in other industrialized and developing economies. In particular, he mentions the possibility that investor, lender herd behaviour and contagion effects can play an important role in the transmission of a crisis. A tightening of liquidity or surprise changes in economic, political or financial conditions tends to trigger sudden portfolio adjustments, whereby investors and lenders attempt to exit from certain asset classes, markets, industries and countries. And the best decision is to turn to others perceived to be safer or more appropriate, regardless of long-term economic fundamentals. Herding is presumed to be caused by problems of asymmetric information and by pressure on professional investors not to underperform their competitors, thereby encouraging them to follow each other in and out of asset classes or geographic or product markets. Contagion effects can occur when a shock in one asset class or country encourages lenders and investors to anticipate a similar event in comparable asset classes or countries. Or when a shock in one asset class or country forces lenders and investors –especially the most leveraged ones– to take offsetting measures elsewhere, regardless of different long-term fundamentals, for example when faced with deposit withdrawals or investor redemptions.

After the aforementioned explanations, it is important to recall that even before 1929 capital exports began to fall steeply from the US, reducing in this way a key source of growth for the rest of the world during the twenties. Moreover, the failure of the Bank Vienna Credit Anstalt in 1931 initiated a banking panic that spread to the rest of Europe and added to the banking panics in the US, making the availability of capital even more difficult. The shortage of capital was a key factor that we address further in the rest of this work.

Worker remittances

Remittances have always been an important source of foreign income worldwide, helping to improve the welfare of low-income families. Nowadays, remittances are a significant source of hard currency for many Latin American countries. Their migrant families work in the US and European countries and send back home billions of dollars each day that contribute to economic activity and the country's development, and improve the situation of low-income families. Consequently, a weak labour market has a negative impact on remittances sent by migrant workers to their families in their countries of origin.

However, the direction of the international flow of remittances was certainly the opposite during the thirties as compared with today. According to Obstfeld & Taylor (2004, pp. 127-128) from 1831 to 1931 the freedom in labour markets is simply unimaginable today. As about 50 million emigrants left Europe for the New World, most of them going to the US, but large numbers also headed for the British dominions, Argentina, and other parts of South America. In most countries, this massive flux of people took place with absolutely no governmental interference. Labour, whether skilled or unskilled, could seek almost freely the best returns or the most desirable location, unhindered by quotas, immigration inspectors, and the like. There were registers of movements kept, but no formal exclusions in most receiving countries. Some receiving countries, including Australia, Argentina, and Brazil, from time to time even subsidized the passage of immigrants in an attempt to boost population inflows. Those millions of immigrants from Europe living and working in Latin America were probably an important source of remittances from America to Europe. Thus, the global crisis after 1929 almost certainly meant a reduction of such remittances, contributing to the downturn in core countries, and easing in a way the drain of hard currency and gold of the time.

Transmission channels and country vulnerability

The transmission channels already mentioned interact in a context of external pressures that do not operate symmetrically. Escaith and Gonguet (2009) argue that a credit crunch in one or more of the leading industrialized countries, whether induced by monetary policy or not, reduces the pace of domestic investment and consumption. In a commercially integrated world, this slowdown in domestic demand likely generates a drop in merchandise import volumes, commodity prices, tourism spending overseas, and workers' remittances normally sent abroad. Since many commodities are also financial assets held by investors with access to credit, and not just or mainly by end-consumers and producers, they are quite sensitive to developments in the credit channel as well. And the credit and trade channels are interrelated in other ways: foreign trade is facilitated by the availability of lines of credit, and credit crunches that disrupt selected productive activities can dislocate worldwide production processes and trade flows. The cycles in the economies also matter. Ocampo (2009, p. 26) considers that during the positive phases of the business cycle, a number of vulnerabilities arise, basically private or public deficits that generate high levels of debt which are the counterpart in the current account of the balance of payments, also fed by an overvaluation of national currencies.

However, each country is asymmetrically vulnerable to the transmission through those channels, depending on the specific characteristics of each economy, as becomes clear in the event of a global contraction. Accordingly, each country needs to deal with the consequences of such asymmetric transmission with non-symmetrical counteracting responses. Certainly, vulnerability is an important concept in our research. It is a complex concept that includes many elements that can be analysed from an economic or international relations perspective. One strictly economic analysis would say that some of the main risk factors that make a country more vulnerable to the transmission of a crisis are: excessive trade specialization, less diversification of export markets, inflexibility of prices, a system of fixed exchange rate, structural duality, high dollarization of the economy, high public debt, excessive regional concentration of exports, high trade and financial openness, a weak banking system and a disadvantageous business climate that negatively affects foreign direct investment[43]. Specifically, these authors mention that the shocks associated with an international crisis take the form of a sudden stop in capital flows which affects every country in ways that depend on the status of risk factors generally cited in the literature.

The first of these risk factors is the degree of both public and private debt dollarization. Since sudden stop episodes provoke major changes in the real exchange rate, debtors with foreign exchange denominated liabilities usually experience a sharp rise in their debt/assets ratio, increasing financial leverage and systemic financial fragility. Thus, the greater the depreciation induced upward correction in the value of the debt as a percentage of assets, the steeper is the rise in leverage and fragility. The second factor is the ratio of public debt to output. This is important because the greater this ratio is, the more pronounced the effects under examination here are. Note that even if the public debt is denominated in local currency, a reversal of capital flows increases interest rates, and correspondingly increases the funds required to meet interest expenses. A third risk factor is associated with the level of economic openness. It is understood that a country is more open to the extent that international trade has more weight on the level of domestic economic activity and the more open a country is, the more important the transmission channel via trade is. The more open the economy, the greater the size of its tradable sector, and hence the smaller the effect of the increased leverage produced by the real depreciation[44]. This

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[43] See Fanelli & Jiménez (2009, pp. 50-55).

[44] However, as Montalbano (2011, p. 1489) states, the trade theory does not provide a full understanding of the links between trade openness, shocks, and uncertainty. Most empirical works establish a consistent and significant positive correlation between trade liberalization, growth and poverty reduction (Edwards, 1993; Frankel & Romer, 1999; Sachs & Warner, 1995; Dollar & Kraay, 2002, 2004; Cline, 2004; Winters, 2004). The drawbacks to trade openness are acknowledged basically in terms of short and medium run adjustment costs. The hypothesis of a direct link between developing countries' instability and trade openness has several roots: (i) the apparent asymmetry between the process of increasing specialization and the presence of random, undiversifiable shocks in the export markets of open economies (Koren & Tenreyro, 2007; Razin & Rose, 1992); (ii) the tendency of commodity prices -which are at the core of the specialization process in developing countries- to be more volatile than those of manufacture goods (Malik & Temple, 2009); (iii) the possible inconsistency between the shocks prevailing in open markets and traditional coping mechanisms and local market structures (Dercon, 2001); (iv) the occurrence of boom–bust cycles of investment induced by trade openness in countries characterized by inadequate infrastructures and shortages of skilled labour (Razin et al., 2003); (v) the role of trade liberalization in altering households' optimal portfolios, coupled with greater variability in new portfolio options (Winters et al., 2004); and (vi) higher risk of policy mismanagement in response to an entirely new set of incentives induced by trade openness in contexts where political institutions are weak (Acemoglu et al., 2003; Fata's & Mihov, 2003, 2005; Gavin & Hausmann, 1996; Rodrik, 1999). Loayza et al. (2007) underline as well that developing countries not only face more volatility than industrial countries but suffer larger volatility effects, because of the intrinsic instability of the developing process (mainly linked to the weakness of their financial systems and the main characteristics of their specialization process of production); the concrete risk of policy mismanagement (e.g., as in the case of pro-cyclical and/or

is true for both the public and private sectors. If a major portion of public sector revenues derives from the tradable sector, either because this is the tax base or because the revenue includes dividends from public enterprises that export, there is less vulnerability associated with the foreign exchange denominated public debt. Thus, in assessing the fiscal effects of a sudden stop, one must consider the characteristics of the assets that serve as collateral for such debts. Fanelli (2008) adds that another reason for the relation between the openness of an economy and its vulnerability is that, *ceteris paribus*, the smaller the tradable sector is as a percentage of the economy, the greater is the proportion of domestic absorption that must be sacrificed to gain an extra dollar through reduced imports. This is the typical form of short-term external adjustment. Thus, a lack of openness may ultimately exacerbate the economic slowdown if authorities compensate for the sudden stop of financial flows by reducing imports[45]. An economy's financial openness also has an effect on vulnerability: the greater the financial openness, the greater the capital flows, and hence the more risks the economy faces if flows are reversed.

Regarding our work, we acknowledge that there are many modern attempts to provide a comprehensive definition of vulnerability, including the 'social risk management' of the World Bank and the 'sustainable livelihood vulnerability' adopted by many international development agencies, such as UNDP, Oxfam, CARE[46]. However, the lack of statistical information regarding national accounts, household income, poverty, etc. during the thirties, forces us to keep our analysis constrained to the basic aggregated macroeconomic data available. While the statistical evidence presented in this thesis gives us insight about economic vulnerabilities by the thirties, our literature review and field research allows us to have clues about how those vulnerabilities translate into political leverage against the smallest powers.

ii. Beyond economics: power and interdependence

One of the basic concepts that arises from time to time in our research is the concept of power that is deeply rooted in all our work. However, as mentioned by Guzzini (2000, p. 53), power is

erratic fiscal and monetary policies), and the presence of weaker mitigating and coping mechanisms. Winters (2002) provides a first analysis of the conditions under which foreign shocks can have specific impacts on households in developing countries, via the main transmission channels of trade openness: when foreign shocks are greater than domestic ones (e.g. when world markets are more variable than local ones); when trade liberalization affects governments' ability to operate price stabilization policies and when trade reforms change the emphasis among the different activities engaged by households (e.g. in the case of farmers, switching from subsistence to cash crops). He concludes that international trade has a priori ambiguous implications for macro stability. A separate but related issue is the role of international trade as a key determinant of business cycle transmission across countries (Anderson et al., 1999; Baxter & Kouparitsas, 2005; Canova & Dellas, 1993; Clark & van Wincoop, 2001; Calderón et al., 2007; Imbs, 2004; Kose & Yi, 2001, 2006; Otto et al., 2001).

[45] Whenever there is a sudden stop event on capital flows, risks are exacerbated by a poorly regulated and supervised banking system, excessive short-term bank deposits and loans, and fixed exchange rate regimes. As financial assets are short-term, it is easier for investors to flee to higher quality at signs of weakness in the banking system. This generates a process of deleveraging that makes banks illiquid and leaves businesses without credit for investment or working capital. The latter tends to add supply problems to aggregate demand problems. Also, capital flight increases the likelihood that authorities will be forced to devalue the currency to protect constantly falling reserves. In a number of countries, this pattern of vulnerability ultimately provokes twin crises: exchange-rate and financial (Fanelli, 2008).

[46] See Montalbano (2011, pp. 1491-1492), among others.

one of the most under-researched concepts in international relations and in international political economy. But probably the simplest definition is the most easily understood. In this regard, taking a definition from the realist Hans Morgenthau, power is the man's control over the minds and actions of other men[47]. And Baldwin (1989, p. 7) defines power as the capacity to get somebody else to do what he or she would not have done otherwise.

Power explains not only the international relationship of ABU with the US, the UK, Germany and other major powers, but also among themselves. Political realism in its original version affirms that interests are defined in terms of power, politics is governed by laws based on human nature and moral principles do not apply to states[48]. States tend to accumulate power and have at their disposal the three elements necessary to represent a credible treats to the biggest powers: a people predisposed against another people, an army capable of entering combat and political leadership that sets the goals[49]. In the end, the ultimate goal of the State is national survival[50]. However, even the weakest power has the power to ensure its existence through alliances with other lesser powers[51]. From a less basic perspective, Waltz (1988) proposes an international policy framework characterized by coordination relationships, because formally and functionally states are equal to each other, so that none of them has the authority to command or obligation to obey. This generates a system by definition decentralized and anarchic. Within it, although states are not differentiated by functions, they possess different capacities to fulfil them. In this regard, for example, the US retains indisputably the largest capacities, especially in the Western Hemisphere.

Another concept closely linked to realism is economic nationalism, very important for our period of analysis. Both economic nationalism and political realism stress the primacy of the State and national security, but differ in that the former is an economic position that builds on the realist doctrine and affirms that economic activities are and should be subordinate to the goal of State building and the interests of the State. The economic nationalists tend to seek industrialization, because they believe that industry leads to development, ensures self-sufficiency, grants political autonomy and is the basis of military power[52].

The role of the biggest powers leads to the analysis of the hegemonic power. Charles Kindleberger (1973) was the first researcher to argue that the integrated world economy of our times requires a hegemon at its centre to function in an orderly and productive way. One way of describing the context of a hegemonic power is when a powerful nation, called a leader or a hegemon, bears the cost of providing the public goods in order to maintain a system of fair trade and induce political stability. He also defines the basic requirements of such a hegemonic system. A capitalist or market system is apt, as experience has shown, to suffer cyclical booms and slumps and to fail periodically to match its demands and supply. The hegemon thus has to

[47] See Gilpin (1975, p. 22).
[48] See Donnelly (2000, p. 16).
[49] See Brown (1997, pp. 112-113).
[50] See Morgenthau (1978, pp. 4-15).
[51] See Brown (1997, p. 116).
[52] See Gilpin (1987, pp. 31-33).

function in three ways in order to preserve order in the system. Whenever necessary it must offer a vent or outlet for surplus production; it must act as a lender of last resort to maintain monetary liquidity; and it must generate an outflow of capital or credit to keep the system expanding[53].

The conduct of this hegemon can be guided by very different forces. It could be a benevolent leader with free trade preferences that is necessary in the international system to overcome the free rider problem enshrined in the prisoner's dilemma. This means the incentive that individual states have not to bear the costs of such public goods, because once they are provided by one State, they also benefit others without extra cost, and thus the latter do not have the incentive to bear the costs[54]. Alternatively, from a very different perspective, Cox (1983, pp. 171-172) states that hegemony in the global system is a form of class rule, and not primarily a relationship between states as it is in neorealist theory. Moreover, hegemony is not primarily economic, political or social structure, but all three together. The liberal world order of the nineteenth century (*Pax Britannica*) was in fact the expression of the internal hegemony of the financial and commercial aristocracy in Britain. It was a social hegemony that projected outward through its control over the British State and its overwhelming military power and through the promulgation of its liberal internationalist concept of control around the globe. Accordingly, the reconstructed liberal world order of the decades after Second World War (*Pax Americana*), reflected and reproduced on an enlarged scale the hegemony of the corporate liberal bourgeoisie in the US and Western Europe[55]. Kindleberger (1973, pp. 291-292) argues that Britain played the hegemonic role more or less successfully in the three or four decades before First World War, and the US played it in the two decades following Second World War. Between the wars, however, Britain was unable and the US was unwilling to do so. The result was that the world suffered the worst depression in its history.

However, Keohane (1984) criticizes the theory of hegemonic stability, as it presupposes that the existence of a hegemonic state is necessary and sufficient to achieve greater international cooperation. The hegemonic powers must have control of raw materials, sources of capital, markets and keep competitive advantages in the production of high-value added goods. The leader must also have the political will to create and enforce the rules of the system. By analysing the hegemony of Great Britain in the nineteenth century, he notes that although it was a hegemon, it was not necessarily able to impose the rules on the rest of the world. Meanwhile, the United States in the early twentieth century had accumulated power, but it did not have the political will to impose it on the rest of the world. The concentration of power alone is insufficient to create an international economic order, in which cooperation can flourish. Consequently, he defines hegemony as the ability or willingness of a single State to create and enforce rules, without that meaning necessarily stronger weight of cooperation among states.

Instead, Keohane (1984, pp. 57, 85–109) proposes a neo-liberal theory of international cooperation. This theory embraces three elements of neo-realism: the importance of

[53] See Strange (1985, p. 256).
[54] See Carlson (2000, p.120).
[55] See Overbeek (2000, p. 176).

international anarchy in shaping State behaviour, the State as the most important actor in world politics and the assumption of states as essentially self-interested. However, neo-liberalism draws very different conclusions about the potential for sustained international cooperation. States have to pursue their interests under conditions of anarchy, but anarchy alone does not determine the extent or nature of that cooperation. Whenever economic and political interactions between states are minimal, there are few common interests to spur cooperation. After the Second World War, states came to share a wide range of interests, from the management of international trade to global environmental protection. The existence of mutual interests is a prerequisite for international cooperation, but neo-liberals insist that the existence of such interests does not itself explain the extent and nature of cooperative relations between states. Even when states have interests in common, the lack of a central world authority often deters them from incurring the reciprocal obligations that cooperation demands. That is why states construct international institutions, or regimes, to overcome obstacles to cooperation. Defined as ‘sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors’ expectations converge in a given area of international relations’, international regimes are said to raise the cost of cheating, lower transaction costs and increase information, thus facilitating cooperation under anarchy[56].

Another alternative view, which we share, is the concept of power used within the notion of complex interdependence among unequal powers developed by Keohane & Nye (1988)[57]. For them, power derives from relations of vulnerability interdependence defined by the high cost to be paid for substituting these resources[58]. Complex interdependence is possible because the growth and deepening of associations amongst nominally independent states would eventually generate a world characterised by multiple channels of connection amongst societies. Wherever complex interdependence prevails, the use of force amongst states diminishes its utility as an instrument in international relations[59]. The security threat was decreasing in importance in the international agenda in the twentieth century, because the survival of the human race is threatened by environmental hazards, as well as by military actions. There cannot be three conditions simultaneously: that all environmental economic schemes are in danger, that all states are vulnerable, and that there is only one solution to the problem that leaves no doubt about how to fix it. The notions of balance of power and national security are very poor for the analysis of the problems of economic and ecological interdependence Keohane and Nye (1988). Thus, states create and become members of international institutions, so that they can significantly broaden their conceptions of self-interest in order to widen the scope for cooperation. Compliance with the rules of these organizations not only discourages the narrow

[56] See Reus-Smit (2005).
[57] However, as Jones (1995, pp. 4-5) indicates, one could talk about human interdependence as a term often employed to emphasise the degree to which individual human beings do not, and cannot, live in isolation from their fellows; ‘International interdependence’ to embrace those forms-of interdependence that exist amongst constituted states; and ‘global interdependence’ that proceeds beyond the world of inter-state relations to a vision of a world community.
[58] See Guzzini (2000, p. 59).
[59] See Keohane & Nye (1988, pp. 12-13).

pursuit of national interests. This suggests that the international system is more normatively regulated than realists would have us believe[60].

This analysis entails 'vulnerabilities' and 'sensitivities' in international relations. Sensitivity involves degrees of responsiveness within a policy framework. Or in other words how quickly do changes in one country bring costly changes in another and how great are the costly effects[61]. Sensitivity is often used to denote an 'objective' quality of the dependence of any one society upon any other(s). Such 'objective' sensitivity is thus a measure of the exposure of the sensitive economy to costs imposed by external developments before there has been the time and opportunity to introduce polices that might reduce, or even eliminate, such costs[62].

Vulnerability is an actor's liability to suffer costs imposed by external events even after policies have been altered[63]. Following Jones (1995, pp. 6-8) vulnerability could be restated as the simple unavailability of a policy option that would protect an actor from any future costs generated by the given external event. The vulnerability dimension of interdependence rests on the relative availability and costliness of the alternatives that various actors face. Reference to dependencies has been no mere casual departure from the use of the terms 'sensitivity interdependence' and 'vulnerability interdependence' in Keohane & Nye's work.

Interdependencies are instances of mutual dependencies. However, it is possible for one bilateral relationship to involve relatively trivial sensitivity dependence in one direction, but a critical dependence, of high vulnerability, in the other. Asymmetry and imbalance could be particularly pertinent to the potential for relative power and influence between the participants. This is a clear message that we present from time to time in our work.

Beyond the analysis from the point of view of the theory of international relations, the works of researchers from international political economy are also useful. One of the first scholars to elaborate on the relationship between economics and politics in a systemic way, Robert Gilpin adheres to the State centric principles, in which states apply strategic practices in trade and industry that resemble renewed 'beggar thy neighbour' policies. Given the continuous external threats, states have to strengthen their relative position in terms of power, and for this reason international economic cooperation among states is limited[64]. In Gilpin's view, the relationship between economics and politics is reciprocal. On the one hand, politics largely determines the framework of the economic activity and channels it in directions intended to serve economic interests of dominant groups. Further, the State is made of politicians, decision makers and public servants, who are ultimately, influenced by other individuals, such as journalists, lobbyists and voters[65]. On the other hand, the economic process tends to redistribute power and wealth, transforming the relationships among groups[66]. Given the fact that individuals, groups

[60] See Burchill (2005, p. 64).
[61] See Keohane & Nye (1988, p. 12).
[62] See Jones (1995, p. 97).
[63] See Keohane & Nye (1988, p. 13).
[64] See Deugd & Hoen (2010, pp. 13-14).
[65] See Ibid., p. 75
[66] See Gilpin (1975, p. 22).

and states are differently endowed and differently situated to take advantage of the opportunities created by the market economy, growth and wealth tend to be uneven, favouring one State or another. Furthermore, there is an economic interdependence among states that creates power relationships among groups and societies. It also creates vulnerabilities that can be exploited and manipulated, with an extreme example being the power to interrupt commercial or financial relationships with any country. The natural consequence is that every country tends to enhance its own independence and reduce the dependence on other states[67].

Alternatively, Susan Strange, considered the founder of international political economy, uses an eclectic definition of power. Her approach focuses always on a quest of answering the question: 'who benefits?'. In her view, there are bargains within and between states. Some of those bargains are linked to a kind of 'relational power', meaning the ability to make another do what you want it to do. She also identifies so-called 'structural power' that nations gain through the organization of the use of force (security), the allocation of economic factors (production), the organization of access to money flows (finances) and access to information and technology (knowledge) [68]. For example, by answering who has money, who lends money to whom, who lends money for what purpose, who lends money in which conditions, in fact it is possible to know who controls credit, and in short who has structural financial power. Something similar could be done to the other possible structures (security, production and knowledge). This power allows the actor to shape the structure of the international political economy in which other actors' political institutions, economic enterprises, scientists and professionals have to operate in. It is the power to set the rules of the game for others. The international political economy is characterized by overlapping structures, and individual actors hope to gain from the specific location that they occupy within their structural environment, whereas others stand to lose from their location. Actors have vested interests in ensuring that this framework of overlapping structures remains that way to their advantage[69].

The functioning at a subnational level is important. For example, the political economy pressures associated with the collapse of public finances can be significant and depend in great measure on the political environment. For example, when a sudden halt in foreign capital arises the relation between central and subnational governments is affected. When the economy is subjected to a financial shock, subnational governments have more difficulty obtaining credit (if they are permitted to borrow) in a context of declining collections. Thus, they lobby for more transfers, and this affects the discretionary component of central government spending or the tax component if there are demands to increase taxes in order to finance the transfers[70]. Also, vested interests, for example, could have guided the conduct of interest groups working in the background of the internal politics of our case studies and help to explain the regime changes of the time (e.g. coups of José Uriburu in Argentina, Getulio Vargas in Brazil and Gabriel Terra in

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[67] See Gilpin (1987, p. 23).
[68] See Deugd & Hoen (2010, p. 14).
[69] See Ibid., p. 81.
[70] See Fanelli & Jiménez (2009, p. 53).

Uruguay) and the specific policies applied by governments to fight the Great Depression (protectionism, devaluation, debt payment cessation, etc.).

Finally, we are interested in the role of economic commodities and power. Following Wallensteen (1978, pp. 47-54), economic commodities can be used as means of influence, to punish enemies and reward friends, if the following four factors are present: scarcity, supply concentration, demand dispersion and action independence. Regarding scarcity, if demand is high and supply limited, the value of a given commodity increases in price and if the consumer is prepared to pay a high price in monetary terms, he or she might also be prepared to pay a high price in political concessions. Meanwhile, supply should be in the hands of a few producers and/or sellers, who can create a cartel or even a monopoly of supply for a long duration. Demand dispersion favours the utility of a given economic good as a weapon, assuming scarcity and supply concentration. In the case that many buyers compete, the monopolistic seller can take advantage from the competition among consumers, and increase prices or make conditional deals. However, the situation of only one buyer is strongly different. The buyer, being the only or the major consumer can exert pressure by threatening not to buy, particularly if unacceptable or unrelated conditions are tied to a deal. Finally and crucially, action independence is also required, meaning that the seller/producer must himself control his assets to be able to use them instrumentally and have a capability to take action as defined by him. For instance, if a seller/producer for his production of a given commodity is dependent on imports or on financial assistance, his action independence is relatively low, compared to the situation of basing the production on internal or autonomous resources. The four conditions listed have to be present simultaneously to give the structural possibility of turning an economic asset into a political instrument. The issue of the relative power of poor countries with some leverage in certain commodities vis-à-vis core countries' markets arises from time to time in this thesis. More specifically, even though each of the ABU had strong leverage in certain agricultural products, either the concentration of the demand or the lack of independence diminished their economic power, resulting, for example, in a doubtful capacity to impose a more positive outcome in commercial negotiations.

iii. The mechanics of the gold standard

The gold standard was restored in many countries after the First World War, although in a different setting than the classic and pure gold standard applied before the First World War. It is more precise to say that the system restored after the Genoa International Monetary Conference of 1922 can be more accurately described as the 'gold-exchange standard'. As James (2001, pp. 34-36) explains, under this version of the gold standard, reserves could be held in the form of commercial or treasury bills, rather than in unproductive and non-interest-bearing gold. The operation of the gold-exchange standard, along with the creation of independent central banks, ensured control of the fiscal policy and included enough ambiguity to secure its political acceptability. In the remainder of this thesis we refer to the gold standard as the system proper of the interwar era, established after the Genoa Convention.

There are many reasons for the return of countries to the gold standard. During the twenties the system stabilised exchange rates worldwide, which in turn encouraged unprecedented levels of foreign investment. Countries like Britain and France contributed to the expansion of the international economy with their investments that accounted for a quarter to a third of their savings abroad, and consequently had strong reasons to support the gold standard[71]. But beyond the national interest, there were deep psychological reasons. The gold standard was for many countries more than a policy. It was a dogma that influenced policies potentially in the wrong direction. The memory of stability of previous decades under the gold standard, and the fresh reminder of episodes of hyperinflation in Europe after the First World War led many countries to believe that the return was necessary to ensure stability worldwide. There was a state of mind at the end of the twenties that defended the gold standard beyond questioning its costs, and for that reason many researchers blame the magnitude and transmission of the depression on this system. For Austria, Germany and other countries with a recent history of high inflation and hyperinflation, the gold standard promised assurance against the recurrence of unsound fiscal policies. In Britain the restoration of the pre-war parity was also linked to identity issues related to the UK's decline and America's ascendance[72]. For exporters of primary products prone to volatile terms of trade movements, the model of the League of Nation's Stabilization loans and the core program recommended by influential advisors such as Edwin Kemmerer[73], promised, in exchange for the strict adherence to gold and tight fiscal control, the compensating benefits. That was what Bordo & Rockoff (1995) called the 'good housekeeping seal of approval' that facilitated access to the financial markets in London and New York and contributed to the task of attracting foreign direct investment[74].

Barry Eichengreen, Peter Temin and Charles Kindleberger, among others, consider the gold standard system as a main driver of the Great Depression. Following Temin (1993, p. 88), the gold standard was characterized by: first, the free flow of gold between individuals and countries; second, the maintenance of fixed values of national currencies in terms of gold and therefore each other; and third, the absence of an international coordinating or lending organization like the International Monetary Fund (IMF). Together, these arrangements implied two more features. Firstly, there was an asymmetry between countries experiencing balance of payments deficits and surpluses. A country running a deficit had to export gold, while a country running a surplus could import gold. Consistently running a deficit threatened running out of gold (or foreign reserves) which meant that the country would no longer be able to maintain the fixed value of its currency. Defaulting on this commitment meant the cessation of foreign loans and, in the early interwar period, an invitation to hyperinflation. By contrast, running a surplus had a light penalty, namely the foregone interest from holding greater reserves, and possibly

[71] See Eichengreen & Temin (2000, p. 187).
[72] See Wolf & Yousef (2006, pp. 6-7).
[73] Edwin Walter Kemmerer (1875-1945) was a US financial adviser whose acceptance of an invitation to provide financial advice would be sufficient to improve prospects for a country's future (Thorp & Londoño, 2000, p. 72).
[74] See also Blattman et al. (2004).

some inflation if the additional gold reserves were allowed to increase the money supply[75]. Secondly, the adjustment mechanism for a deficit country was deflation rather than devaluation, or in other words, a change in domestic prices instead of a change in the exchange rate. Lowering prices and possibly production as well would reduce imports and increase exports, improving the balance of trade and attracting gold or foreign exchange. In turn, deflation meant a strong strain on the world economies.

According to Bernanke & James (2000, pp. 84-89), there are at least three channels by which deflation may induce a contraction of economic activity. The first channel is through real wages. If wages possess some degree of nominal rigidity, then falling output prices will raise real wages and lower labour demand. Downward stickiness of wages (or of other input costs) will also lower profitability, potentially reducing investment. The second is through the real interest rates. The deflation might have raised *ex ante* the real interest rate, shifting the aggregate demand. Finally, as debt instruments are typically set in money terms, a deflation weakens the financial position of borrowers, both nonfinancial firms and financial intermediaries, paving the way for a potential financial crisis. Eichengreen (1992) identifies a specific model to the historical gold standard, linked to the behaviour of short-term capital movements. He notes that shocks to the gold standard in the largest industrial countries were offset by short-term capital movements. If the long-term capital outflow from London suddenly increased, the recipients would hold much of their new balances in London, creating a short-term capital inflow offsetting the outflow. Shocks to the currencies of other countries however were magnified by short-term capital movements. If Argentina experienced a fall in exports, capital flows to Argentina were likely to fall as well. This transmission channel explains why banking systems in smaller countries were more vulnerable than those in large ones and how weaker countries experienced more disruption than stronger ones. Wolf & Yousef (2006, p. 8) point out that specie shortages prompted increasing reliance on convertible foreign currency reserves at the cost of enhanced fragility if the convertibility promise of the reserve currencies were to come into doubt. Finally, the gold standard was a big constraint for governments in the face of downward outflows of gold, and especially when the gold and foreign reserves became dangerously scarce.

iv. Structural constraints

There are many ways in which researchers have come to the conclusion that there are structural constraints that limit the liberty of actors to take decisions and to act freely in the world system. In this regard, we have chosen to use some of the concepts within Immanuel Wallerstein's world-system analysis of the seventies and eighties. However, this method of analysis has

[75] Bernanke & James (2000, pp. 74-78) add to the asymmetry argument, the pyramiding of reserves, meaning the holding of convertible foreign exchange reserves as a partial or nearly complete substitute for gold, and the insufficient powers of the central banks to conduct open market operations.

connections to the deeply influential analysis of Latin American structuralism led by Raúl Prebisch of the fifties and sixties[76]. In this section we present both perspectives.

The changing patterns of dependence: Latin American structuralism

The object of this thesis is not the analysis of the long-term patterns of development in Latin America tackled in different theories, but it does provide a key framework for our research. Indeed, this issue is, and rightly so, crucial in the intellectual background of many of the most prolific Latin American researchers, and consequently is deeply rooted in the literature. Some of the analytical tools created to explain the reasons of development are useful for the research. This is particularly the case when analysing the patterns of dependence and vulnerabilities involved in exchanges with the main trading partners, as well as in the policies implemented by governments. Both arguments suggest that it is important to address the intellectual contribution of Latin American structuralism. After the Second World War, the Argentine economist Raúl Prebisch[77] suggested the existence of a number of structural barriers that slowed the economic growth of developing countries and was at the root of underdevelopment. His work, complemented by other researchers from the Economic Commission for Latin America and the Caribbean (ECLAC), such as Celso Furtado, Fernando Henrique Cardoso, Theotonio Dos Santos, Ruy Mauro Marini, Hans Singer, Osvaldo Sunkel and Rodolfo Stavenhagen, led to the construction of a new development theory. They based their findings on the great inequalities between the countries producing manufactures at the 'centre' and those producing basic commodities at the 'periphery'. From their point of view, the world economy is not a place of relations among equals, but a place of asymmetries, reflected primarily in the structure of production. The industrialized countries organize the world trade according to their national interests, while the rest of the world, including Latin America, constitutes a heterogeneous

[76] Wallerstein and Prebisch share certain theoretical premises; that does not mean that using the same concepts –e.g. 'centre-periphery relationship'- implies necessarily the same. Beyond that Prebisch's thinking influenced Wallerstein's, the fact is that both of them only share the economic aspect of the relationship. While Wallerstein does not express with the same conceptual terms, he implicitly uses Prebisch's keywords. That can be appreciated especially in the case studies of the hegemonic countries along the whole 'historical capitalism'. In other aspects, they differ markedly, as Wallerstein expands the application of the centre-periphery dialectic to not just limit it to economic elements. Consequently, in Wallerstein, the economic aspect is what determines the membership or not of a country or region in the capitalist world-system hierarchy. And the political, social and cultural expressions of the centre-periphery relationship are merely reflections of the economic expression. Furthermore, for Wallerstein it is not merely the 'centre' and 'periphery', but there is another area that is the 'semi-periphery', which is in an intermediate zone between both which can be primarily defined as commercial intermediary between the 'centre' and 'periphery'. Secondly, despite their differences in unit of analysis, for both the State is not considered the social system representing all of society; if so then there would be economic autarky among states and none could influence the other. Instead, for both, the unit of analysis is supranational; regional in Prebisch and the world-system in Wallerstein (although depending on the historical period). Thirdly, their intellectual influences are quite different. Prebisch was influenced mainly by the economic theory of Keynes, while the inheritance that influenced Wallerstein was much larger, from Karl Marx, through certain concepts of Prebisch and the 'dependency theory' to the historiographical French school *Annales* (in particular Fernand Braudel). Finally, it is a key element to take into account the origins of both intellectuals which determine to some extent the way that they appreciated the historical-social reality around them. Prebisch observed 'from the periphery' while Wallerstein did it 'from the centre', which makes their perceptions of underdevelopment qualitatively different.

[77] Raúl Prebisch promoted his theory based on his own experience as a public servant of the Ministry of Finance and the Central Bank of the Argentine Republic (BCRA) during the Great Depression.

group exporting its food and minerals to the 'centre'. The resulting dominant import-substitution policies of the 1950s and 1960s were the practical realization of the ideas of Prebisch (1959) and Singer (1964). And they were based on the famous Prebisch-Singer thesis on the declining terms of trade for primary products and the dynamic benefits of manufacturing. The emphasis on development planning in those same decades was greatly influenced by Rosenstein-Rodan's (1943) 'Big Push' framework, with its stress on increasing returns to scale and the need to kick-start growth through large-scale investments, and the planning model of Mahalanobis (1955), which argued that economic development could be accelerated by government encouragement of heavy industry.

For Prebisch, any given country in the periphery is structurally heterogeneous because it includes branches of production in which the productivity of labour is close to those allowed by the best available techniques or even closer to those prevailing in industrialized countries. This is a situation that coexists with others in which productivity is limited and associated to technologically backward activities. Technological progress is low in the peripheral countries, so that labour productivity, average income and accumulation are low. The inter-sectoral complementarity and vertical integration of production achieved by the periphery are only small or incipient. As technological change originates in the core countries and they also have higher consumption capacity, they are heavily concentrated in the most dynamic productive activities at the world level. Thus, while industrialized countries specialize in products of high income elasticity, the periphery concentrates on the production of goods of low income elasticity (raw materials and, increasingly, the manufacture of mature goods). The exchange that is generated between these two groups contains a key issue to explain the increasing impoverishment of Latin American economies. That is the deterioration of the terms of trade of commodities in relation to manufactures, which could be traced as a historical general trend starting at least since 1870. Countries find difficult to export manufactures and achieve successive increases in the value of total exports. There is also an ever increasing growth of imports, because of the low level of complementarity of domestic production and/or the demand for imports of goods located further back in the production chain.

This pattern explains the divergent growth rates and frequent balance of payments problems in the peripheral countries, including external gaps or bottlenecks. Indeed, there is a tendency towards a trade imbalance that arises from the joint effect of technological lag and strong external openness. That makes it difficult to maintain the domestic production of tradable goods that has to compete with high quality products coming from the centre, so that domestic production is eventually replaced by increasing imports of those goods. This is a key issue in our thesis, because this pattern of asymmetry is reflected in a cyclical vulnerability of Latin American countries to the shocks coming from the core countries. The vulnerability has been also changing over time, due to the increasing importance of the impact of financial shocks that have taken the leading role from those transmitted through trade[78]. The Brazilian economist

[78] The literature of Latin American structuralism is vast. For a quick overview see for example Di Fillippo (2009), Galindo & Malgesini (1994), Gurrieri (2001), Ocampo (2001), O'Connell (2001), Ricupero (2004), Rodríguez (2001). For a deeper analysis the most important landmark contributions is Prebisch (1949), also

Celso Furtado, a follower of Prebisch, introduced a long-term historical perspective based on the Brazilian case, and concluded that the social and economic heterogeneities and low levels of economic diversification were consolidated throughout centuries of alternating cycles of growth and contraction. He also suggested that underemployment was a long-term problem in Latin America and initiated the Latin American debate on the relationship between development, wage-setting and income concentration in conditions of rural and urban underemployment. His main contribution was the analysis of the long-term trend of unemployment and poor income distribution[79].

Originally, the development in the periphery depended on the export of foodstuffs and raw materials. Later, the industry started to grow, but its primary export specialization conditioned development. A country begins by producing simple consumer goods and only gradually progresses to the production of more technologically complex products, e.g. consumer durables, intermediate goods and eventually certain capital goods. Peripheral countries keep on changing over time, especially when the industry expands spontaneously and plays the leading role as a source of growth. However, they continue to be heterogeneous and specialized, while industrialized countries are more homogeneous and diversified. As technical progress is more rapid in industry than in primary production and also more rapid in industrial activities situated further back in the production chain, Latin American countries have to progress from the most basic degree of industrialization to more complex levels. Thus, a higher technological progress is achieved and the underemployment defined as the labour force applied to low productivity sectors is reduced.

The analyses of Prebisch (1949) and other ECLAC economists so far described constituted the beginning of the structuralist theory. The explanation is 'structural' as the socio-political structures influence and even shape the market. Industrialized countries have 'self-sustained' economies, while the underdeveloped countries do not. As people get rich, the core countries reduce consumption of raw materials and foodstuffs due to Engel's law[80]. And if we add to structural shortcomings the protection that the core countries extend to their agriculture and the technological innovation which continually reduce the share of raw material as input, the growth in the periphery depends less and less on itself. Instead, it increasingly depends on the core countries. The global market forces operate in a way that prevents this undesirable 'balance' from changing. As a consequence, only political decisions can change those politically driven trends. The goal is to achieve an 'inward-looking development' that incorporates knowledge, science and technology into the economic and social fabric, and the capacity to manage knowledge in the national space. And to do so, it is imperative to change the structure of peripheral countries by means of a process of industrialization that can spread technical

known as 'The Manifesto'. An excellent review of the Latin American development theories is also Kay (1989).

[79] For an overview of the contribution of Celso Furtado, see for example Bielschowsky (2006) or Bresser-Pereira (2004). For a deeper analysis the most important landmark contribution is Furtado (1964).

[80] Engel's law states that when income increases, the proportion of income spent on foodstuffs has a contraction, even if the spending on foodstuffs increases, that is to say that the income elasticity of demand of foodstuffs is between 0 and 1.

progress. The main tool to fulfil this objective is the enactment of protectionist policies to induce import substitution in the periphery until disparities in the elasticity of demand are overcome and the international market approaches reciprocity in a level playing field. After 1950, Prebisch expanded his analysis to a ‘mixed model’, combining import substitution with the promotion of new exports, especially of industrial origin. And under this refurbished analysis, integration processes were an important complement to offset the negative effects of import substitution, namely the costs related to the absence of competition and the inefficiency coming from sub-optimal scale of industrial plants. In short, the structuralist theory advocates state intervention in the economy both for the defence of the infant industry to improve the distribution of income and the development of more balanced international economic relations.

The thirties were seen by ECLAC as a particularly acute example of a more general cyclical characteristic of the capitalist world economy which allowed adjustment of income distribution and renewed accumulation[81]. Nowadays the message of ECLAC (2010) is that that development is impossible without a profound structural change that incorporates activities on the frontier of knowledge. It is required to address the consolidation of small and medium enterprises (SMEs); their links with large value chains; the ties between science and technology systems and production and education and synergy between the public and private domains. Democracy, social inclusion, leadership quality, democratic stability critical thought and sound macroeconomic fundamentals are also in the roadmap to development. There is also a growing awareness about the role of China in today’s globalised world, which does not necessarily mean a positive change for the least advanced economies. There is probably a shift in the centre, but the basic dilemma remains. Latin America still imports complex manufactures and capital and exports foodstuffs and raw materials. The international division of labour between the old centre of the North Atlantic and the new Asia-Pacific centre and what remains of the periphery reproduces the trends of the past[82]. This is probably a key difference for our research, then and now. During the thirties the US was a rising power that used to assign to the Latin American nations - its backyard - a high priority in its strategic interests. But it was not alone. The Soviet Union, Germany and Japan contested its hegemony, and the prospects of a major conflict that would resolve for good and by force the open wounds of the First World War was in the horizon. The League of Nations[83], as the first multilateral mechanism truly democratic and more or less universal had started to show its weaknesses in solving with idealism the conflicts that were rooted in national interest. After the Second World War the US was the only superpower capable of using military force effectively and to force regime changes. The relations with Latin

[81] See FitzGerald (2000, p. 233).
[82] See Ferrer (2010).
[83] The League of Nations (1919–46) was an international organization which had the primary goal of preventing war. But it also dealt with issues relating to economic and financial cooperation, international working conditions and global health. According to Patricia Clavin, although it failed to avert the Second World War, the League represented a significant shift in the ideas about international relations and organization. Its history helped to underline the importance of economic and financial coordination and cooperation to the prospects of prosperity and peace. Moreover, this organization helped to incubate ideas that led to the World Bank and the International Monetary Fund, among others, that transformed the world after 1945 when the United Nations replaced the League of Nations. See www.ox.ac.uk/oxfordimpacts , page visited in December 2012.

America were absorbed in the Cold War until the fall of the Berlin Wall in 1989. Then, the attack on the Twin Towers of New York in 2001 changed its strategic interest to the war against terrorism in Iraq and Afghanistan, so that Latin America lost priority in its strategic analysis. Meanwhile, China has been increasing its trade and investment interests in the Latin American region, disputing the place of the US and Europe. For example, as of 2009 China has displaced the US as the main trading partner of Brazil[84]. The issue of what is now the periphery and how its changing structures affect ABU is addressed throughout this thesis.

Wallerstein's world - system

The world-system analysis within international political economy argues that the rise of capitalism and the nation-state in the sixteenth century was not a result of domestic forces, but of global market ones, which have determined national economic development or underdevelopment[85]. It was created by Immanuel Wallerstein from long-term research that begins in 1500. It holds that the modern Europe-centred world-system was the first capitalist system and that the transition from feudalism to capitalism happened for the first and only time in sixteenth-century Europe. Subsequent transitions in the mode of accumulation in the rest of the world have resulted from the global expansion and conquest by the formerly regional Europe-centred world-system. Wallerstein contends that it is only in the post-sixteenth century capitalist world-economy that powerful actors focus primarily on the goal of ceaseless accumulation[86].

This analysis is holistic in the sense that it borrows the concept of 'world-system' from history, 'unequal exchange' from economy, 'social classes' from sociology and 'balance of power' from politics. It departs from the structural time or secular long-term trends that explain the emergence, development and demise of a world-system[87]. The capitalist world-economy is a system based on the drive to accumulate capital, the political conditioning of price levels of capital, commodities and labour; and the steady polarization of classes and regions around core and periphery[88]. It is based on the idea that there is a single on-going division of labour, yet multiple political and cultural systems[89]. There is a multicultural territorial division of labour in which the production and exchange of basic goods and raw materials is necessary for the everyday life of its inhabitants. It is therefore by definition composed of culturally different societies that are vitally linked together through the exchange of food and raw materials[90].

The key assumption of this approach is the hypothesis of unequal exchange. This hypothesis contends that the central mechanism by which the global market acts to gather together the

[84] According to figures obtained from Foreign Trade Database, BADECEL from ECLAC, in 2009 the US had a share of 10.4% in Brazilian exports, while China had a share of 13.4%. In 2010 that percentage grew to 15.5% whereas the US fell to 9.7%.
[85] See Simon (2011, p. 148).
[86] See Chase-Dunn & Grimes (1995, p. 393).
[87] See Wallerstein (2004).
[88] See Wallerstein (1980, p. 744).
[89] See Wallerstein (2004) and Evans (2007, p. 15).
[90] See Wallerstein (1974).

global surplus and channel it to the core is through price inequality. The political and military suppression of wages in the periphery allows the products of peripheral labour to be much cheaper than those of the core. In other words, an hour of labour in the periphery costs only a fraction of that in the core, so that a commodity produced there is much cheaper than the same commodity produced in the core. When core and periphery come together to exchange products in the world market, the exchange results in a net transfer of value from the periphery to the core. Hence the market masks a process of exploitation. It is a process backed up by the military power of the states in the periphery and, behind them, the military power of the core[91].

Wallerstein builds on the notion of the centre-periphery, already mentioned within Latin American structuralism. Indeed, one of the most important structures of the current world-system is a power hierarchy between core and periphery in which powerful and wealthy core societies dominate and exploit weak and poor ‘peripheral’ societies[92]. There are core production processes that are relatively capital intensive and monopolized by a few producers in the market; and other peripheral ones that are relatively labour intensive and free market. Thus, countries that normally are developed and tend to rely on core processes are normally called core countries, and the rest peripheral ones. This division of labour between core-like and peripheral production processes leads to unequal exchange between the zones[93]. Within the current system, the so-called advanced or developed countries constitute the core, while the less developed countries are in the periphery. The core has remained composed of several states. They exhibit a phenomenon called hegemonic sequence, meaning the rise and fall of hegemonic core states. For example, this sequence includes the Netherlands in the seventeenth century, Britain in nineteenth century and the United States in the twentieth century[94]. Wallerstein’s key insight lies with the realization that trading patterns prevailing at different points in history demonstrate the essential economic interdependence of the societies involved, whether or not they were united by a single political centre. The peripheral countries, rather than developing along the same paths taken by core countries in earlier periods as modernization theories hold, are instead structurally constrained to experience developmental processes that reproduce their subordinate status. It is the whole system that develops, not simply the national societies[95].

There is another area in between core and periphery: the semi-periphery. The semi-peripheral states play a particular role in the capitalist world-economy. They act as a peripheral zone for core countries and they act in part as core area for some peripheral areas. It turns out that their ability to take advantage of the flexibilities offered by the downturns of economic activity is in general greater than that of either the core or the peripheral countries[96]. The semi-periphery includes economically stronger countries of Latin America: Brazil, Mexico, Argentina, Venezuela, and possibly Chile and Cuba. It includes the whole outer rim of Europe: the Southern tier of Portugal, Spain, Italy and Greece, most of Eastern Europe, parts of the northern

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[91] See Emmanuel (1972) and Raffer (1987).
[92] See Chase-Dunn & Grimes (1995, p. 389).
[93] See Wallerstein (2004).
[94] See Wallerstein (1974).
[95] See Chase-Dunn & Grimes (1995, pp. 389-390).
[96] See Wallerstein (1976, p. 462).

tier such as Norway and Finland. It includes a series of Arab states: Algeria, Egypt, Saudi Arabia and also Israel. It includes in Africa at least Nigeria and Zaire, and in Asia, Turkey Iran, India, Indonesia, China, Korea, and Vietnam. And it includes the old white Commonwealth: Canada, Australia, South Africa and possibly New Zealand[97].

Although the State is not the unit of analysis of the world-system approach, it is interesting its role. Classes, ethnic groups and households struggle to increase, maintain or decrease the power of the State in order to change the particular group's ability to profit directly or indirectly from the operations of the world market[98]. The bourgeoisie is contradictory. On the one hand, it has to pursue its interest by maximizing profit without the constraints on geographical location or political considerations. On the other hand, it needs to utilize the state machineries to strengthen its position in the markets vis-à-vis competitors and to protect itself from the working classes. Something similar could be said about the proletariat. In any case, both classes tend to influence the State for their benefit, although the latter has only limited power to change the world-economy[99]. Thus, the State is the institutional intermediary in the establishment of market constraints to favour particular groups, and at the same time interacts with other states in the inter-state system. The setting of state policies is key since it means the adoption of rules governing the flow of the factors of production within and across frontiers. These critically affect the price structures of markets and the social relations of production, which critically affects the allocation of surplus value[100]. State policy intervenes ensuring and protecting the price rise of key commodities, and translating the windfall profits into particular kinds of imports[101]. It uses trade policy, property rights, working place legislation, externalisation of costs, industrial policy, fiscal policy and foreign policy to achieve this goal[102].

In the core, states where the most efficient economic producers reside have less need to intervene in the world market economy than states where moderately efficient producers are located. The State is most active in states of moderate strength[103]. The presence in the core of a centralized and powerful state institutional political structure is therefore an indication of weakness rather than strength, because a self-aware and self-confident bourgeois class can agree to the necessary collective arrangements that require a strong ruler to impose. In the semi-periphery, the weakness of the owner-producers needs a greater degree of direct state involvement in the extraction of economic surpluses. Here, centralized and powerful state

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[97] See Ibid., p. 465.
[98] See Wallerstein (1980, p. 745).
[99] See Ibid., pp. 749-750.
[100] See Ibid., p. 746.
[101] See Wallerstein (1976, p. 470).
[102] See Wallerstein (2004).
[103] State strength is determined by five independent measures of political strength. These include: the extent to which State policy directly aids owner-producers to compete in the world market economy (mercantilism); the extent to which states can affect the capacity of other states to compete (military power); the ability of states to mobilize resources to perform these competitive and military tasks at costs that do not eat into profits of their owner-producers; the capacity of states to create administrations that permit the swift carrying out of tactical decisions (or an effective bureaucracy); and, the degree to which the political rules reflect a balance of interests among owner producers such that a working hegemonic bloc forms the stable underpinnings of such a State (Wallerstein, 1980, pp. 113-114; Garst, 1985, p. 473).

institutional structures are an indication of strength[104]. However, the chronic impoverishment of the periphery prevents the typical peripheral State from being able to finance programs of public welfare or infrastructural improvement, so its popular legitimacy is low. Thus, it is always vulnerable to coups or popular insurrections[105].

The division periphery - semi-periphery - core is not immutable. Since the exchange that occurs within the division of labour is based on the differential appropriation of the surplus produced, the positions among states are hierarchically ordered, so that it is not possible for all nations to be developed. In order to develop some countries, others must fall from the category of developed[106]. Despite structural barriers, some states have managed gradually to improve their infrastructure and to combine these improvements with policies that encourage the key industries that seem the most promising in the world market. Occasionally, such policies pay off in upward mobility. The most spectacular case of upward mobility has been the United States, a region that went from being peripheralized to a semi-periphery and then to core status after 1880, and finally achieved hegemony within the core after 1945[107]. The current decline of US hegemony is one of the salient features of sequential change in the contemporary system[108].

Although counterintuitive, a downturn is more or less advantageous to all semi-peripheral countries[109]. There are long-term cyclical shifts in the capitalist world- system due to the acute disequilibrium in the world market between the immediate capacity for production of high cost, high-profit economic goods and effective demand. The long-term tendency to over-supply is inevitable in the pattern of separate decision-making processes by producers in a capitalist market. Over-supply leads to a shift in the terms of trade between the core and the periphery, a shift in the loci of profitable investment world-wide and the loci of employment opportunities. This in turn affects the wage structure in those parts of the world-economy based on fully proletarianized labour, as well the degree to which workers in other areas will continue to draw part or all of their income from sources other than wage-employment. When these shifts result in a strengthened world-wide effective demand, concordant expansion of the capitalist world-economy can once more take place. Subsequently the balance will shift acutely in favour of core producers. In other words, the percentage of surplus-extraction that ends up in the hands of producers located in the core steadily grows. When it becomes as important as to limit market demand, another crisis results[110].

In moments of world economic downturn, semi-peripheral countries can usually expand control of their home market at the expense of core producers, and expand their access to neighbouring peripheral markets, again at the expense of core producers. The reason for this is relatively straightforward. As long as the products of core producers are relatively scarce, they can pick

[104] See Garst (1985, p. 473).
[105] See Chase-Dunn & Grimes (1995, pp. 396-397).
[106] See Evans (2007, p. 16).
[107] Contemporary examples include Taiwan, Singapore, Korea, Hong Kong, and China, while Japan achieved an upward trajectory since 1880. See Chase-Dunn & Grimes (1995, pp. 396-397).
[108] See Ibid.
[109] See Wallerstein (1976, p. 466).
[110] See Wallerstein (1980, pp. 463-464).

and choose among semi-peripheral bidders for their investment in (semi-) manufactures and for their purchase of commodities. When the core producers face a situation of over-supply, they begin to compete intensely with each other to maintain their share in a comparatively shrinking world market for their finished goods (especially machinery). At that time, semi-peripheral countries can, up to a point, pick and choose among core producers not only in terms of the sale of their commodities but also in terms both of welcoming their investment in manufactures and of purchasing their producers' goods. They often result in shifts in regime where the previous regime is insufficiently flexible to respond to the changed world political situation. Also the ability of core powers to intervene illicitly in the state affairs of each semi-peripheral State decreases somewhat in moments of downturn in terms of production and trade patterns[111].

Only a few semi-peripheral countries are able to translate that advantage into a real shift in economic position at any given moment in history. To do this, a semi-peripheral country must garner a heavy portion of the collective advantage of the semi-periphery as a whole to itself in particular. A semi-peripheral country rising to core status does so, not merely at the expense of some or all core powers, but also at the expense of other semi-peripheral powers. This is not development, but successful expropriation of world surplus[112]. The direct and immediate interest of the semi-peripheral State as a political machinery in control of the internal and international market is greater than in either the core or the peripheral states, since the semi-peripheral states can never depend on the market to maximize, in the short-run their profit margins[113].

A world economic contraction does change the politics. Economic nationalism is widespread in world depressions in all those semi-peripheral areas that are sovereign (for example, Mexico, Brazil, Italy, South Africa in the 1930's; Canada in the 1880's, etc.). Protectionist measures can turn out to be merely obstacles whose very existence encourages the multinationals to determine new ways of hurdling them. Import substitution may simply involve substituting one kind of import dependence for another, thereby creating an even worse technological dependence. In such a case, world economic downturn merely accelerates a process that in the long-run was part of the built-in program of multi-national corporations[114].

v. Conclusion

Recalling our introductory chapter, our reasoning is illustrated in Figure 1. Our analysis of the Great Depression in ABU in our following chapters moves around a definition of complex vulnerability that incorporates most of the concepts described in this and the introductory chapters.

As such, it includes the short-term economicist notions of transmission channels of a crisis, with an emphasis on the trade transmission channel. We also incorporate the narrative of the historical context focusing on the issues regarding the complex interdependencies between our

[111] See Ibid., p. 464.
[112] See Wallerstein (1976, p. 466).
[113] See Wallerstein (1973, p. 3).
[114] See Wallerstein (2004).

semi-peripheral ABU and core countries. The comprehensive concepts of 'power' and 'interdependence' borrowed from the theory of international relations and international political economy helps us in this task. Finally, the ideology of the gold standard constitutes a specific source of vulnerability during the twenties and early thirties that we carefully have to take into account in our research.

Regarding the long-term conceptual framework, we take advantage of the reasoning of Immanuel Wallerstein's world-system analysis that provides the useful distinction between periphery, semi-periphery and core. Furthermore, this analysis, from a structural view, addresses the fact that semi-peripheral states can take advantage of global downturns.

It is important to highlight that although Prebisch and Wallerstein are structuralists, Prebisch lacked a historical long-term view. Thus, he could not appreciate the structural problems that can only be noticed in a long-term historical perspective, which Wallerstein took into account. In that sense, Wallerstein took the French structuralism inherited from Braudel, who divided historical time in three stratums: long, medium and short terms. As a consequence, Wallerstein in his historical analysis of world capitalism makes an exercise of structural history since he dedicated himself to observing the long-term economic cyclical trends, as well as the conjunctures. Hence, Wallerstein tackles both nomothetic analysis (social regularities) and idiographic (social singularities). Prebisch however essentially addresses the nomothetic through categories such as terms of trade, structural heterogeneity, etc., mostly without explaining how and why Latin America came to be as it was in those times.

III. The historical framework of the Great Depression

The outbreak of the Great Depression is undoubtedly linked to the US, due to a combination of internal structural problems and inappropriate policy responses from the government of the Republican Herbert Hoover. Its roots can be traced to the structural changes prompted by the First World War. This war favoured the US in such spectacular way that it turned into a major supplier of raw materials, foodstuffs and industrial products in the world. It was also the main creditor of the world and its industries were competitive. It was mostly free from pressure on its balance of international payments, the contribution of foreign trade to GDP was relatively small and its economic system was mostly liberal. It accounted for more than one-third of the global demand for primary products and more than 40% of the primary-product consumption of the fifteen leading industrial countries. The US imports and exports by 1929 represented nearly one-seventh of the total value of the imports and exports of all countries. However, there were serious structural problems, such as: unequal distribution of income, an unhealthy banking structure with small banks near collapse, bad corporate structure, capital concentration and lack of investment[115]. Thus, the US had achieved such a weight in the world's economy and capital flows, that whatever the consequences of those structural factors on the national economy, they would unavoidably have repercussions worldwide.

The US suffered three shocks to aggregate demand: the collapse of agricultural prices, the stock market crash of 1929 and the banking panics during 1930-1933[116]. Indeed, as Temin (1976, pp. 171-172) argues, it is equally incorrect to say that the crash of the New York Stock Exchange of 1929 caused the Depression by itself and that the Depression owed nothing to the crash. The crash was one of several deflationary factors, although hardly the largest. Before the crash, the rise of the stock-market was not based on sound profitability, but on a general and unloosed

[115] Many authors have mentioned outstanding characteristics of the US economy. See for example Arndt, 1944; p. 89; Eichengreen, 1992b, p. 225; Eichengreen & Portes, 1987, p. 15; Erickson, 1972, p. 11; Fox, 1937, p. 20; Galbraith, 1955, p. 160; Rothermund, 1996, pp. 48-55; and Thorp, 2000, p. 5.

[116] There are other events that can be highlighted. Eichengreen (2004) distinguishes estate boom in Florida in 1925, a Wall Street boom in 1928-9, and the consumer durables spending spree in the second half of the twenties. The classic work of Galbraith (1955) describes that during the twenties all the elements of the traditional speculative bubble in the real estate market were present, notoriously in the State of Florida. Kindleberger (1973), beyond the Florida estate boom put emphasis on the automobile and electric appliance industries.

speculation. And it was not only on the part of the biggest companies, but also of a great part of the population, which was driven more by prospects of increasing capital rather than earning dividends[117]. The sudden halt of the vicious circle in which rising prices prompted further speculation, came to a catastrophic end on October 29th, 1929. That day the US suffered the infamous 'Great Crash' of its stock exchange market, which signalled the seriousness of the most global and long lasting downturn in the last century. The stock market crash did have two observable effects. First, the fall in stock market prices reduced the wealth of consumers, who in turn reduced consumption expenditures. Second, both non-agricultural individuals and corporations, who during the twenties were borrowing in order to lend or to invest in financial assets like equities, began to reduce their leverage in 1930 fostering a process of disintermediation.

The deflation in stock markets added to the depression from agriculture. Natural conditions and market mechanics influenced this outcome. The 1929 harvest was poor in America and other exporting regions, but not in the importing areas of Europe, and as a consequence the production and revenue fell in the US. Madsen (2001, p. 357) argues that the decline in prices of agricultural products was a significant contributor to the decrease in output and the international transmission of the depression. That was because it resulted in a deflationary spiral with substantial redistribution of income and spill-over effects from the agricultural to the non-agricultural sector. Furthermore, commodity trade was highly exposed to price volatility. Most commodities were shipped to the various ports of the world on consignment, so that they were ordered, but not paid for in advance. When the Great Depression hit, confidence collapsed and commodity brokers became desperate to sell their wares and as a consequence their prices dropped dramatically[118]. Thus, prices fell through the economy, triggering the aforementioned mechanics of contraction in economic activity.

The third shock to the aggregate demand is linked to the financial crisis in the US that the Federal Reserve did not adequately prevent. The US experienced widespread banking panics in the fall of 1930, the spring of 1931, the fall of 1931, the fall of 1932 and the winter of 1933. And this last episode coincided with several transcendental economic and politic changes in the US. On March 4th, 1933 the Democratic Franklin D. Roosevelt received the presidency from the Republican Herbert Hoover, in the middle of one of the worst banking crises suffered by the US. Within two months he had to take radical measures. He declared a national 'bank holiday' on March 6th, 1933, imposed exchange control[119] on March 9th and the suspension of the gold

[117] The most illustrating example of this frantic speculation was the activities of Charles Ponzi in Florida, Clarence Hatry in London, and Ivar Kreuger in Stockholm (Eichengreen, 2004, p. 7), who established models of business that offered great returns as long as money kept flowing in, so that existing investors could be paid with the new money, or were plainly fraudulent.
[118] See Clavin (2000, p. 100).
[119] The Emergency Banking Relief Act passed on March 9th, 1933, gave the President the ability to declare a national emergency and assume absolute control over the US national finances and foreign exchange.

standard on April 19th. The banking panics were so severe that by 1933 one-fifth of the banks in existence at the start of 1930 had failed[120].

However, it is inaccurate to blame only the US. Europe also had a leading role in the Great Depression, along with the prevailing ideology of the time that prescribed the allegiance of governments to the gold standard orthodoxy. In this chapter we explore the national policies, the collapse of international trade, the failure of multilateral diplomacy, the general situation of Latin American countries in this context and finally we make a link to the present focusing on the Financial Crisis of 2008.

i. All mighty national interest

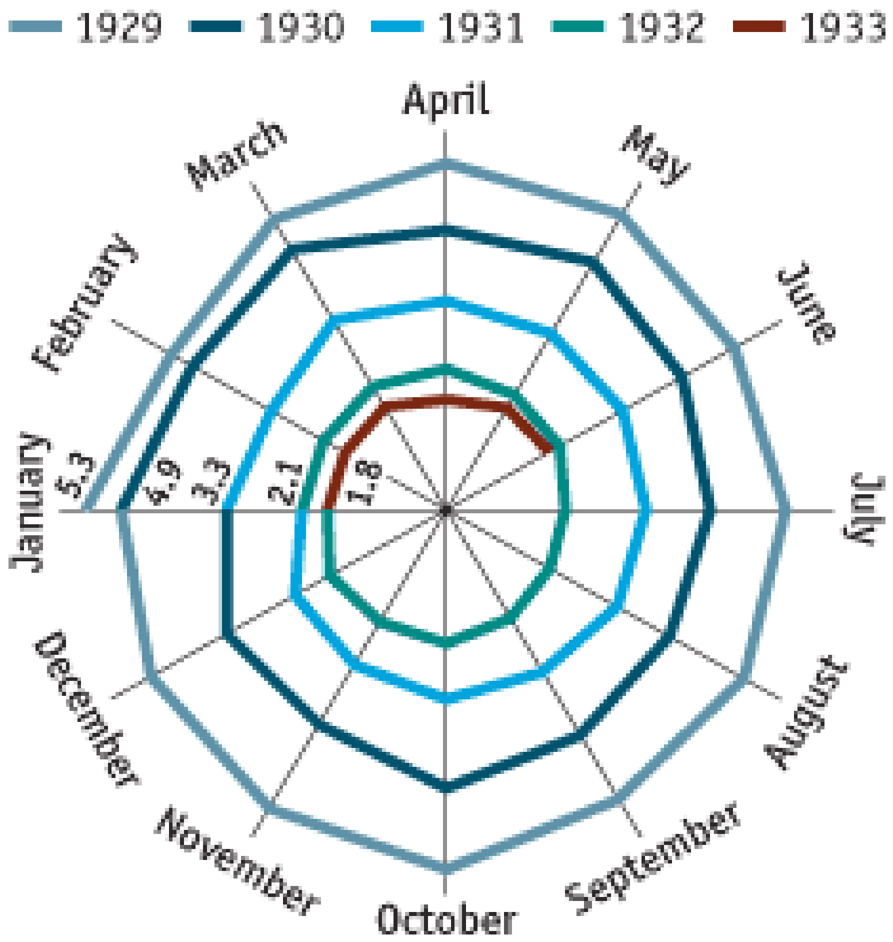
By that time, the worst hit section of the world economy was international trade. Between 1929 and 1933 the value of world trade shrank by more than 66% in gold dollar terms, with the contraction in trade of manufactures at -41% and raw materials -19%[121]. This downward trend was most eloquently illustrated in the widely reprinted diagram known as the 'Contracting Spiral of World Trade', reproduced in Figure 2, first published by the *Österreichischen Institutes für Konjunkturforschung* in 1933. This figure, used by the League of Nations in its Economic Survey for 1932-33, Eichengreen & Irwin (1995), Irwin (2012), Reinhart & Rogoff (2009) and Ferrantino (2009), among many others, shows the value of world trade spiralling downward: 5.3 billion gold dollars in 1929, 4.9 in 1930, 3.3 in 1931, and 2.1 in 1932, reaching its lower point of 1.8 billion in 1933. It is important to note, however, that the decline in the value of the world trade was not evenly distributed, since agricultural prices fell more than those of finished goods. In Table 2 we show the decline in average gold export prices of the main commodities associated with their main exporting countries during 1929-1934. For example, products like copper, wheat, coffee, maize, wool and cotton, all important staples in Latin American exports, lost by 1934 more than 50% of their 1929 value. Consequently, exporting countries of those products were negatively affected.

There is no doubt that the defensive measures adopted worldwide and the failure of international cooperation to overcome them contributed to the collapse of world trade. Indeed, after the crash of 1929, the natural reaction from several core countries was to close themselves except in their sphere of influence. As the League of Nations (1942b, p. 138) analyses, the closing of the established channels of trade and the breakdown of the worldwide multilateral system of settlements provoked attempts by many countries to develop their exchanges of goods and realize a system of settlement within restricted areas. Similarly, Eichengreen & Irwin (1995, p. 2) affirm that the traditional pattern of multilateral settlements was supplanted by a set of increasingly compartmentalized trade flows. Commercial policies channelled trade flows into self-contained regional, colonial and commercial blocs, which provided an opportunity to exploit scale economies by expanding output and increasing market shares through trade

[120] See Romer (2003, p. 3).
[121] See Irwin (2012, p. 100).

diversion[122]. Trade blocs followed a similar setting as with exchange regimes. In the UK influential groups advocated protection and new and enhanced markets and the achievement of imperial preferences within the British Empire[123]. The French pursued their policy of low tariff rates on trade with their colonies and enacted a particularly devastating quota system that had a bias against the US. And Germany focused on its commerce with the Balkans and Latin America[124]. Accordingly, in the literature the main blocs were leaded by France, Germany, the UK and the US.

Figure 2 Breakdown of world trade 1929-1933 (billion US dollars)



Source: World Economic Survey 1932-1933, League of Nations (1934c).

[122] There are other possible explanations. According to Chase (2004, p. 196), the formation of protectionist trade blocs in the thirties was a political response to the emergence of new technologies that demanded larger markets. Trade blocs were most attractive to firms that could not assimilate the mass production techniques developed in the pre-war era because of small national markets. Firms with sizable domestic markets for their goods already produced on a large scale, and were less interested in exclusive tariff privileges abroad. Small-scale producers with small domestic markets in Japan, the UK and Germany vigorously advocated the formation of protectionist trade blocs. However, large-scale firms in the US, with a vast continental market at their disposal, sought trade liberalization. Instead of seeking a trading bloc of their own, these firms also pushed to eliminate commercial discrimination in foreign empires.

[123] The British Empire comprised the dominions (Canada, Australia, New Zealand, Newfoundland, the Union of South Africa, and the Irish Free State, among others), colonies, protectorates, mandates and other territories ruled or administered by the UK.

[124] See Bancroft & Woolsey (1952, p. 800).

Table 2 Decline in average gold export prices, 1929-34 (per cent)

Raw silk (Japan)	84		**Mechanical wood-pulp (Finland)**	61
Copper (United States)	75		**Wool (Argentina)**	57
Butter (Denmark)	73		**Sugar (Czechoslovakia)**	57
Wheat (United States)	71		**White cotton piece-goods (UK)**	54
Grey cotton tissues (Japan)	68		**Cement (Germany)**	54
Petrol (United States)	68		**Passenger motor-cars (US)**	53
Coffee (Brazil)	68		**Bacon (Denmark)**	52
Rubber (British Malaya)	66		**Tea (Ceylon)**	48
Newsprint paper (Canada)	65		**Pig-iron (UK)**	47
Maize (Argentina)	65		**Coal (UK)**	39
Silk tissues (France)	64		**Steel girders (Belgium)**	36
Cotton (United States)	63		**Tin (British Malaya)**	32
Chilled beef (Argentina)	61		**Mowing machines (Germany)**	14

Source: Royal Institute of International Affairs (1937, p. 288) using data from the Review of World Trade, League of Nations (1934, pp. 14-15).

The American Smoot-Hawley tariff enacted in June 1930 is probably the most commented-on change of policy after the crash of 1929. Although dozens of countries had raised their tariffs after 1929 and the Smoot-Hawley Tariff was only the most prominent of them[125], its timing and contribution to the process of compartmentalization of trade place this bill as the equivalent in trade to the crash of 1929 in the financial system. At the same time, it was a defensive reaction by the US as the country most affected by the depression. According to data from O'Brien (2001), it raised the tariff by about 2 ½ percentage points to an average of 41.1% from the already high rates prevailing under the Fordney-McCumber tariff of 1922. However, this average hides the fact that some groupings of products were increased more than others, notably chemicals (29.7% to 36.1%), sugar (67.9% to 77.2%) and agricultural products (22.7% to 35.1%). As it passed the House of Representatives in May 1929, boycotts broke out and foreign governments moved to retaliate against US products[126]. Extensive increases in duties were made almost immediately by Canada, Cuba, Mexico, France, Italy, Spain and Switzerland. For example, Italy objected to duties on hats and bonnets of straw, wool-felt hats, and olive oil; Spain reacted sharply to increases on cork and onions; Canada took umbrage at increases on maple sugar and syrup, potatoes, cream, butter, buttermilk and skimmed milk. Switzerland was moved to boycott American typewriters, fountain pens, motor cars and films because of

[125] See Eichengreen & Irwin (1995, p. 2).
[126] See Kindleberger (2002, p. 283).

increased duties on watches, clocks, embroidery, cheese and shoes[127]. The tariff war initiated after the Smoot- Hawley Tariff continued to feed on itself, stimulated by the decline of world trade. Also, the effect of the depression on the balances of payments of individual countries resulted in the adoption of defensive measures that further aggravated the situation[128]. As Milder (1999, p. 14) concludes, although the US tariff was not the cause of the Great Depression, its timing bears the responsibility for inaugurating a 'parade of protection' that ruined international trade during the thirties, of which the delayed retaliation of Great Britain, France and Germany was the most damaging.

Only after some initial hesitation, the Democrat administration of President Roosevelt decided on a reversion of the previous protectionist stance. Indeed, the Reciprocal Trade Agreements Act (RTAA) of June 1934, of which the Secretary of State Cordell Hull was an important advocate, authorized the President to reduce American tariffs. But, he could not reduce any duty by more than 50%. It also provided that any reductions of duties should be extended automatically to all other countries under the unconditional most-favoured-nation principle. With the proviso, however, that the President could withhold such benefits from countries which discriminated against American commerce[129]. Furthermore, it prompted the negotiation of non-most-favoured-nation bilateral tariff agreements with selected countries[130]. Although it is true that this Act started a policy of reducing US tariffs, such a policy made slow progress. That was due to the strong tariff wall built over the joint effect of the Smoot-Hawley Act itself and the deflation-induced increase in the incidence of specific duties[131], as well as the compensating advantage of the abandonment of the gold standard and the devaluation of the dollar in April 1933. In Latin America, the US decisions translated into the 'Good Neighbour' policy, which, as the US Secretary of State Cordell Hull explained during the VII Inter-American Conference in Montevideo at the end of 1933, included the reduction of customs barriers. That measure was implemented by means of the negotiation of reciprocal bilateral treaties and the principle of equal treatment, among others.

Meanwhile, protective measures were imposed on Europe, as tariffs were supplemented by import quotas and licenses to favour particular countries or territories. In this regard, the League of Nations (1942b, pp. 67-68) explains that the adoption of quotas as an integral part of the French bargaining apparatus in the autumn of 1933; the adoption of agricultural quotas in England in 1933; and the New Plan introduced in Germany in the autumn of 1934 were

[127] See Kindleberger (1973, p. 132). For more examples of protectionist measures during this period, see also Kindleberger (2002, p. 282), Jones (1934), Chalmers (1953), and League of Nations (1942b).

[128] There is no consensus, however, on the real influence of this tariff in the global depression. The literature tends to agree that it was at least a contributing factor. Irwin (2012, pp. 15-16) doubts that it was a major cause of the Great Depression because of the modest increment on the tariff (38% to 45% on average) and the relatively low significance of the US for European exports (6%), although it did foster resentment in Europe and the spread of discriminatory policies. And Johnson (1997, p. 175) believes that the deflationary influence of Federal Reserve monetary policy almost certainly outweighed any countervailing influence from trade policy, among other reasons because historical data offer little support for the conclusion that the Smoot-Hawley tariff raised relative prices or increased relative demand in the US.

[129] See Schnietz (2000, p. 437).

[130] See Eichengreen & Irwin (1995, p. 2).

[131] See Díaz Alejandro (2000, p. 19).

measures that contributed to consolidating the planning of foreign trade as a normal function of the government. Countries were very inventive and the proliferation of trade barriers was supplemented or even surpassed by exchange controls as the main instrument of trade restriction. Quantitative regulation tended to take the form of trade prohibition, mitigated in varying and uncertain degree by special permissions to import limited quantities of particular commodities from certain countries during a brief period. Quotas were preferred to tariffs because they brought more immediate and direct results in terms of effectively insulating domestic markets. Of course, they also proved to be highly destructive of trade [132].

In the British Commonwealth, the protectionist forces were on the move from the First World War onwards. Seeking a solution in Empire self-sufficiency, they fuelled a growing concern about foreign industrial rivals and increasing competition in trade. These forces achieved their goal during 1931-1932. The Abnormal Importations Act of November 1931, complemented a few weeks later by a similar Horticultural Products Act, allowed for duties of up to 100% on certain items, although only 50% were imposed. Later the Import Duties Act of February 1932 imposed a 10% tariff on all goods except those specifically exempted. The fact that neither economic activity nor trade balance fell so much during the Great Depression in the UK before 1931, suggests that those acts were not really the result of the downturn, but of pressures originating during the twenties from the dominions that sought preferences, under the argument that protectionism elsewhere would render the UK an easy destination for foreign industrial products. Not surprisingly, in 1932 the Ottawa Agreements strengthened tariff preferences within this bloc. In exchange for concessions in primary products in the British market, the UK expected to obtain reductions in dominions duties on its manufacturers, but instead the dominions instructed their respective tariff boards to adjust the British preference tariff to a level that would make British producers competitive with domestic industry[133]. In this respect, as McDougall & Hutt (1954, pp. 233-257) estimate that the average rate of tariff preference on Commonwealth imports from the UK rose from 6% in 1929 to 10-11% in 1937, and on the British imports from the Commonwealth from 2-3% to 10-12%.

The change in trade policies by the UK had a great impact in many countries that depended greatly on the trade with that country. Using as leverage the Ottawa Agreements, the British established a very successful trade policy with countries that depended strongly on its market by granting simple promises of not increasing tariffs and not reducing quotas on a limited number of basic products. Although the UK government made several concessions to foreign producers, they were not comparable to the advantages obtained by the British producers[134]. Import quotas on industrial products were avoided, but quotas on agricultural products were introduced since 1933 and became an important element in the trade agreements concluded from that year onwards. Agreements were made between 1933 and 1936 with Argentina, Poland, France, all the Scandinavian and Baltic countries and the Soviet Union. These agreements provided for the

[132] See also Eichengreen & Irwin (1995, p. 2) and Condliffe (1932/1933, pp. 652-653).
[133] See Kindleberger (2002, pp. 286-287) and Capie (1983, pp. 6-44).
[134] See González & Pollock (1991, p. 468).

purchase of definite quantities of certain British goods (e.g. coal) against quota privileges in the British market and, in some cases, the stabilisation or reduction of duties in either or both contracting countries[135].

Other countries resorted to the administration of the foreign exchange as a powerful trade distorting tool. With the collapse of the German banking system and the suspension of the gold standard in the UK in 1931, the tendency towards the forcible confinement of foreign exchange within borders was institutionalized in the widespread adoption of the system of 'blocked balances' unilaterally imposed by debtors in Central Europe (Germany, Austria and Hungary) and Latin America. Obstfeld & Taylor (2004, pp. 137-140) give a good description of the system. It allowed debtors to spare foreign exchange, by making debt payments with domestic currency placed in special, earmarked accounts. Then, the creditor might use those funds only in limited ways, e.g. for renewed direct investment in the debtor country or to buy more of the debtors' exports. An insolvent government might pay off debts into its 'blocked account' and then re-lend to itself out of the same funds. Inevitably, claims on such accounts soon began trading on the secondary market. Market rates diverged dramatically from the official par rates of the exchange-controlled domestic currency.

With this regard, the most notorious case is Germany, where a new conception of trade was closely associated with the development of exchange control. In September 1934, Dr Hjalmar Schacht, President of the *Reichsbank* and Minister of Finance under Adolf Hitler, announced his 'New Plan' which extended and centralized Germany's foreign-exchange controls. Sixteen different control boards allocated available foreign exchange for import transactions approved by the State. To facilitate trade under this regime of direct controls, bilateral clearing agreements were concluded with a number of countries. However, the resource to those agreements was not an innovation of the Nazi Germany. The first impulse towards the clearing agreements was given in 1931 when Germany's foreign creditors, and especially those in the US, began to call in their claims on Germany at an ever-increasing rate. The first came about on the initiative of Germany with the countries which themselves controlled their foreign exchange. By the end of the thirties some 25 countries had agreed to such arrangements and more than 80% of Germany's foreign trade was carried on with them. The development of a system of barter was particularly advantageous to Germany in its dealings with Latin American countries. Due to its ability and willingness to absorb or act as an intermediary for the sale of many of the raw products of which Latin America possessed an uncomfortable surplus, Germany was in a strong position to bargain on a barter basis with those countries. This system boosted Germany´s trade with Latin America, especially with Argentina, Brazil, Chile and Uruguay[136].

[135] See League of Nations (1942b, pp. 74-75).
[136] See Irwin (2012, pp. 67-80), Rothermund (1996, pp. 68-69), Neal (1979, p. 39), Clark (1940, p. 169) and League of Nations (1942b, pp. 67-68).

ii. The failure of multilateral diplomacy

Although several attempts were made by the League of Nations to accomplish a multilateral system with fewer distortions, probably the period of history that we chose to analyse can be remembered as a paradigm of the failure of international cooperation in various fields. Probably, after the First World War, a first sign of the lack of cooperation was the failure to arrange a convention of central banks after the Genoa Conference of 1922. However, from 1925 to 1928, the momentum of commercial restrictions that had grown up in the immediate post-war years slackened. The World Economic Conference of 1927, whose core trade recommendations included the reduction of tariff levels, contributed to a slight reduction of trade barriers for a brief period and the most-favoured-nation principle had been re-established[137]. The League of Nations (1942b, pp. 101-102) summarizes the objectives of the great international conferences of the first post-Armistice decade:

(a) the extension of the code of international commercial law, commercial arbitration, trade facilitation and the removal of legal, fiscal and administrative obstructions to trade;
(b) the abolition of war-time trade prohibitions and controls;
(c) the restoration of pre-war tariff practices;
(d) the elimination of ‘excessive’ or ‘artificial’ rates;
(e) a general reduction of tariff levels; and,
(f) special agreements between some of the small countries of Central and Eastern Europe for the purpose of achieving (b), (c) and (d).

Unfortunately, after 1930 all major efforts to achieve multilateral agreements failed. The Convention for the Abolition of Import and Export Prohibitions and Restrictions, worked out at the two Geneva conferences of 1927 and 1928, did not achieve success for the deadline established in 1930. The so-called ‘Tariff Truce Conference’, which was considered a previous preparatory step to a movement of concerted tariff reductions that was expected ultimately to result in a general agreement to keep tariffs unchanged for several years, could not agree in 1930 on more than tentative promises to stabilize duties contained in existing treaties for one year. In parallel to these multilateral treaties and conferences’ failures, there was increasing criticism of the most-favoured-nation principle built into most existing treaties[138]. Regarding this, many countries defended new exceptions on the grounds that if the most-favoured-nation clause was insisted upon with too great rigidity, it might obstruct its own purposes given the juncture of crisis and hardship[139].

These disappointing results can be linked to the political and economic strains in the core countries that started to play a significant role in the disintegration of the gold standard system

[137] For a detailed review on the efforts to improve international cooperation, see for example the League of Nations (1942b and 1933b), Falkus (1971, p. 623), Chalmers (1953, p. 39) and Kindleberger (1973, 2002).
[138] Kindleberger (2002), Chalmers (1953, pp. 59-61) and League of Nations (1942b), among others, give an account of the rise and the demise of the most-favoured-nation principle during the interwar period.
[139] See the report of the Sub-Commission of Commercial Policy of the Conference in the League of Nations (1933b, p. 23).

and the trading system. The priority of trade in international negotiations lost ground to the increasing concern about the failure of the gold standard system, so that negotiations turned to address this issue. But in the background the political juncture prevented the functioning of cooperation among monetary authorities[140]. Eichengreen (2004, p. 12 and 1990, pp. 149-150), for example, explains that during the pre-1913 gold standard central banks cooperated when setting interest rates and supported one another with emergency assistance in times of crisis, preventing the collapse in this way. That element was missing in 1931, when the Bank of France hesitated to assist its Austrian and German counterparts and the Bank of International Settlements was prevented from doing so for a time because of the dispute over reparations, Germany's program of building pocket battle ships and the proposal for an Austro-German customs union in contravention of the Versailles Treaty[141]. Ultimately, in a definite sign of the rise of nationalism, governments turned to non-cooperative strategies within the framework of an increasing departure from the gold standard.

In this difficult context, a World Economic Conference was convened in London from June 12th to July 27th, 1933, with the main issues in the agenda being the exchange rate instability, deflation, tariffs and external debts. There were sixty seven countries invited for the Conference and sixty four sent representatives (League of Nations, 1933a and 1933b)[142]. But the main players were the UK, the US and France. A Preliminary Commission of economic experts was assembled, but it was a rather one-sided representation of the views on monetary stability prevailing in the few remaining gold standard countries[143]. This Commission wrote a Draft Annotated Agenda of the Conference for a concerted action, whose core objective was summarized as follows: “in the absence of another international standard likely to be universally acceptable, (the Conference) will have to consider how the conditions for a successful restoration of a free gold standard could be fulfilled”. To achieve this goal, it supported an increase in international cooperation, the reduction of the minimum cover ratios of central

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[140] The argument about more cooperation does not necessarily imply a good outcome. For example, Temin (1989, p. 87) affirms that every effort was made in 1931 to preserve the gold value of the mark, pound, and dollar, but the outcome would have been better if the leaders followed Britain’s example in 1931 and joined in devaluating their currencies. But at the time the only kind of cooperation possible was under the gold standard orthodoxy. Cooperation, in other words, is not good in and of itself. Its usefulness depends on the purposes to which cooperation is bent.

[141] For an account on the role of the Versailles Treaty in the failure of cooperation in the financial field and its influence on the financial panic in Austria, Germany and other countries, see for example Rothermun (1996) and Irwin (2012). John Maynard Keynes produced in 1919 a highly influential critique of the French reparations policy that he believed weakened Germany and posed a tremendous danger to Europe. Kindleberger (1973, p. 150) doubts that the French bank pulled their money from the Austrian Credit Anstalt bank on the instructions of their government. Clavin (2000, p. 26) insists that eventually, the Treaty of Versailles came to be vilified as the origin of both the Great Depression and the Second World War.

[142] The invited countries were: Abyssinia, Albania, Argentina, Australia, Austria, Belgium, Bolivia, Bulgaria, Canada, Chile, China, Colombia, Cuba, Czechoslovakia, Denmark, Dominican Republic, Ecuador, Egypt, Estonia, Finland, France, Germany, Greece, Guatemala, Haiti, Honduras, Hungary, India, Iraq, Irish Free State, Iceland, Italy, Japan, Latvia, Liberia, Lithuania, Luxemburg, Mexico, Netherlands, New Zealand, Nicaragua, Norway, Panama, Paraguay, Persia, Peru, Poland, Portugal, Romania, Salvador, Saudi Arabia, Siam, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, Uruguay, Venezuela, Yugoslavia. Also Afghanistan, Brazil, Costa Rica, Danzig, the USSR and the United States participated as non-member states of the League of Nations.

[143] See Cassel (1936, pp. 106-107).

banks, and suggested that certain countries operating with currencies at par should alter their parities to a permanently lower level. That naturally required a termination of exchange restrictions and clearing agreements, which allegedly constituted an obstacle to the circulation of capital, and represented one of the main causes of the collapse of international trade. The Agenda also called for a revision of specific duties and supplementary duties and charges of an administrative, statistical or other nature that were levied on imported goods. It also called for a return to a reasonable degree of freedom in the movement of goods and services and the creation of a unified customs nomenclature. Another main suggestion was the use of the unconditional and unrestricted most-favoured-nation clause as the basis of commercial relations between nations[144].

Regarding the balance of national interests pursued in order to ensure the success of the agreement, according to Kindleberger (2002, pp. 295-296), the preparatory Commission fashioned a package in which the US would lower the Smoot-Hawley tariff, France would reduce quota restrictions, Germany would relax the foreign exchange control and the UK would stabilize the pound. War debts were excluded from the Agenda by the US, and consequently reparations by France and the UK. However, all these recommendations were made at a time of key changes in the US policy. Indeed, in his first inaugural address President Franklin Roosevelt on March 4th, 1933 had said: "I favour as a practical policy the putting of first things first (...) I shall spare no effort to restore world trade by international economic readjustment but the emergency at home cannot wait on that accomplishment". Then, on April 5th, 1933, the US went off the gold standard and the dollar was devalued. A few months later and just at the beginning of the London Conference of 1933, Roosevelt signalled his rejection of the rhetoric of the gold standard in his remembered 'bombshell' message of July 3rd 1933 that condemned the "old fetishes of so-called international bankers" for the gold standard and underlined his commitment to currency depreciation as a means of invigorating the international economy. The President added that "(…) the world will not long be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange on the part of a few large countries only (…) the sound internal economic situation of a Nation is a greater factor in its wellbeing than the price of its currency". This statement, and others, did not contribute with the prospects of the Conference, and really boycotted its success[145]. The message demonstrated Roosevelt's growing frustrations with European nationalism. France had persisted with its advocacy of gold standard orthodoxy, while Britain continued to call for the abolition of war debts. Britain also rejected the Secretary of State Cordell Hull's ground-breaking proposal for a RTAA between Britain and the US based on a flat rate reduction of 10% of existing barriers.

The most cited cause for the failure of the World Economic Conference is the impossibility of agreement among countries that continued under the gold standard with fixed exchange rates

[144] See Angell (1933, pp. 9-66).
[145] Many authors have commented on the negative impact of President's Roosevelt statements on the London Economic Conference. See for example Traynor (1949, pp. 104-105), Clavin (1992, pp. 306-308) and Eichengreen & Temin (2000, p. 205).

and those that were not under that system, such as the US and the countries under the sterling. The latter questioned the feasibility of returning to the gold standard, at least in the medium-term. For them, those countries with *laissez-faire* policies were at the mercy of the whimsical character of international capital flows and other countries' policies, so that they could not manage adequately their own economies and pursue their own objectives[146]. The stabilization became the pivot of discussions and disagreements and prevented the discussion of most of the issues outlined in the agenda, including trade[147]. From another perspective, Eichengreen & Uzan (2002, pp. 112-116) argue that the failure was the result of domestic politics and different conceptual frameworks. Policymakers were unable to agree on a concerted response to the economic crisis because they perceived it in very different ways. Lacking a shared diagnosis of the problem, they were unable to prescribe a cooperative response. For example, France attached priority to the restoration of international monetary stability, by which it meant the return to the gold standard by Britain and its trading partners and the removal of the exchange control by Germany and other Central European countries. The French also wished to preserve their freedom to use instruments such as tariffs and quotas which insulated them from financial and economic disturbances abroad. Britain's priority was reflation by means of a policy of cheap money, which implied freedom from external constraints. In contrast to France and Britain, there existed no dominant economic model in the US. Even with a purely monetary agreement ruled out, conceptual differences did not in principle preclude a cross-issue deal involving monetary concessions by Britain, tariff concessions by France, and war-debt concessions by the US. But such cross-issue agreement foundered on domestic politics, primarily the opposition of French agriculture to trade liberalization because of the structure of domestic political institutions and vested interest groups with considerable leverage. However, this is not a consensual explanation. For example, Kindleberger (2002, p. 296) blames the failure not on France, but on the refusal of the US to stabilize the exchange rate of the dollar.

In America, however, there were some modest advances regarding cooperation. In order to prevent further disintegration of world markets and to restore multilateral trade, the VII Inter-American Conference held in Montevideo, Uruguay, on December 1933, decided to reduce the high trade barriers through the negotiation of comprehensive bilateral reciprocity treaties based on mutual concessions, including the most-favoured-nation clause. However, the agreement provided for no tariff reduction, was signed by eight countries and only ratified by the US and Cuba[148]. But, this resolution was a precursor of the program of reciprocal trade agreements on which the US government was authorized to embark by the RTAA[149]. Also accordingly, the most significant long-term development of 1933 in South America was the quickened movement of reciprocal trade negotiations, which usually included exchanges of substantial import duty concessions. Examples of this were the considerable measure of free trade achieved in the agreements between Argentina and Brazil and between Brazil and Uruguay on groups of

[146] See González & Pollock (1991, p. 464).
[147] See Traynor (1949, p. 109).
[148] See Kindleberger (2002, p. 301).
[149] See League of Nations (1942b, p. 74).

each other's distinctive products. However, modest progress was reported on the tariff agreements worked in the Tripartite Economic Conference of 1931 among the three countries[150].

In order to summarize, it is possible to say that from 1930 to 1933, trade destructive instruments proliferated and the previously dominant perception of the gold standard as a warranty for stability faded. The Conference of 1933 was the last attempt to obtain a multilateral solution to the several world economic problems. Simply expressed by Eichengreen & Uzan (2002, p. 212), that Conference was a classic example of the failure to achieve international agreement. In spite of prior politically correct statements, the fact is that no useful decision was made. As a consequence, the failure of cooperation is probably the most outstanding characteristic of this period of history.

iii. Latin America: a lottery ticket

In line with our previous analysis of the worldwide experience, it is possible to agree with Eichengreen & Sachs (1985, p. 928) that the reasons for Latin American countries' difficulties were the decline in US foreign lending starting in 1928, the fall of primary commodity prices which accelerated dramatically in 1929 and the imposition of protective tariffs by industrial countries, notably on their imports of foodstuffs. But that outcome was possible because of the strong patterns of economic dependence from core countries and the weakness of internal markets[151]. Indeed, the standard paradigm at the time is that Latin America was a dependent area, tightly attached to the world economy and led by changes in spending and lending in Europe and the US. The gold standard also played a role. Latin American countries were affected by the outflow of gold reserves due to capital withdrawal in the framework of the previously mentioned asymmetry among countries experiencing balance of payments deficit and surplus. The combined effects of reducing trade receipts and gold outflows depleted Latin American gold reserves and forced a generalized suspension of the gold standard in 1931 and devaluation of currencies, as well as the imposition of exchange controls and debt defaults in many of those countries[152].

The lack of trade autonomy of some countries is evidenced by, for example, the enormous vulnerability of Argentina's open economy to the evolution and needs of the capital and trade flows with the UK. Similarly, in Mexico the effect of the Great Depression was felt as much through low prices transmitted into the economy as through a lack of foreign exchange. The concentration of trade and ownership of productive assets by US nationals and the fact that goods could move freely between both countries, ensured that the falling prices were transmitted directly from the US to Mexico[153]. The overall vulnerability is evidenced for example by Chile, El Salvador, Mexico or Peru whose export prices fell more than 50% and

[150] See Chalmers (1953, pp. 119-120).
[151] See Kindleberger (2000, p. 275). Also Bethell (1994, p. 75) and Bulmer-Thomas (1994, p. 196).
[152] See Temin (1993, pp. 93-94).
[153] See FitzGerald (2000, pp. 217-218).

export volumes more that 25% and the purchasing power of their exports was reduced by more than 50%[154]. By contrast, there was no significant contraction in the Venezuelan indicators of foreign trade during the first years of the depression due to the performance of petroleum. Between 1928 and 1935 coffee underwent a fall of 50% in export prices, damaging countries such as Brazil, Colombia, Costa Rica and Guatemala[155]. In any case, during the early stages of the crisis, the import quantum fell even more than the purchasing power of exports in most countries[156]. The dependence on foreign capital and trade flows explain the fact that the downturn in many Latin American countries started in the second half of 1928 due to, as mentioned, the drought of foreign loans and weak commodity prices, and not after October 1929. The contraction of trade arrived just when they were struggling to meet debt obligations in spite of the cessation of capital inflows.

Regarding capital flows, during the twenties the US invested abroad a large surplus of its national product, with Latin American countries as an important destination for those investments. This country was making rapid headway in, for example, Peruvian and Chilean copper, Cuban sugar, Argentine chemical and pharmaceutical industries as well as in the Central American economies[157]. It also consolidated its position as an increasingly important lender to municipal, state and national governments. However, as we have seen, by 1928 this trend reverted. The boom in the stock market before the Wall Street crash led to excess demand for credit and a rise in international interest rates, increasing the cost of holding inventories and reducing demand for many of the primary products exported by Latin America. The interest rates upswing boosted additional pressure on Latin America through the capital market when the more attractive rates of return offered in London, Paris and New York prompted a significant capital flight because of higher interest rates outside the region. The stock market crash in October 1929 provoked a chain of events in the main markets supplied by Latin America. The contraction in the value of financial assets reduced consumer demand through the so-called wealth effect; loan defaults led to a squeeze on new credit and monetary contraction and the whole of the financial system came under severe pressure. And although interest rates started to fall in the fourth quarter of 1929, importers were unable or unwilling to rebuild stocks of primary products in the face of credit restrictions and dropping demand[158]. Countries such as Argentina, Brazil and Colombia were affected by the abrupt halt in foreign lending. According to Kindleberger (1973), in 1928 the American loans to Latin America declined 7.8% in relation to the previous year and in 1929 there was a further contraction of 46.8%. But the US was not the only contributor. The UK was also an important source of investment and capital, as the report of the Study Group of Members of the Royal Institute of International Affairs (1937, p. 142) illustrates. It found that among the British long-term investments overseas in 1930, South America was ranked second with 20.8% of the total, after the British Empire (59%). That is why

[154] See Viales (2000, p. 99).
[155] See Astorga (2003, pp. 642-643).
[156] See Díaz Alejandro (2000, p. 18).
[157] See Thorp (2000, pp. 3-4).
[158] See Bethell (1994, p. 75).

the reduction of loans from the UK to Latin America by 23.8% in 1928 in relation to the previous year and 18.8% in 1929 heavily impacted South America. The impact was especially strong in Argentina, Brazil, Chile and Uruguay because of the deep rooted British interests there.

Regarding trade, an era of export-led growth culminated early during the thirties. In some countries, such as Chile, Cuba and Brazil, the limitations of external demand for the traditional staple had become clear by the late twenties, although some years witnessed unprecedented export booms. Export flows were predominantly rural (such as coffee and livestock) and mining products[159]. The concentration of Latin American exports was remarkable during the period 1913-1928 in ten main products: petroleum, coffee, maize, sugar, meat (bovine or ovine), wheat, flour, copper, cotton, wool and hides. Some countries had a clear tendency to monoculture, as the Central Americans, whereas others had a greater diversity of exports, as was the case of Argentina and Mexico. In most of the countries the four main export products represented more than 50% of total exports[160]. Consequently, each country in the region was heavily affected by the price variability of its relevant commodities. In other words, they were highly vulnerable to what Díaz Alejandro (2000) called the ‘commodity lottery’, a term used to indicate that economic cycles depended on the nature of the commodity that a country produces for exportation: e.g. its ownership, production function, linkages, demand conditions and marketing[161]. Indeed, the behaviour of many commodities before the Great Depression was already showing a declining performance, so that when the depression really hit, the contraction was more damaging. The prices of agricultural products and minerals had been slipping since 1925 as European production after the war added to expanded wartime supplies outside Europe. Cobwebs in some products, especially sugar and coffee, led to excessive responses to post-war price increases. While the production of minerals -petroleum, copper, lead, zinc and Asian tin- also had expanded dangerously, some countries accumulated stocks to keep prices high in products such as coffee and linseed. Thus, Latin America contributed to this expansionary trend on the supply side, which eventually fuelled the collapse of prices and prevented the economies from recovering faster[162]. However, natural events in the North sometimes contributed to ameliorate this problem, as was the case of the droughts in North America that favoured exporters of temperate foodstuffs[163]. In general, Brazilian cotton, Argentine maize, Peruvian and Colombian gold, Mexican silver and Venezuelan petroleum are examples of generally ‘lucky’ staples in the ‘commodity lottery’[164].

[159] See Díaz Alejandro (2000, pp. 16-17).
[160] See Viales (2000, pp. 92-93).
[161] See also Kindleberger (2000, p. 276).
[162] See Ibid., p. 274.
[163] See Kindleberger (1973, p. 93).
[164] See Díaz Alejandro (2000, pp. 17-19).

In Table 3 we show the Latin American countries' dependence on a few main export products and we also illustrate the strong contraction of commodity prices[165] between 1928 and 1932. It is possible to conclude that according to these sources and our research in terms of export prices' slump the most affected economies were: Argentina, Brazil, Cuba, Guatemala, Peru and especially Uruguay with contractions of more than 60%, above the average fall for the region (55%). Furthermore, as aforementioned, Argentina and Mexico present a productive structure more diversified than the remainder of the Latin American countries, followed by Peru and Uruguay. Although not included in this table, it is important to note the relatively quick resort to the suspension of the gold standard in most Latin American countries, and in the face of currency depreciation and capital outflows, the imposition of exchange controls to prevent dollar prices of traditional exports from worsening further. Most of these countries also defaulted on their foreign debts. According to Reinhart and Rogoff (2009) Bolivia, Brazil, Chile, Dominican Republic and Peru defaulted in 1931; and Colombia, Costa Rica, El Salvador, Nicaragua, Panama, Paraguay and Uruguay in 1932-1933. Those defaults had a profound negative impact on subsequent capital inflows to the region, as many of them were not settled until well after the Second World War.

Table 3 Effects of the Great Depression in Latin America, 1932 (1928 = 100)

Country	Export prices	Main product (% total)	Other products
Argentina	33	Maize (25)	Wheat, meat, linseed, wool, hides
Bolivia[c)]	79	Tin (84)	Silver, rubber
Brazil	38	Coffee (68)	Cocoa, rubber, cotton
Chile	47	Nitrates (43)	Copper, wool
Colombia	48	Coffee (64)	Banana, petroleum, gold
Costa Rica	54	Coffee (67)	Banana, cocoa
Cuba	37	Sugar (68)	Tobacco, rum, cocoa
Ecuador	51	Cocoa (32)	Petroleum, panama hats,
Guatemala	37	Coffee (74)	Banana
Honduras	91	Banana (50)	Wood, silver
Mexico	49	Silver (15)	Petroleum, beef, lead, coffee, banana, cotton
Peru	39	Petroleum (33)	Copper, silver, sugar, cotton

[165] For more detailed information about export prices and export volumes contractions see Bulmer-Thomas (1994, pp. 196-199).

Venezuela	81	Petroleum (82)	Gold, coffee, cocoa
Uruguay	27	Meat (33)	Wool, hides, linseed, wheat
Latin America	45		

Sources: Astorga (2003, p. 642) and Viales (2000, p. 93).
Notes: a) for Argentina, Brazil and Uruguay, figures from the League of Nations (see relevant chapters in this thesis), b) share in total exports in parentheses and c) Bolivia (1929=100).

The 'commodity lottery' was frequently affected by policies in the core countries. For example, the US support programmes for silver and agricultural commodities improved a few Latin American export prices, although sometimes at the expense of market shares, as with Cuban sugar[166]. However, most policies were protective and damaging. Taylor & Taylor (1943, pp. 107-126) provide some examples of trade policy measures enacted by core countries that especially affected Latin American agricultural exporting countries, and in particular ABU. With regard to wheat, in the three most important wheat-importing countries of continental Europe (Germany, Italy and France) tariffs were increased several times since 1929. Furthermore, they imposed quantitative regulation on the demand of millers, who were forced to grind a certain percentage of domestic wheat. Private and cooperative holding of stocks was encouraged by cheap loans and subsidies, and complemented by state purchases on the grain markets. Then, in 1933 important restrictions were introduced when crops reached record levels, due in part to favourable weather conditions. Also the main customer of Argentina, the UK, imposed a tariff of 6.1 cents per bushel (at the old mint par) on foreign wheat, while it continued allowing the free entry of wheat from the Empire. In the case of feedstuffs, in 1929-1930, Germany increased its tariffs on barley and in 1930 introduced tariffs on bran and monopolized the maize trade by means of a National Maize Office. Meanwhile, France imperialized its imports of feed grains to a large extent through protective tariffs. In the UK, effective January 1st, 1933, the Ottawa Agreements imposed a duty on foreign flaxseed, and the tariff protection for Empire linseed oils was increased to 15% ad valorem. The US also raised the duty on linseed oil from 40 cent dollars per bushel in 1922 to 65 cents per bushel in 1930. In the case of wool, prices were depressed due to the devaluation of currencies in Australia and New Zealand. The Union of South Africa also introduced subsidies to wool exports by 25%. Meat suffered less during the depression because the UK imposed no new import restrictions until 1932, but in 1933 beef was subjected to quantitative regulation, closely affecting imports from South America. In the US, the Smoot-Hawley tariff of 1930 doubled the duty on beef, apart from the embargo imposed on countries affected by the foot-and-mouth disease in 1926, which particularly hit the exportation of Argentine and Uruguayan meats. In 1930 Germany restored the pre-war sanitary restrictions on imports of frozen beef and raised the import tariffs on slaughter cattle and meat; beef was charged 5.9 cents per pound in 1931 and as much as 10.8 cents in 1933 (old mint par), compared with 4.1 cents before the crisis. France applied high import taxes and quotas, which after April 1934 came near to being an import prohibition on foreign beef.

[166] See Díaz Alejandro (2000, pp. 17-19).

With regard to Latin American trade policies, it is possible to say that the Great Depression consolidated and supported trends that already had begun before 1929. During the twenties, the prime object of the duty increases in most of the Latin American countries was usually larger governmental revenues. However, there was a growing trend for a more or less selective protection to aid existing lines of production and to encourage diversification into new ones, agricultural as well as industrial. In some countries tariffs increases were imposed on manufactured products regarded as luxurious, such as automobiles, tires and petroleum products. In parallel, those duty increases were accompanied by the reduction or removal of duties on imports of machinery, industrial materials and in some cases foodstuffs, with the purpose of encouraging local economic development or keeping reasonable costs of living. Duties were combined with other restrictions and commercial instruments in order to improve balances of payments, to promote domestic development or to foster exports[167]. The turmoil of the Great Depression deepened this trend, as the currency instability, the US Smoot-Hawley Tariff of 1930, the trade war that followed and the British abandonment of the gold standard in September 1931 forced many countries to protect their agricultural and raw material producing industries against the fall in world prices. Such protection was afforded by increased import restrictions or by currency devaluation in countries that were on an import basis with respect to the commodities concerned. In the case of Latin American countries, where the terms of trade were increasingly unfavourable in relation to manufactured products, there was increasing interest in crop control and valorisation schemes[168]. Export-led growth and fluctuations gave way to import substitution in the form of manufacturing industry because of adverse balances of payments, and to more active stabilisation policies[169]. As early as 1931, the suspension of the gold standard and to various degrees the expansionary fiscal and monetary policies, combined with imposition of exchange controls and tariffs, reinforced the stimulus to industry[170]. This occurred in an accidental form, but ultimately led to deliberate industrialization policies[171].

Following Díaz Alejandro and Seibert (1979, pp. 154-155) and Díaz Alejandro (2000, p. 22), it is possible to distinguish active large countries, active small countries and passive small countries, according to their size and the level of intervention in the economy. During the thirties the large and active economies of the region showed an impressive capacity for transformation, since they generated new vital sectors within the industry[172]. Large countries such as Argentina, Brazil, Colombia and Mexico lead the policy experiments. Small or passive countries such as Cuba, Honduras, Guatemala, Haiti and Dominican Republic, among others, were impotent regarding protection and nominal exchange-rate management. Those countries

[167] See Chalmers (1953, pp. 64-65).
[168] See Díaz Alejandro (2000, pp. 22-31).
[169] See Kindleberger (2000, p. 275).
[170] See Thorp (2000, p. 3).
[171] See González & Pollock (1991, p. 464).
[172] Díaz Alejandro and Seibert (1979, pp. 147-156) distinguish a*ctive large countries*: Argentina, Brazil, Colombia and Mexico, leading the policy experiments; a*ctive small countries*: Chile, Costa Rica, Peru and Uruguay who in spite of their size departed early from the orthodoxy of the free exchange and the gold standard; and *passive small countries*: Cuba, Dominican Republic, Guatemala, Honduras and Haiti essentially waited for a recovery based on their exports.

waited for a recovery based on their exports and resorted to import and exchange controls only sparingly. Cuba reduced tariffs in 1934, undoing much of the protectionist effect of its anomalous Tariff Act of 1927. In Mexico and Peru tariff rates underwent few changes in levels or structure, and behaved in a manner more like the smaller countries. By contrast, Brazil and the Southern Cone countries (Argentina, Chile and Uruguay) employed import and exchange controls in a more extensive way. Argentina, Brazil, Chile, Costa Rica, Colombia and Uruguay controlled trade along bilateral lines by means of exchange controls or clearing agreements. Such arrangements forced the canalization of trade bilaterally not by choice, but by the actions of European trading partners, and to the detriment of rival markets. Especially in Latin America, the composition of trade of many countries was altered by, for example, trading with Nazi Germany under ASKI ('compensation') marks[173]. Colombia had an intermediate set of policies, as most of the changes in the prices of its imported non-traditional manufactures between 1927 and 1936 have been attributed to devaluation rather than tariff increases, although increments in effective protection stimulated some industries, including cement, soap and rayon textiles. Colombia also exercised import and exchange controls with greater vigour than Mexico and Peru.

Planned or not, juncture and policies led countries such as Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay to start a new stage of industrialization, which caused a change in the structure of imports, with a reduction of the consumption goods and an increase of intermediate and capital goods. New sectors started to grow such as chemical products, pharmaceuticals, metals and paper[174]. As we have already discussed, this trend was later intellectually legitimized as the so-called model of 'import substitution industrialization' or 'ISI' promoted by the Economic Commission for Latin America (ECLA) created in 1948, under the influence of intellectuals such as Raúl Prebisch and Celso Furtado. As expressed by Bulmer-Thomas (1994, p. 232), the changes during the thirties can be seen as laying the foundations for a transition towards the genuine import substitution model, which reached its most extreme form in the fifties and sixties.

iv. The Financial Crisis of 2008: Déjà vu?

Until now we addressed the scenario during the thirties. However, before starting to address the cases of ABU, it seems appropriate to make a link to the present, so that we can shed more light on some of the elements that we have identified for the thirties in this chapter from our own contemporary experience.

The international financial crisis that started in 2008 has been signalled by the failure of the investment bank Lehman Brothers and the consequent crash of the US Stock Exchange. However, its roots are to be found much earlier. After the tech bubble burst of 2000-2001, the US Federal Reserve lowered the benchmark interest rate to a record level (from a yearly average

[173] See Obstfeld & Taylor (2004, pp. 137-140).
[174] See Viales (2000, p. 104).

of 6.24% in 2000 to 1.67% in 2002)[175], a decision that fuelled another bubble in the American real estate sector, evidenced by the fact that between 1997 and 2006 the housing prices in the US increased 124%[176]. This occurred because credit was cheap and there were no barriers to prevent the money from being invested to excess into the housing market, which on top of that was perceived as a balanced option for savings that ensured profitability and security. The demand for loans increased and the banks multiplied their offer of mortgage loans, so that household debt increased 130% between 1997 and 2007[177]. The problem was that a significant share of mortgages was granted to people with low incomes, which entailed a high risk of default. The financial system disregarded those risks, and by contrast securitized[178] those so-called 'subprime mortgages' with sophisticated financial instruments that mixed good and bad debt and hid the real risks they carried.

In 2007, the Federal Reserve decided to raise interest rates, so that those who purchased mortgage loans at variable interest rates were hit and a growing number of families failed to keep paying their mortgages. Consequently, home prices began to decline to a point at which the mortgage debt of a large number of families ended up bigger than the current value of their properties. As the housing bubble burst, the number of foreclosures rose nationwide. The property portfolios of the banks began to lose value as well as all derivatives that included mortgage loans as underlying assets. The banks stopped their lending operations because they lost confidence in the soundness of their counterparts, and as a consequence interbank rates such as the Libor and Euribor rose. On the other hand, financial speculators began to divert their investments to other markets such as raw materials and oil where profits were still available, pushing their prices up. In this way, the financial crisis in the US started to spread to the world economy[179].

In 2008 the situation worsened and many banks and financial institutions became insolvent. The bankruptcy of the giant investment bank Lehman Brothers in September 2008 became the most visible landmark of the financial crisis, but also many important firms such as Fannie Mae and Freddie Mac (mortgages), AIG (insurances) and Bear Stearns (investment bank) were in trouble as early as the end of 2007. By the end of 2008, all these firms were either nationalized or acquired by other companies (e.g. Bear Stearns was acquired by JP Morgan Chase). Many hedge funds sank and financial pyramids resembling 'Ponzi' schemes[180] came to light with the

[175] See the federal funds effective rate, in http://www.federalreserve.gov/releases/h15/data.htm, page visited in September 2012.
[176] This figure was taken from Skidelsky (2010, p. 5).
[177] This figure was taken from Torres López & Garzón Espinosa (2008, p. 2).
[178] Securitization is the process of bundling up individual mortgages into tranches of different risks which can be sold on by the originating bank (Skidelsky, 2010, p. 7).
[179] There were various analysts that predicted this outcome, among them, Nouriel Roubini, Joseph Stiglitz, Paul Krugman, George Soros, Stephen Roach, Robert Shiller and Robert Wescott; all of them Keynesian economists (Stiglitz, 2010, pp. 18-19).
[180] A Ponzi scheme is a fraudulent investment operation that pays returns to its investors from their own money or the money paid by subsequent investors, rather than from profit earned by the individual or organization running the operation. The Ponzi scheme usually entices new investors by offering higher returns than other investments, in the form of short-term returns that are either abnormally high or unusually consistent. Perpetuation of the high returns requires an ever-increasing flow of money from new investors to

prosecution of the well-known businessman Mr. Bernard Madoff. After the Lehman Brothers collapse, the stocks in the New York Stock Exchange experienced an abrupt decline during the period September-November 2008. The financial market was out of control as volatility and uncertainty reigned. 'Market manias' or 'irrationalities' are terms coined by Kindleberger & Aliber (2005) that describe quite accurately those events. The entire US economy began to collapse. Domestic demand fell as consumers found it increasingly difficult to gain access to credit and spent less. Global corporations underwent heavy financial losses, businesses and factories closed and the unemployment rate jumped to an unprecedented 10% in 2009 as workers lost their jobs in alarming numbers.

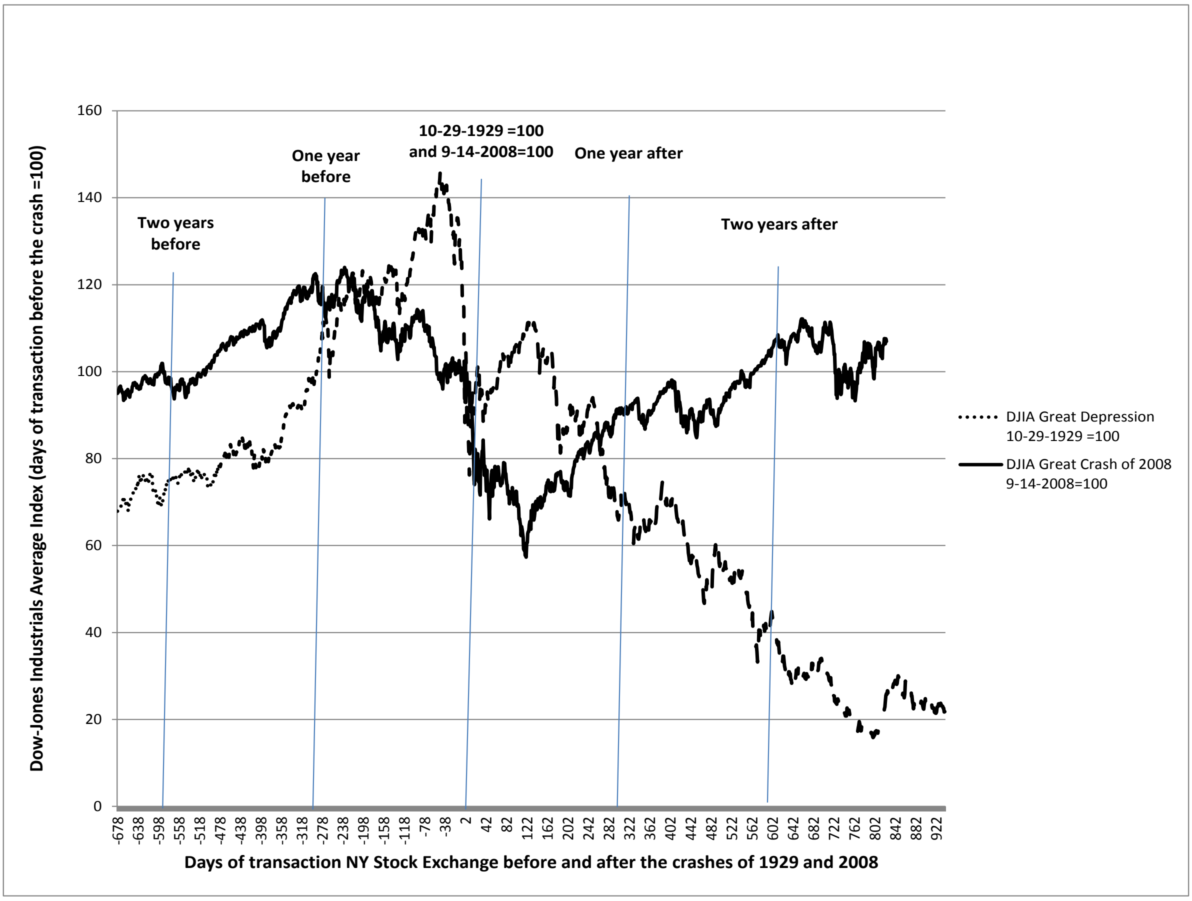
No-one has doubts about the similarities of recent history to our description of the Great Depression. As a matter of fact many analysts thought that the world was at the start of another economic depression, but the prediction did not materialize, at least not in the same way. As Sosa Clavijo (2010, pp. 60-61) argues, this time the stock market fell more sharply but also recovered faster. This assessment is consistent with the evolution of the Dow Jones Industrial Average of the New York Stock Exchange (DJIA) presented in Figure 3. The X axis includes the number of working sessions before and after the date considered as the landmark for each event (October 29th, 1929 and September 14th, 2008). The figure illustrates that the stock markets boomed in both events during the previous years, but the speculative bubbles eventually burst. However, the financial recovery was faster in the current crisis. Indeed, one year after the Great Depression's crash the DJIA had fallen 25.2%, while after the collapse of Lehman Brothers the market contraction reached 12.2%. However, two years later the DJIA had fallen 61.4%, while in the latest event it actually grew 3.5%. Otherwise, comparing the peak with the lowest point of the curves, the market fell 89.2% over 845 working sessions then and only 51.1% but over 357 sessions now.

In this context, some key lessons from the Great Depression guided policymakers. On the one hand, recalling Friedman & Schwartz (2008) the depression was the result of the Federal Reserve's policy failure in the aftermath of 1929 due to a massive monetary contraction that was responsible for the severity of the downturn and therefore they recommended that central banks should provide extra liquidity in such cases. On the other hand, John Maynard Keynes blamed the collapse in private demand as the main cause of the downturn and as a result he argued the urgent need for enhanced public sector demand and for fiscal activism. The US government followed these recommendations and applied more Keynesian policies and nationalized private debt and banks. Indeed, Figure 4 illustrates the evolution of the relevant US discount rate. The X axis includes the number of months before and after the month considered as the landmark for each event (October 1929 and September 2008). After December 2008 the Federal Reserve cut its benchmark interest rate to a record low target range of 0%-0.25%, much faster, sharper, deeper and sooner than in the twenties and thirties. It also applied a strong expansionary monetary policy, hoping that the greater liquidity would counteract the economic downturn, in a

keep the scheme going. "Ponzi Schemes – Frequently Asked Questions". See US Securities and Exchange Commission, US Securities and Exchange Commission. Retrieved June 23rd, 2012.

policy that is mostly in force nowadays. In addition, the government resorted to rescue packages or financial bail-outs to prevent key companies from going into bankruptcy. They were mainly financial and automotive companies labelled by the press as 'too big to fail'[181].

Figure 3 Great Depression and the Global Crash of 2008 in the NY Stock Exchange



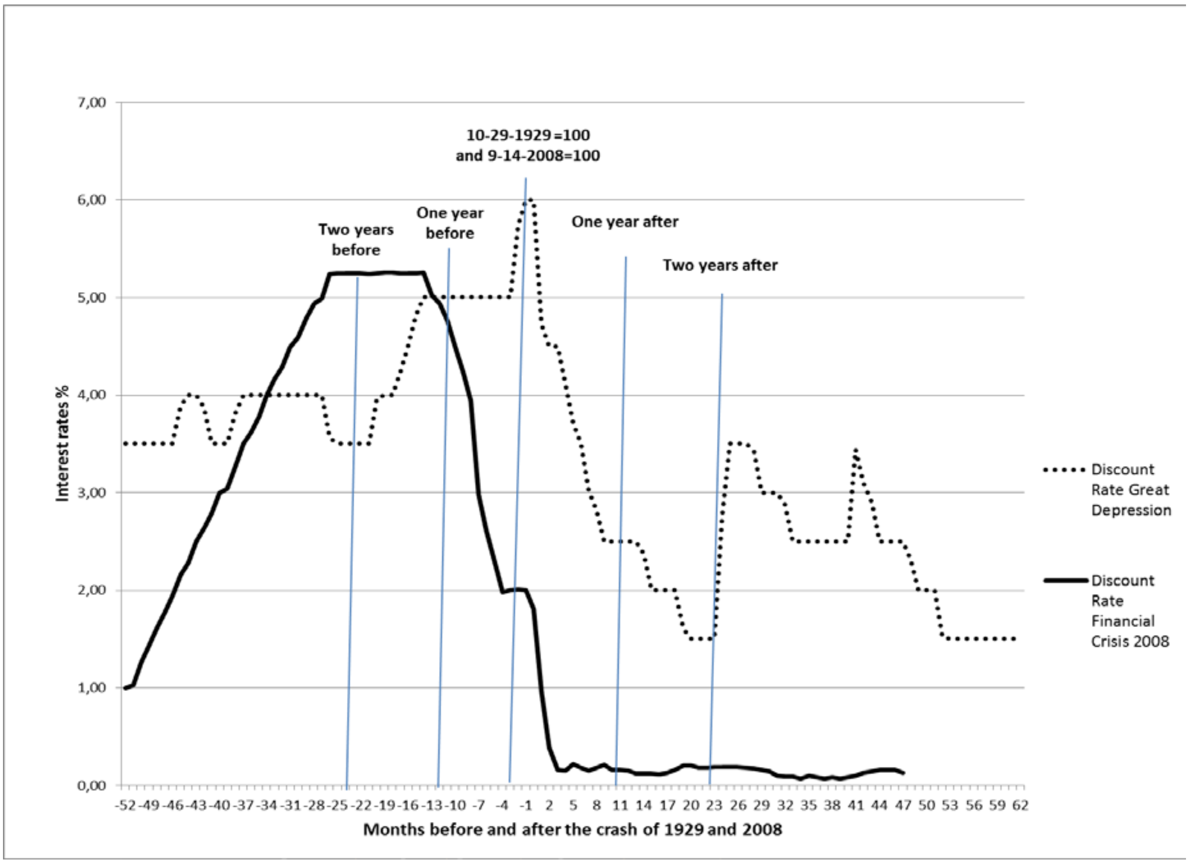
Source: calculated from Williamson (2011), "Daily Closing Values of the DJA in the United States, 1885 to Present", MeasuringWorth. URL: http://www.measuringworth.com/DJA/

By the end of 2008, stock markets fell worldwide, including the major Latin American economies of Argentina, Brazil and Mexico. The contraction of global demand negatively affected many economies, where trade contracted, levels of industrial production plunged, retail sales fell and unemployment rose. The transmission was truly global and in this aspect it is perfectly comparable with the thirties. However, this time the difference is that many countries followed the example of the US and applied active policies to avert the phantom of the Great Depression, although the actions were far from coordinated. While the European Union adopted limited remedies due to its confidence on automatic fiscal stabilizing mechanisms, China's stimulus package was one of the largest in the world. The latter proved to be effective as the Chinese economy managed to grow and keep its dynamism. And this is a key element of

[181] For more detailed information about the origins of the current crisis see for example Torres López & Garzón Espinosa (2008), Fresno (2009), Krugman (2009, pp. 165-180), Roubini & Mihm (2010, pp. 13-37), Stiglitz (2010, pp. 1-57) and Skidelsky (2010, pp. 3-51).

contrast with the Great Depression. Indeed, China has achieved in the last three decades an important role in the fields of production, international trade, foreign direct investment and gradual internationalization of its companies. It is also the world's major holder of foreign exchange reserves and public US debt held in US dollars. During the Financial Crisis of 2008, it is possible to say that the Chinese economy managed to take the role of locomotive from the US, so that the crisis in global terms was more a recession than a depression, a feature especially true for the period 2009-2010, and for our case studies. By contrast, the European countries paved the way for what is nowadays known as the crisis of the sovereign debt.

Figure 4 Discount rates of the United States



Source: Federal funds effective rate from the Federal Reserve System 2004 to date, and US Discount Rates, Federal Reserve Bank of New York from NBER.

Regarding the recovery, not surprisingly, those economies that have been increasingly dependent on trade and investment flows with China (e.g. Latin American economies and particularly South American ones) managed to recover faster. Even in Europe there were signs of early recovery that can be linked to Chinese resilience. For example, Germany, which suffered a strong real GDP contraction of 5.3% in 2009[182], a figure even worse than the US, the UK and France, showed signs of recovery in 2010, and until today has prevented the European Union from falling even harder. However, in 2011 there was a growing concern about the possible default on the foreign debt of Ireland, Greece and Portugal, as well as the potential

[182] This figure was taken from Sosa Clavijo (2010, p. 77).

failure of bigger countries such as Italy and Spain. Those fears provoked chaos in the global financial markets, the European stock exchanges became volatile and many questioned the long-term viability of the euro as the single European currency, and even the stability of the British pound. Thus, the answer to the question about the duration of both crises depends on how this episode of the sovereign debt is considered. If we limit our analysis to 2007-2010, the Financial Crisis of 2008 has been shorter and less strong. But, if it is considered as an on-going process of multiple stages, the outcome is already uncertain and the comparison relative and changing.

Another important difference is the institutional framework in which the international community has tried to coordinate the national responses and prevent the kind of trade war that erupted during the thirties. Although it is clear that states still operate under the rule of the national interest, certainly there is more international cooperation nowadays, evidenced by the high degree of institutionalization of international relations, a feature that can be analysed multilaterally and regionally. Regarding the multilateral level, the World Trade Organization (WTO), successor of the old GATT, has been in pursuit of open borders, the guarantee of most-favoured-nation principle and non-discriminatory treatment among members, and the openness of national markets to international trade, with justifiable exceptions or with adequate flexibilities. However, progression of multilateralism is slow, as it is evidenced by the Doha Development Round, and the alternative multiplication of bilateral, regional and interregional trade agreements relegated that in a way undermine the broader multilateral approach[183].

Another symptom of this trend was the quasi-recreation of the London Conference of 1933, although this time in the form of the group of the twenty largest economies of the world, also known as G20[184]. This group met with the aim of coordinating a response to the Financial Crisis of 2008 and to avert the potential effects of a new Great Depression. In fact, by November 2008 the magnitude of the crisis was such that decision makers came to the conclusion that a high level of coordinated response was required. Thus, the US convened the G20, knowing that it represented developed and emerging economies, and that its relatively small membership allows agreements to be reached more efficiently. The leaders of those economies agreed to implement an action plan around three main objectives: restoring global growth, strengthening the international financial system and reforming the international financial institutions. Negotiations were difficult, and national interest prevailed. The summit of 2009 concluded that greater

[183] As the Director-General of the WTO, Pascal Lamy, said in a speech in October 2006, since the creation of the GATT and its successor the WTO, 362 regional trade agreements have been notified to the WTO, of which 211 were in force. But if we take into account agreements that are in force but have not been notified, those signed but not yet in force, those currently being negotiated, and those in the proposal stage, we arrive at a figure of close to 400 agreements that could be implemented by 2010. He added that there is a growing trend away from the traditional concept of integration among natural trading partners in geographically contiguous countries, towards cross-regional trade agreements among countries across regions and hemispheres. Examples abound, among them EFTA-Chile, US-Australia or EC-South Africa to name but a few. See http://www.wto.org/english/news_e/sppl_e/sppl46_e.htm, page visited in October 2012.

[184] The G20 was created during the nineties with the objective of achieving global economic stability and sustainable growth; to promote financial regulations that reduce risks and prevent future financial crises; and to create a new international financial architecture. It is integrated by: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, the UK, the US and the European Union. For more detailed information see www.g20.org, page visited in September 2012.

savings in European countries and the US were required, while in rapidly growing economies such as India and China, the request was more spending to boost the world economy. However, there were disagreements on the most adequate way of dealing with the crisis. Unlike France and Germany, the UK was reluctant to impose greater regulation on the financial system fearing that such proposals could damage the City of London as an international financial centre. Nevertheless, it is possible to state that the worst fears of a trade or currency war did not progress beyond a point of no return, and the role of the G20 in that outcome has been important.

Another aspect to highlight is the composition of the G20. Although it only includes nineteen country members and the European Union, they altogether represent around 90% of global GDP, 80% of global trade and two thirds of the world's population[185]. However, from another point of view, it only comprises twenty economies of a total of the United Nations' 193 member states. For example, Uruguay took part in the London 1933 Conference, but it was not invited to the G20. Moreover, among the 34 Latin American and the Caribbean countries, only Argentina, Brazil and Mexico are members of this select group. Another big difference is the role of Brazil, which is a major player nowadays. During the presidency of the charismatic Luiz Inácio Lula da Silva, Brazil consistently advocated for non-protectionist policies by developed countries and a greater role for developing countries in the world economy. Moreover, this country is referred along with China, India, Russia and South Africa as one of the 'BRICS' countries, a term coined by the American firm Goldman Sachs in 2001 after concluding that those economies would constitute a significant share of the world's flow of trade and investment by mid-century.

But how can we summarize the analogies and differences between the global crisis of 2008 and the Great Depression? Table 4 presents those key elements for a comparative analysis. Both crises broke out in the US in a context of excessive liberalization and deregulation, which became global. In addition, in both events there was capital flight, credit crunch, contraction of GDP, increase of the unemployment rate and so on. However, the international financial scenario is much more complex because financial institutions tend to create more intricate and/or sophisticated instruments that hide real high risks and evade regulations. And whenever risky transactions derail, negative waves spread all over the world in seconds via the Internet. Another big difference is that while most of the economies had adopted the gold-exchange standard during the twenties, now those countries have more room to manoeuvre against foreign exchange instability because they enjoy a system of floating exchange rates. Although during 2008-2010 there was concern about a potential currency war -e.g. US dollar vs. Chinese yuan-, international cooperation in the framework of the G20 contributed to reducing the magnitude of competitive devaluations. By contrast, for that period, many countries suffered currency appreciations that contributed to curbing the ghost of high inflation. Meanwhile, trade wars and competitive devaluation –beggar thy neighbour– prevailed during the thirties.

Protectionist trends also emerged after 2008, although in a different modality. Baldwin & Evenett (2009, p. 4) coined the term 'murky protectionism', referring to measures that are not

[185] See http://www.g20.org/index.php/en/the-origins-and-evolution-of-the-g20 , retrieved on September 2012.

direct violations of WTO obligations, but that constitute abuse of legitimate discretion and really discriminate against foreign goods, companies, workers and investors. For example, some of them are: the abuse of the health and safety regulations and some components of the stimulus packages that provide for the allocation of spending to domestic producers. In relation to protectionist measures, the ABU's dairy sector trade was negatively affected by the decision of the European Union to reintroduce the refunds (*reintegros*) to the exports and the incentives applied by the US to the exports of this type of products. Moreover, Brazil and Argentina, exporters of petroleum and petroleum products were affected by the decision of Russia and Bielorussia to increase tariffs on these products. But also intra-regional trade was affected by this kind of protectionism. Brazil and specially Uruguay with its narrow market were affected by the imposition of non-automatic import licenses by Argentina in several sectors[186]. Finally, the international political context is also different. While during the thirties the world was under the shadow of war and in particular Latin American countries went through a period of revolutions and regime changes, during 2007-2010 there were no major conflicts worldwide or in Latin America.

Regarding the experience of the Latin American countries in general, according to Ocampo (2009, p. 10) during 2003-2007 the region benefited from a combination of financial boom, rising commodity prices and high level of remittances from migrant workers. However, after 2008 the region was hard hit by the reduction in external demand, falling export prices, limited access to the financial system, capital flight and a high degree of uncertainty. The contraction of international trade was perhaps the most important transmission channel from the US and other core countries. Nevertheless, the magnitude of the impact of the crisis on each country depended on the importance of North America and Europe on their trade and capital flows. During 2008-2009 several economies with strong ties to the US or which were very close geographically, such as Colombia, Mexico, Venezuela and the smaller economies of Central America experienced a major slowdown.

In the meantime, and as already mentioned, in the early months of 2009 the expansionary policy implemented in the US and to a lesser extent in Europe contributed to boosting confidence in the determination of the authorities to do everything possible to prevent the failure of institutions with systemic scope. The monetary policy in several developed countries was aimed at restoring liquidity, and for that purpose they kept interest rates close to zero and offered certain guarantees for interbank lending to restore credit availability. Thus, in the first quarter of 2009 the perception of risk fell in emerging countries, and there was a renewed access to the international capital markets, which started to accept again sovereign and corporate bonds. However, and as Sosa Clavijo (2010, pp. 87-88) points out, the trade flows remained a concern. In comparison with the Great Depression, in both episodes the international trade contraction affected the Latin American countries more in value than in volume, due to the continuous dependence on a limited basket of products, or as the author recalls, the 'commodity lottery' that affected those countries. But there are some differences, because international commodity prices

[186] See for example Estrades (2009).

fell sharply during the twenties, whereas before 2009 the world economy enjoyed a boom that provided some cushion. Moreover, the Latin American economies are less vulnerable nowadays because their economies are more diversified in terms of their export baskets and the market destinations of their produce.

The Great Depression also meant for the peripheral countries of Latin America a major debt crisis. The year 1931 was dominated by Latin American defaults. By contrast, in 2008 the economies of the region entered into the financial crisis with a less vulnerable macroeconomic position, because of their lower external public debt in relation to GDP and the high level of international reserves. Latin American countries had reduced their debt levels strongly in previous years, and in some cases restructured their obligations in terms of maturities and rates. In addition, another favourable element is the composition of external debt. According to the International Monetary Fund (2009, p. 56) while in Europe and Asia most of the debt belongs to the banking sector, in Latin America it belongs to the governmental and non-banking sectors.

v. Conclusion

The Great Depression was the most difficult economic time for humanity, for at least a century. And if compared with our recent history, it includes a number of characteristics not present nowadays that justify the strength and persistence of its effects. Most Latin American countries first received the impact of the sudden halt in foreign capital on which they were dependent. The contraction of trade flows and the collapse of commodity prices added to and deepened the crisis to levels of unexpected proportions.

These elements were present both in the Great Depression and in the Financial Crisis of 2008, but in the past the international institutions that could give an adequate framework to settle disputes and conflicts of national interests were weaker. Every country reacted without any commitment to worldwide stability. Nowadays, trade retaliations and competitive devaluations are less evident, and the efforts of groups like the G20 during 2008-2010 were more efficient than the more comprehensive ambitious efforts of the League of Nations conferences.

The gold standard system, a feature unique to the thirties, together with the depression scenario, prevented governments from adopting more expansive policies at the right time. By contrast, for many countries it meant a monetary contraction at the worst time possible. Furthermore, standard policy instruments used currently to deal with the economic contraction were lacking in the past. The nowadays orthodox mainstream of Keynesianism, for example, was just developing. It was a heterodox trend difficult to accept at the time.

Table 4 Analogies and differences between both crises

Analogies (1928-1934 and 2007-2010)	
Crises broke out in the US in a scenario of frantic speculation and deregulation. Burst of a price bubble in the housing market and then in the stock exchange, resulting in a financial crisis.	
Economic activity contracted and unemployment rose.	
The crisis was transmitted abroad and became 'global'.	
The 'commodity lottery' was relevant.	
There was credit crunch and capital flight.	
Trade protectionism.	
The financial channel hit first Latin America, but the transmission was stronger via the trade channel.	
Foreign trade in Latin America contracted more in values than in volumes.	
Differences	
Crisis 1928-1934	**Crisis 2007-2010**
The international financial system was less integrated and interconnected than nowadays.	The global financial system is more integrated, sophisticated and globalized, but its opacity has reached unprecedented levels. Thus, the financial transmission was reinforced.
The shadow of war was present. The issue of war debts and reparations added complexity to international economic negotiations.	Regional conflicts did exist, but there was no prospect of a major conflict.
Most of the economies had adopted the gold standard.	Most of the economies had flexible or floating exchange rates.
With the drought of the US loans, international reserves fell abruptly and countries eventually defaulted on their foreign debt.	High level of international reserves allowed the partial offsetting of the shrinkage of the gross capital inflows, to keep paying foreign debt and to implement countercyclical policies.
During the twenties, there were periods of plunging prices of main export commodities.	Unprecedented growth in commodity prices during 2003-2007.
Contraction of key export commodity prices was prolonged and deep.	Export prices contracted mainly in 2009.
Public finances heavily depended on tariffs.	Government revenues are more diversified and less vulnerable to foreign trade shocks.
On average, public consumption contracted.	Public consumption increased due to the implementation of active fiscal policies.
Deflation.	Inflation.
Interest rates remained high.	Interest rates lowered faster and earlier.
The gold standard orthodoxy conditioned government responses.	Active fiscal and monetary policies.
Deep contraction of economic activity and employment worldwide.	Real GDP fell less than during the thirties.
Trade and capital flows were strongly dependent on the US, the UK, France and Germany.	Increasing dependence on the largest Asian economies, particularly China. Integration schemes have increased intra-regional trade.
Trade and currency war, 'beggar thy neighbour'.	Murky protectionism.
Major international conferences failed.	Several mechanisms of regional (e.g. Mercosur) and multilateral (e.g. WTO, G20) coordination.

IV. Argentina, Brazil and Uruguay in perspective

Before addressing the experience of these countries during the Great Depression, we find useful to give a general picture of the worldwide significance of the three countries during the late twenties in terms of economy, population, trade and investments, among other basic indicators. However, in the second and third section we choose not to remain confined to the times of the Great Depression. The reader probably has a general knowledge of these countries today, and a perception of their relative vulnerabilities and international standing. However, eighty years ago the situation was different and the reader might not be completely aware of how different these countries were then. The general description of the Financial Crisis of 2008 and its comparison with the Great Depression at the end of the previous chapter helps us to better understand how different was the impact of the last major crisis in the world and to infer why the contraction was so severe during the thirties. Further, recalling our methodological explanations in Section iii of our Introduction, we incorporate in the analysis the Herfindahl-Hirschmann index (HHI) to test the trade vulnerability of ABU in terms of their patterns of market and commodity dependence, then and now.

i. Argentina, Brazil and Uruguay in the world of the thirties

Table 5 is illustrative of some key indicators that depict the relative standing of the region of analysis. Brazil, with 8.5 million square kilometres and 32.2 million inhabitants by that time, and Argentina with 2.8 million square kilometres and 11.3 million inhabitants[187], were both major players in the Latin American context. In absolute terms, Argentina with around one-third of the Brazilian population had a GDP roughly 30% higher. In the middle, although Uruguay was fifteen times and forty-five times smaller than Argentina and Brazil, respectively, it was ranked high in terms of wealth with a per capita GDP similar to Argentina. But in spite of its natural resources and extensive territory, Brazil was clearly lagging in terms of per capita GDP, which was almost four times below the level of Argentina and Uruguay and around half the average of eight relevant Latin American economies for which data are available from Maddison (2010). The outstanding conclusion from this table is that even though the three countries accounted for around 55% of the population and the GDP of the eight most important economies in Latin America, the ABU share of the regional foreign trade was relatively more

[187] The figures for area were taken from the League of Nations (1929, p. 20) and the figures of population from Maddison (2010).

important. Indeed, the three countries explained around 64% of regional exports and around 69% of imports. Noticeably, the Argentine and Uruguayan share in world trade significantly exceeded their share in world population and GDP, a measure that illustrates the importance of foreign trade for those economies. Nevertheless, ABU represented no more than 2.5% of the world population and 3.1% of the global GDP and were far away from the major world economic centres. In other words, they remained in the semi-periphery of the global markets, and in general they did not retain economic or military power to influence global real politics.

Table 5 ABU: Basic indicators for 1928

	Population		GDP		Per capita GDP (1990 Geary-Khamis dollars)	Exports		Imports	
	Thousands inhabitants	World share	Million 1990 Geary-Khamis dollars	World share		Exports in current dollars	World share	Imports in current dollars	World share
Argentina	11,282	0.6%	48,414	1.6%	4,291	1,017	3.1%	807	2.3%
Brazil	32,234	1.8%	37,333	1.2%	1,158	474	1.4%	441	1.3%
Uruguay	1,646	0.1%	6,429	0.2%	3,906	103	0.3%	97	0.3%
Total ABU	45,162	2.5%	92,176	3.1%	2,041	1,594	4.9%	1,345	3.9%
Total 8 Latin American countries	82,072	4.6%	167,344	5.6%	2,039	2,491	7.6%	1,952	5.6%
Total World	1,789,523		2,988,975		n/a	32,728		34,652	

Sources: population, GDP and per capita GDP calculated from Maddison (2010). Import and Export data calculated from League of Nations Yearbook 1929.
Notes: a) countries included in Latin American region are: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay and Venezuela. b) Total world average does not include West Asian countries except Turkey and African countries. c) Figures of Maddison and League of Nations are not comparable due to the different currency used for the measures.

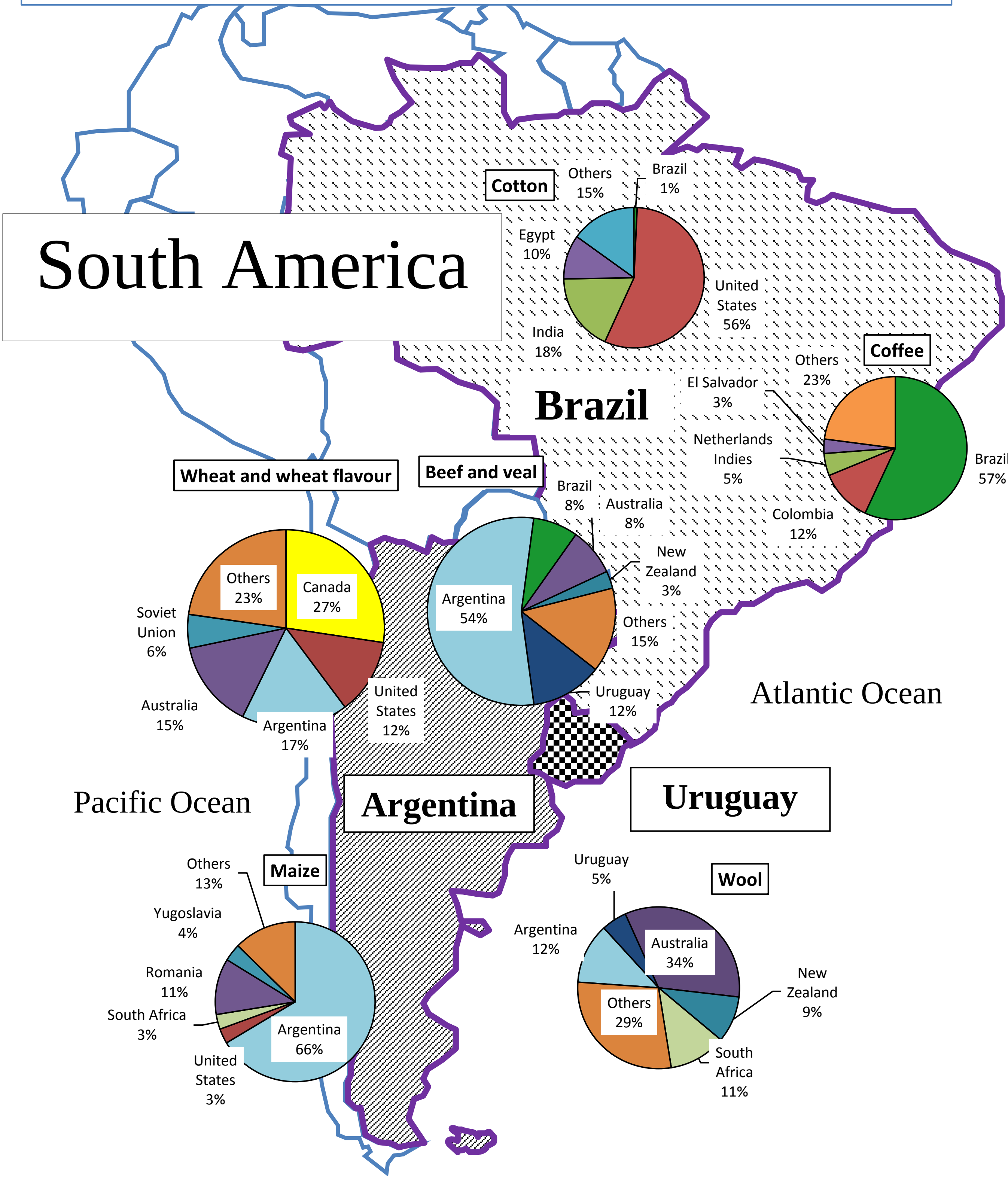
The aforementioned characteristics find their explanation in the regional privileged geographical position that allowed for a strong production of foodstuffs and the interconnectedness with the main markets in the Northern Hemisphere. With the key ports of Buenos Aires, Montevideo and Santos linking the region to the main markets in Europe and the US, ABU profited from their favourable natural endowment, their extensive natural pastures and favourable climatic conditions that assured important comparative advantages. Also the influx of European immigration contributed to the expansion of the population in major cities, and provided labour for those expanding economies. The Argentine example can be highlighted among the three. With high standards of culture thanks to its mostly European descendant population, Argentina shared the leadership worldwide in many regards with countries such as Australia, Canada and the US. Meanwhile, Uruguay was known for its advanced welfare State that enacted advanced policies in education, health assistance, housing construction and social security. By contrast, their gigantic neighbour, Brazil, was referred to by historians as a relatively underdeveloped and mostly semi-agrarian country. Nevertheless, one of the country's major achievements was its ability to consolidate its extensive borders, under the wise and consistent guidance of the Brazilian diplomatic service, also known as the '*Itamaraty*' diplomacy.

For these countries the regional economic expansion at the beginning of the twentieth century was founded on the performance of a very limited basket of export products. Taking figures from Taylor & Taylor (1943) for the period 1929-1933, we calculate for illustrative purposes in Figure 5 the relative position of ABU for those commodities in which they enjoyed a significant share. Ranking tenth among the major trading nations, Argentina was a key supplier of primary products, such as grains (linseed -60%[188]-, wheat -17%- and maize -66%-) for which reason it was known as the 'barn of the world' and beef and veal (54%). In a similar way, and in spite of its relatively small territory and population, Uruguay was also a major player in the beef (12%) and wool (5%) markets. Meanwhile Brazil retained a considerable oligopolistic leverage in the international coffee market (57%), and also accounted for a significant share of the beef market (8%). During the period, Brazil also increased its share in the world cotton market at the expense of coffee from an average of 1% in 1929-1933 to 7% during 1934-1938. Interestingly, Argentina had a share of 66% of the world maize exports, while ABU together explained 74% of the world beef and veal exports. To sum up, the region retained strong and not always profited-from oligopolistic leverage on the coffee (Brazil), beef and veal (ABU) and grains (Argentina) markets.

But the worldwide significance of key export staples also entailed several structural vulnerabilities. Argentina and Uruguay depended for more than 50% of their exports on livestock and grain products, while Brazil mostly depended on just one product, coffee. This structure resulted in several channels of vulnerability. Firstly, ABU were in the difficult position of being strongly vulnerable to the price swings of a few basic export products, which conditioned the ability to keep suitable levels of imports, the stability of the balance of payments, the continuity of the external debt payment and the remittances from foreign companies. Secondly, the occurrence of natural disasters, such as appearance of locusts in grain plantations, droughts, and diseases (e.g. the foot-and-mouth disease), that hit the exports from time to time also added instability to the economies. Moreover, both phenomena -price variability and natural setbacks- used to coincide over time, reinforcing the negative effects. Finally, they were also vulnerable to the trade policies of their main counterparts, who used their leverage to protect their markets, and to ensure the payments of debt and remittances from foreign companies. Not surprisingly, with the Ottawa Agreements in 1932, the British managed to obtain from Argentina and Uruguay important concessions with regard to British exports and investments, including preferential treatment for the British companies, in exchange for simple promises not to cut beef imports. And although the case of Brazil is similar regarding the British imports of oranges, it is important to point out that the Brazilian authorities enjoyed a greater autonomy as compared with its southern neighbours, because its main trading partner, the US, did not resort to its strong commercial leverage to force deep changes on the Brazilian policy making. Nevertheless, although probably the British and the US trade policies were the most influential for ABU, protectionist measures were also taken by France, Germany, Italy and many other countries, so that policy-induced trade contraction hit ABU from several sources worldwide.

[188] This figure was taken from the Royal Institute of International Affairs (1932, p. 118).

Figure 5 Geographical location and market significance of ABU for some key agricultural export products (average 1929-1933)



Source: calculated from Taylor & Taylor (1943). Notes: original figures in annual average. Size of charts does not reflect magnitudes involved.

The three countries also depended heavily on foreign investment and ranked high among net foreign capital recipients. This assertion is confirmed in Table 6, which shows that in 1930 among a group of 26 relevant countries and territories, Argentina, Brazil and Uruguay ranked fifth, seventh and twenty-fifth, respectively. Furthermore, if taken altogether they ranked third, just after Germany and Canada when gross investments are taken into account, and first if a net definition is considered. Those investments mainly originated in the UK and the US, and were concentrated on railways, public utility companies, activities related to export trade, and government bonds. ABU were also important debtors, as the abundant influx of foreign capital during the twenties and the need to finance infrastructure projects led national and local governments to contract loans, either in London or increasingly in New York. This explains the active role of foreign diplomacy in the region, trying to prevent juncture policies from curtailing remittances and operations of their firms, as well as to ensure the timely payment of the foreign debt.

Table 6 Foreign capital employed in certain countries, 1930

Nr.	Country	*Foreign capital employed (£ -millions)*		Nr.	Country	*Foreign capital employed (£ -millions)*	
		Gross	*Net*			*Gross*	*Net*
1	**Germany**	1,350	925	**14**	**Roumania**	200	200
2	**Canada**	1,330	955	**15**	**New Zealand**	197	189
3	**Australia**	817	753	**16**	**Hungary**	143	143
4	**China**	660	580	**17**	**Norway**	126	94
5	**Argentina**	640	635	**18**	**Austria**	120	80
6	**India**	575	565	**19**	**Peru**	115	115
7	**Brazil**	520	520	**20**	**Greece**	115	115
8	**Dutch East Indies**	320	320	**21**	**Denmark**	94	53
9	**Cuba**	295	295	**22**	**Czechoslovakia**	88	46
10	**South Africa**	260	260	**23**	**Colombia**	85	85
11	**Japan**	260	50	**24**	**Venezuela**	80	80
12	**Chile**	250	250	**25**	**Uruguay**	60	60
13	**Poland**	234	205	**26**	**Yugoslavia**	60	60

Source: compiled from Royal Institute of International Affairs (1937, p. 223).

The outlined sources of vulnerability started to play their role for the three countries even before the collapse of the New York Stock Exchange in October 1929 with the sudden drain of capital since 1928. Then, the falling prices of key products exported by the region, along with the increasingly protectionist measures taken by the key importing markets and the occurrence of natural setbacks, prompted payments imbalances and eventually led to the imposition of exchange controls and moratoria on the foreign debt (except the case of Argentina). The collapse of foreign trade also diminished public revenues, which depended heavily on customs taxes, and forced strong orthodox fiscal adjustments. And saving each country's particularities, the external shock added to the internal difficulties regarding the production of key commodities and the underlying national political rivalries that eventually translated into internal political instability. The economic downturn exacerbated the mood of the local landowner oligarchies which felt menaced by the advances of the urban society and middle classes, and invariably struggled to retain power. This feature certainly was a contributing factor in the coups of

Uriburu in Argentina and Terra in Uruguay that placed governments favourable to the interests of those classes in power. By contrast, in Brazil the revolution that initiated the Vargas era consolidated the power of the federal government over the state oligarchies.

During the thirties these three export-led economies not only used more active fiscal and monetary policies than other regional partners, but also started a path of long-term intervention in their economies, and trade protectionist measures, that later would be known as the aforementioned import substitution industrialization. In Brazil the industries of cement, iron and steel developed under the umbrella of extensive official support. In Uruguay, the limited internal market of 1.6 million inhabitants suggests that the development of industry, finances and services (e.g. tourism) could only be viable if linked one way or the other to its bigger neighbouring markets, and especially to the culturally and geographically closer Argentina. However, this small economy became increasingly closed and the government strongly interventionist; as it took control of the port, created the national meat-packing plant and assumed fuel production and distribution, among other entrepreneurial initiatives, many of them still present nowadays. In the case of Argentina, in spite of the expansion of the domestic market, the country lacked a formal plan for industrialization and the clash of national and foreign interests often resulted in contradictory policies that ensured a sort of 'protectionism in reverse'. An example of this is the failure to create a national meat-packing plant because of the pressure fundamentally exerted by the British on the Argentine government. But in spite of those contradictions, its textile, food processing, chemicals and metal industries showed an important expansion during the thirties.

In relation to international relations, by 1929 Argentina had the reputation of an important player in the inter-American context. It acted as counterweight to the US in the Americas and dreamed of increasing its influence in neighbouring countries. However, those Argentine ambitions clashed with its major natural rival, Brazil, so that the hypothesis of conflict was always present in the military strategic analysis of both countries. Beyond the Hemisphere, in spite of their mutual respect, Anglo-Argentine relations were complex and interdependent. In a more global perspective, ABU were invited to and attended the World Monetary and Economic Conference of London in 1933 and other major multilateral gatherings, but their stance was mostly secondary to the great powers, as Raúl Prebisch sadly recalled from his experience as an Argentine Delegate to the Conference[189]. However, it was a time when the ideas of the German and Italian totalitarian regimes gained some influence, not only in the minds of the ruling elites, but also by means of increasingly administrated bilateral trade and involvement in development projects. The introduction of exchange control not only allowed local authorities to use it as a bargaining chip with the foreign diplomats seeking a more favourable distribution of hard currency, but also allowed for a close control of the foreign trade in line with the international scenario.

[189] Prebisch was disappointed saying, "(…) only the superpowers discussed. We were invited to all sessions but I soon realized that I had nothing to do in these matters. I submitted a proposal for an International Wheat Agreement, the first time that this issue was raised at the international level, but of course it was not accepted. At that time the entire developing world was a colonial world (…)" (González & Pollock, 1991, p. 464).

ii. Same players, different numbers

One of the most obvious differences between ABU eight decades after the Great Depression and ABU now is the current higher degree of interconnectedness. During the last three decades, ABU shared the Latin American debt crisis of the eighties. They experienced the '*tequila*' effect imported from Mexico in 1994-1995, which showed their intense dependence on capital flows. Then, the devaluation of the Brazilian currency in 1999, the real, initiated the '*caipirinha*' effect that fuelled a deteriorating trend in Argentina and Uruguay. Hit by these imported and other internal factors, in December 2001 Argentina was responsible for the largest default in history of about 100 billion dollars. On January of 2002 it had to suspend the Currency Board that worked during the nineties and in March it suffered a severe banking panic. The resulting economic chaos added to political and social distress, including five presidents in two weeks, cash and food shortages, deadly riots and dire poverty, among other things. The '*tango*' effect of the Argentine financial crisis sent the Uruguayan economy into collapse, with several bank failures, although it did not default on its foreign debt thanks to a last minute rescue from the United States' Treasury[190]. Even today, for both countries there is still a lasting memory of economic disaster. After that near depression experience, in general terms all the three economies flourished with steady growth, decreasing unemployment, capital inflows and accumulating foreign reserves, all leveraged by historic high prices of the key export commodities. In this scenario the Financial Crisis of 2008 found them in the best possible position in the last eight decades. However, the case of Argentina is worth mentioning because the expansionary policies implemented since before 2008 have caused overheating of its economy and increasing inflation, among other macroeconomic problems that would eventually worsen over time[191].

However, the most important development, that signals a higher degree of 'shared' vulnerabilities and interconnectedness, is the creation of the Common Market of the South (Mercosur) in 1991 that also includes Paraguay and Venezuela as full members. This integration mechanism allows for an increased level of intraregional trade and higher degree of interdependence among ABU[192]. Indeed, during the thirties, the intra-regional trade and capital flows were smaller in comparison to the present. Each of the three economies depended more on trade with the core countries, than among themselves. The figures presented in Table 7 illustrate a priori how astonishingly different is the case of Brazil in terms of population and especially in terms of GDP. In 1928 Argentina, with around one-third of the Brazilian population, had a GDP one-third higher. Eighty years later, the relative figures reversed. While Brazil multiplied its own population six times, Argentina multiplied by 3.5 and Uruguay only doubled it. However, the South American giant clearly advanced in economic terms in relation to its neighbours, since its GDP multiplied 32 times!, while that of Argentina increased 8.6 times and that of Uruguay

[190] For more detailed information see Paolillo (2004).

[191] See BBC News Special Reports G20: Economic Summit snapshot http://news.bbc.co.uk/2/hi/in_depth/business/2009/g20/7897719.stm, retrieved November 2009.

[192] See http://www.mercosur.int/t_generic.jsp?contentid=3862&site=1&channel=secretaria&seccion=2, page visited in October 2012.

only by 4.9. Not only did Brazil more than quadruple the Argentinean population and represent more than fifty times Uruguay's population, but it also became in 2011 the world's sixth largest economy by nominal GDP, relegating the UK to seventh place[193]. The Uruguayan economy and population followed, in general terms, the growth patterns of Argentina, although the latter increased its population a little more and even further its GDP, while Brazil simply decoupled. It is worth noting, however, that in spite of its evident progress, some of the poorest regions in the Mercosur are still located in the Brazilian North East and that Argentina and Uruguay still retain the leadership in per capita terms and income distribution. In per capita GDP terms, Argentina and Uruguay have always been ahead due to their moderate population growth, although the gap has been narrowing. While in 1928 the Brazilian per capita GDP was only one-fourth the Argentine equivalent, in 2007 that ratio climbed to 60%.

Table 7 ABU: Basic information, then and now

Years	Population (thousands inhabitants)	Total GDP (ppp)	Per capita GDP
Argentina			
1928	11,282	48,414	4,291
2007	40,049	416,776	10,407
How many times?	3.5	8.6	2.4
Brazil			
1928	32,234	37,333	1,158
2007	193,919	1,201,514	6,196
How many times?	6.0	32.2	5.4
Uruguay			
1928	1,646	6,429	3,906
2007	3,461	31,596	9,129
How many times?	2.1	4.9	2.3

Source: calculated from "Historical Statistics of the World Economy: 1-2008 AD" from Maddison (2010). Notes: total GDP in million 1990 Geary-Khamis dollars and per capita GDP in 1990 Geary-Khamis dollars.

At this point, we endeavour to compare both crises, and for that purpose we needed a set of data comparable over time for the periods 1928-1934 and 2007-2010. The selection of this last period is justified because after 2010 it is possible to argue that at least for the three countries the crisis ended or entered into a new stage signalled by the sovereign debt crisis that by 2010 was still dragging down growth worldwide. Although Angus Maddison's estimates based in 1990 Geary-Khamis US dollars clearly include structural shortcomings already analysed in our Introduction, they represent a second best that suited our needs to facilitate the comparison. The original data were available for our period of analysis starting in 1928 and up to 2008 for each

[193] See http://www.guardian.co.uk/business/2011/dec/26/brazil-overtakes-uk-economy, retrieved February 2012.

of the countries of analysis. Thus, as mentioned in the "Introduction" of this thesis, the figures for 2009-2010 were calculated by applying to the 2008 Maddison's estimates the growth rates calculated from the estimates of the Conference Board Total Economy Database –TED- (2011), which use similar, but not equal methodology to Maddison's for the period 1950 to date.

In Table 8 we present the evolution of the GDP index for ABU during 2007-2010. These index numbers suggest that the only year in which there was a downturn in economic activity in ABU was 2009. This statement is more valid for Argentina (-2.9%) and Uruguay (-3.3%), than for Brazil, which was mostly stagnant during that year (-0.2%). As a matter of fact, except for 2009, each country grew more than 5% in the previous and following years. Thus, it is possible to conclude that the recession for those countries was short lived and relatively mild. In order to contrast the aforementioned data with the equivalent for the Great Depression, we add in Table 9 the index numbers of the GDP from 1928 to 1934. The figures in both tables suggest that the Great Depression was deeper and more far-reaching for the three countries. If we consider a conventional definition of 'depression' as the contraction of GDP for at least three consecutive years or a contraction over 10%[194], only Argentina and Uruguay, and mostly the latter, were in depression. While the three countries contracted only in 2009, during the Great Depression the GDP fall lasted three years for Argentina (1930-1932) and Uruguay (1931-1933), and two years for Brazil (1930-1931). Only the case of Uruguay surpasses in two of those three years an annual contraction of more than 10%. Thus, according to these figures, while Brazil had a strong recession and Argentina reached a depression, Uruguay was the hardest hit because by 1934 it was still far away from reaching the pre-crisis level, while Argentina was able to do so and Brazil clearly did it since 1933. As a matter of fact, if the whole period 1928-1934 is analysed, it is possible to say that on average only Uruguay had a contraction of its annual average GDP growth (-5.8%), while Brazil actually grew the most (+3.3%) and Argentina was in the middle (+1.3%). Saving the setback of 2009, it is possible to state that ABU enjoyed the most prosperous decade in recent history, a feature deeply different in comparison with the twenties and early thirties.

Table 8 ABU: GDP index during the Financial Crisis of 2008 (2007=100)

	Argentina		**Brazil**		**Uruguay**	
	Index	**Var %**	**Index**	**Var %**	**Index**	**Var %**
2008	107	6.8	105	5.1	109	8.9
2009	104	-2.9	105	-0.2	105	-3.3
2010	112	8.2	113	7.5	114	8.5

Source: until 2008 calculated from "Historical Statistics of the World Economy: 1-2008 AD" from Maddison (2010), total GDP in millions of 1990 dollars (converted at Geary-Khamis PPPs). During 2009-2010, data estimated by using growth rates from The Conference Board Total Economy Database™, September 2011, http://www.conference-board.org/data/economydatabase/ , page visited in September 2012.

194 See for example Marseille (2009, p. 53).

Table 9 ABU: GDP index during the Great Depression (1928=100)

	Argentina		Brazil		Uruguay	
	Index	**Var %**	**Index**	**Var %**	**Index**	**Var %**
1928	100	6.2	100	11.5	100	5.3
1929	105	4.6	100	0.2	101	0.8
1930	100	-4.1	94	-6	115	13.7
1931	93	-6.9	92	-2.2	95	-17.3
1932	90	-3.3	95	3.5	88	-7.2
1933	94	4.7	103	7.8	77	-12.5
1934	102	7.9	111	8.4	92	19.1
Average 1928-1934		**1.3**		**3.3**		**-5.8**

Source: calculated from "Historical Statistics of the World Economy: 1-2008 AD" from Maddison (2010), total GDP in millions of 1990 dollars (converted at Geary-Khamis PPPs).

This behaviour is consistent with the evolution of the foreign trade. Table 10 and Table 11 describe the evolution of total exports now and then. If we compare both scenarios, we observe that the foreign trade of these countries really collapsed during 1929-1932, while during the recent experience, it just contracted during 2009. By 1929, Argentina and Uruguay had contractions of more than 10% and to a lesser extent Brazilian exports contracted too. That is a scenario completely different to 2008, when those three countries enjoyed the bonanza in commodity prices and their exports increased more than 20%. The exports of Argentina and Brazil fell more than 20% in 2009, while Uruguay managed to fall less strongly. By 2010, most of the losses of the previous year were erased, and even in the case of Uruguay exports clearly surpassed the 2008 level. By contrast, during 1930-1932, the exports of ABU contracted in the range 60%-70%, so that the concern and despair for their governments resulted in the adoption of severe heterodox policies. Thus, in comparative terms, the effects of the Great Depression on ABU's foreign trade were stronger and more far-reaching than the current crisis. However, as mentioned, in both circumstances the terms of trade deteriorated and the 'commodity lottery' played its role. In the next section we address the changes in the market patterns and commodity dependence of the three countries.

Table 10 ABU: Index of total exports (2007=100)

	2008		2009		2010	
	Index	**Var %**	**Index**	**Var %**	**Index**	**Var %**
Argentina	125	25.1	99	-20.5	122	22.4
Brazil	124	23.5	95	-22.7	126	32.4
Uruguay	132	31.8	119	-9.5	149	25.2

Source: calculated from Foreign Trade Database BADECEL-ECLAC (various years). Note: original figures in 2000 US dollars.

Table 11 ABU: Index of total exports (1928=100)

	1929		1930		1931		1932		1933		1934	
	Index	**Var %**	**Index**	**Var %**	**Index**	**Var %**	**Index**	**Var %**	**Index**	**Var %**	**Index**	**Var %**
Argentina	89	-10.82	50	-43.44	42	-16.57	33	-22.66	35	8.76	47	34.17
Brazil	97	-2.66	67	-30.67	51	-24.64	38	-26.07	47	25.14	61	28.91
Uruguay	89	-11.50	85	-4.52	36	-57.71	27	-24.94	39	43.70	28	-27.15

Source: calculated from Statistical Yearbook of the League of Nations (various years).

Another important point of comparison between both crises is the likelihood of default on the foreign debt. As we mentioned in previous chapters, the debt crisis of the thirties evolved in three stages. The first one, by 1931, was dominated by Latin American defaults. Interest and amortization payments were at least partially suspended by every South American country, with the exception of Argentina. As we address in detail in the next chapters, while Brazil suspended most of its fund payments on all foreign loans in 1930, as well as the payment of interests on its debt, Uruguay suspended the amortization of the foreign debt in 1932. Argentina was the only country that managed to pay its foreign debt[195]. Certainly, liberal foreign borrowing in the twenties had increased the debtor countries' vulnerability to external shocks. The magnitude and speed of the contraction of exports explains the defaults of Brazil and Uruguay. By contrast, during the period 2008-2010 ABU ratios have been over 200% suggesting a high level of central government indebtedness. However, export receipts improved soon enough and the high level of international reserves provided a cushion effect.

As Eichengreen & Portes (1990) point out, although central government debt-to-export ratios are not representative of the level of total debt, they are the only debt indicators available for a wide range of countries during the thirties. Thus, in Table 12 we use those figures to compare the thirties with the information provided by CEPALSTAT for the period 2008-2010. In doing this we are aware that, as Schuker (1988, p. 65) argues, the ratios could be undervalued because the State and local government debts were substantial and are not included in those figures. As we can observe in Table 12 for the cases of Brazil and Uruguay in 1929 and 1931 the central governments were more exposed, as the debt-to-export ratios were over 100% and consistently increased for the three chosen years, as exports shrank and governments implemented more expansionary policies. Nevertheless, all figures are higher for 2008-2010, suggesting a higher vulnerability in 2008-2010 than during the thirties. However, it is possible to speculate that the

[195] A big difference with the Great Depression is the case of Argentina. During the thirties, this country gave priority to its reputation in capital markets. Recent history, on the contrary, is signalled by the massive default of 2001 that essentially excluded this country from the international capital markets and has made it highly vulnerable to the swings of the trade flows, and especially to its main staple, soya. Nowadays Argentina has reached a high country-risk of more than 1,000 basis points according to EMBI (Emerging Markets Bond Index) from J.P. Morgan. Meanwhile, the former defaulters, Brazil and Uruguay, are placed around 200 basis points. Bymes (2011) stresses that when Néstor Kirchner became President in May 2003, he implemented economic policies that infuriated Washington and Wall Street, including two contentious debt renegotiations. Argentina is still involved in legal battles with debt 'holdouts' claiming 16 billion dollars in payment. When Cristina Fernández assumed the presidency in December 2007, she inherited from her husband's administration that difficult stance with foreign creditors.

better diversification of the economies nowadays prevented more difficulties in the payment of the foreign debt, at least for the cases of Brazil and Uruguay.

Table 12 ABU: Comparison of central government debt-to-exports ratios

Year	Argentina	Brazil	Uruguay		Year	Argentina	Brazil	Uruguay
1929	49	153	147		**2008**	208	164	215
1931	73	163	185		**2009**	264	365	291
1933	113	215	212		**2010**	241	310	231

Source: figures from Eichengreen & Portes (1990, p. 75) for the thirties and for 2008-2010 calculated from CEPALSTAT.

iii. Testing the patterns of trade dependence

In the next chapters we show in detail that the contraction in terms of magnitude in ABU during the thirties is linked to the structure of foreign trade and the evolution of the international commodity prices. The evidence presented in each of the country chapters is compelling in showing the patterns of dependence in terms of products and markets. Nowadays, the structures of foreign trade are more diversified because there are new trading partners in Asia and also intra-regional trade has increased, reducing the significance of markets that used to be decisive eighty years ago.

Regarding the twenty year existence of Mercosur, it is relevant for this thesis to highlight the role of the common market (Mercosur) for its role in the trade transmission channel of foreign shocks, in a regional context of higher interconnectedness. In this regard, we calculated the index of regional trade concentration (CI), as follows:

$$CI = \frac{\sum_{i=1}^{3} x_{ir}}{\sum_{i=1}^{3} x_{iw}}$$

where i is each of our study cases (ABU), r are the exports of each of these countries to the other two partners and w is the world[196]. This index shows the percentage of regional trade in total exports and has been widely used by researchers. In Table 13 we present the results for 1928 and 1935 using data from the League of Nations (1942), and for 1990 (before Mercosur), 2000 (before the regional economic crisis of 2001), and in 2010 (the end of our period of analysis). One conclusion is that these countries have always traded among themselves, and even by 1990, the regional trade was slightly lower than in the thirties. During the nineties regional trade boomed and by 2000 the Mercosur regional trade achieved a peak, but after the Argentine collapse of 2001 it receded. However, the concentration in 2010 was substantially greater than the pre-Mercosur value (1990) and the thirties (both 1928 and 1935). Thus, these data suggest that Mercosur contributed to a renewed role for regional trade that constituted a strong difference from the thirties.

[196] See for example Álvarez (2011, p.27).

Since 2000 the Member States of Mercosur agreed to restrain themselves from engaging in autonomous negotiations, so that any negotiation with extra-regional countries would not be pursued by individual countries, and therefore the only possible way to gain preferential access conditions to important extra-regional trading partners would be by a joint effort of the Mercosur partners. Since then, the main problem in the external agenda of the common market has been the lack of progress on the negotiations with major players, such as China, the US and the EU. This is not necessarily the fault of Mercosur. That agenda of trade negotiations has been conditioned by the fact that the Mercosur countries have a comparative advantage in goods intensive in natural resources which have access problems to the international markets, particularly in larger industrialized economies. As Vaillant (2007) recalls the reason is that the comparative advantages of Mercosur coincide with the core protectionist trade policies of the developed countries. This explains why the Mercosur has been more successful in South- South negotiations. Currently the most important preferential trade agreements have been signed with Latin American countries such as Bolivia, Chile, Cuba, Colombia, Ecuador, Mexico and Peru. Other agreements have been concluded with Egypt, India, Israel, the South African Customs Union (SACU) and Palestine. But the prospects of increased access to key worldwide markets have been delayed over time. The only trade agreement under negotiation of significant impact due to the trade flows involved is with the European Union. However, those negotiations started in 1995 and they have been progressing slowly. Indeed, since then they have been suspended and resumed intermittently. This explains the relative increasing importance of intra-regional trade during the nineties and two thousands, more than extra-regional one. It also explains why in a way there is a reduced vulnerability on the shocks imported from core countries, but at the same time it makes each country individually vulnerable to its neighbours in an asymmetric way. For example, whatever economic setback happens in Uruguay, it is unlikely to have any influence on the Brazilian economy. However, the opposite can be quite disruptive. By contrast, during the thirties, there was not such a strong regional trade, and there was a more striking dependence on key European and North American markets, so that the full extent of the crisis in the North was transmitted without the benefit of a significant intra-regional trade to work as a cushion or at least to delay its negative effects.

Table 13 ABU: Index of regional trade concentration

	Years				
	1928	**1935**	**1990**	**2000**	**2010**
CI	8.0	9.6	7.1	18.7	13.7

Source: calculated from figures for 1928 and 1935 from League of Nations (1942) in US gold dollars, and for 1990, 2000 and 2010 from BADECEL-ECLAC in US current dollars.

But diminished vulnerability does not mean that the trade channel lost its importance as a source of instability. We have already identified the strong dependence of Argentina on meat and grains, Brazil on coffee, and Uruguay on meat and wool and the negative effects caused by the collapse of prices of those products after 1929. The recession of 2009 is also consistent with the fall of the international commodity prices. Foreign trade is still concentrated in a limited number of commodities and continues to be a fundamental source of prosperity and instability. Indeed, Table 14 shows the evolution of twelve selected main products exported by ABU that explain the previously mentioned export contraction of 2009. After booming prices in 2008, the price contraction is evident in 2009 with most commodities falling in the range 10-40%, but in average terms the prices of the entire sample increased during 2007-2010. One exception was beef, which remained relatively stable during 2007-2009 but then in 2010 its price increased around 30%. In addition, in relation to soya, the falling prices of 2009 could not outbalance the good performance of 2008. Overall these two key products for the ABU agricultural sector gave support to those economies, in spite of the setback of 2009. And for Brazil, prices of iron ore and sugar did not follow the global downturn. Moreover, Mother Nature was contributing to keeping agricultural prices high as climate change and droughts in key regions of the planet (e.g. North America) negatively affected global supplies, in spite of growing signs of a renewed recession.

Table 14 Evolution of commodity prices during 2007-2010 (2007=100)

	Index numbers			**% changes**			
	2008	**2009**	**2010**	**2008**	**2009**	**2010**	**Average**
Wheat	127.7	87.5	87.6	27.7	-31.5	0.1	-1.2
Maize	136.7	101.4	113.9	36.7	-25.8	12.4	7.8
Rice	210.7	177.3	156.6	110.7	-15.8	-11.7	27.7
Soya	142.9	119.3	121.3	42.9	-16.5	1.7	9.4
Soya oil	141.8	98.4	115.6	41.8	-30.6	17.5	9.6
Beef	102.6	101.3	129.2	2.6	-1.2	27.5	9.6
Sugar	114.6	149.2	169.1	14.6	30.2	13.3	19.4
Coffee	116.0	101.8	128.1	16.0	-12.2	25.8	9.9
Wool	92.7	79.9	107.2	-7.3	-13.8	34.1	4.4
Hides	88.9	62.2	99.7	-11.1	-30.0	60.4	6.4
Petroleum	136.4	86.9	111.1	36.4	-36.3	27.9	9.3
Iron ore	168.1	218.4	400.5	68.1	29.9	83.4	60.5

Source: calculated from International Monetary Fund, World Economic Outlook Database April 2012.

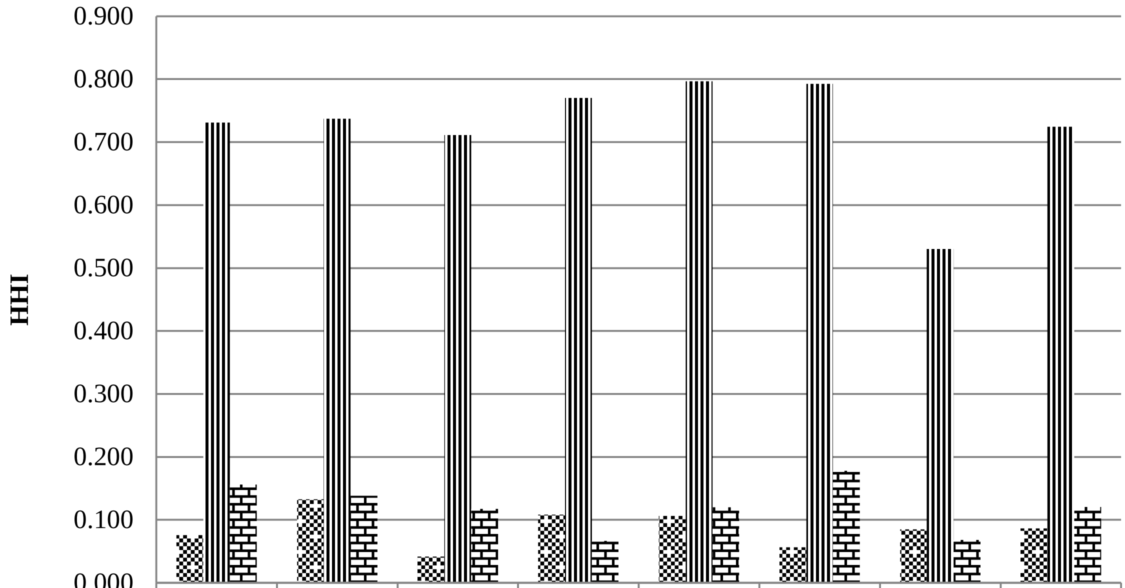
In order to evaluate further how much stronger the trade vulnerability was eighty years ago, we incorporate in the analysis the experience of the present and apply the Herfindahl-Hirschmann index (HHI) to test the trade vulnerability of ABU in terms of their patterns of market and commodity dependence. We chose this index because, from our point of view, the application of a complex methodology would clash with the shortcomings of the available data that would not stand up, for example, to an econometric analysis. Further, it is an index widely used, for example in UNCTAD (2011), due to its explanatory power of the degree of trade concentration. As this index is normalized to obtain values from 0 to 1, a country with a number closer to 1 bears the maximum concentration, and intuitively is more vulnerable because of its dependence on few countries as destination of its produce, or a limited basket of export products.

In working on this task, for 1928-1934 we used the data provided in the League of Nation's memorandums on trade and balances of payments entitled "International Trade of Statistics". However, we had to take into account the simplicity of the statistical data at the end of the twenties. Most of the national statistics then were not harmonized internationally, and at best relied on the early attempts of the international community to harmonize international trade statistics by means of a very basic common nomenclature. Thus, we find it advisable to apply the Common Nomenclature attached to the Convention regarding the creation of an international commercial statistic, signed on December 31st 1913 in Brussels. It consisted of 186 headings simply described as commodities which could contain mixtures of single commodities, and hardly took into account component material, and concepts such as end use, or similar criteria. Those headings were divided into five categories, namely: live animals; food and beverages; materials, raw or simply prepared; manufactured articles; and raw gold and silver and gold and silver coins[197]. It is worth mentioning that we had to aggregate some of the products presented in the League of Nations' tables to comply with the headings of the aforementioned nomenclature, namely: frozen and chilled beef, mutton, meat pieces and jerked beef which are grouped under heading 8 (chilled meats- *viandes fraîches)*; canned mutton and extract and preserved meat under the heading 10 (prepared or conserved meats - *viandes préparées ou conservées*); Brazil nuts and other fruits and nuts under the heading 35 (fruits); and ox-hides and sheep skins under the heading 50 (raw, salted, tanned crust hides and raw fur - *peaux brutes, salées, tannées en croûte et pelleteries brutes*). Furthermore, in a similar discretionary way to UNCTAD, we applied the criteria of excluding from the calculation of the index those trading partners or products that on average during the period of analysis and for each of the three countries represented less than 3% of the respective total. During the Great Depression, 1928-1934, after applying those two criteria, the result rendered a number of headings and trading partners per country in the range of 4-9 each that were incorporated into the calculation of the index numbers[198]. The results are presented in Figure 6 and Figure 7 and corresponding tables.

[197] See Allen & Edward Elly, 1953.

[198] For the case of Argentina, products included in the calculation with its corresponding 1913 Common Nomenclature heading were wheat (20), maize (24), chilled meats (8), grains –linseed- (61), wool (92); and raw, salted, tanned crust hides and raw fur (50), and countries included were the United Kingdom, Germany, Netherlands, Belgium, Italy, the United States, France and Brazil. For Brazil, products included were coffee (36); raw, salted, tanned crust hides and raw fur (50); raw cocoa (37); and cotton (94), and countries included were: the United States, Germany, France, Netherlands, Argentina, Italy, the United Kingdom and Uruguay. For Uruguay, the products included were wool (92); chilled meats (8); raw, salted, tanned crust hides and raw fur (50); prepared or conserved meats (10); and grains –linseed- (61) and the countries included were the United Kingdom, Germany, France, Argentina, the United States, Italy, Belgium and Brazil.

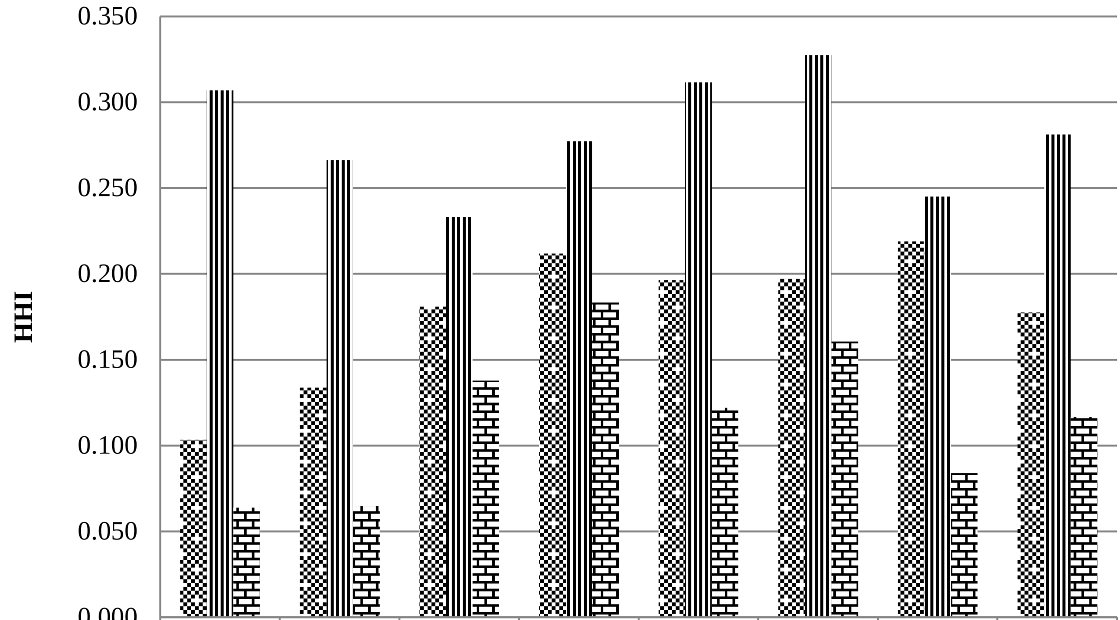
Figure 6 ABU: Herfindahl-Hirschmann index by products (1928-1934 and average)



	1928	1929	1930	1931	1932	1933	1934	Average
Argentina	0.076	0.133	0.042	0.108	0.106	0.057	0.085	0.087
Brazil	0.731	0.737	0.711	0.770	0.797	0.793	0.530	0.724
Uruguay	0.156	0.139	0.117	0.067	0.120	0.178	0.068	0.121

Source: calculated from "International Trade Statistics", League of Nations (various years).

Figure 7 ABU: Herfindahl-Hirschmann index by trading partners (1928-1934 and average)



	1928	1929	1930	1931	1932	1933	1934	Average
Argentina	0.103	0.134	0.181	0.212	0.196	0.197	0.219	0.177
Brazil	0.307	0.266	0.233	0.277	0.312	0.327	0.245	0.281
Uruguay	0.064	0.065	0.138	0.183	0.122	0.160	0.084	0.117

Source: calculated from "International Trade Statistics", League of Nations (various years).

Those results suggest that during 1928-1934 the Brazilian economy was by far the most export product-concentrated among the three, an outcome not surprising given the strong dependence of this economy on the exports of coffee. However, it is important to highlight that for this country the index falls significantly in 1934 due to the introduction of cotton as another major export commodity. Regarding the other two countries, we know that they are very similar in terms of the basket of products offered (mostly meats, wool, hides and grains), but Uruguay tends to show a slightly higher concentration, which can be explained by the fact that the Argentine economy produced a wider range of grains as export commodities. In relation to the country concentration, again the Brazilian economy was more concentrated, although the difference is not as striking as in the case of product concentration. But this statistical evidence in the Brazilian case may not translate necessarily into a stronger source of vulnerability, because the main destination of its coffee, the US, did not use its leverage as much as it could to turn Brazilian policies around. By contrast, the other two neighbours were highly dependent on the British market and, as we analysed in the relevant chapters of this research, the British exerted a particular pressure during commercial negotiations, a situation well reflected on the diplomatic reports obtained in our field research in London. Meanwhile, the Argentine concentration was higher than was the case for Uruguay, because the former was more dependent on the British market. To sum up, these figures show that the Brazilian economy was the most vulnerable of the three during the period of analysis both in terms of products and countries. And with regard to the other two, Argentina was more vulnerable to changes in key market destinations, while Uruguay was more affected by the shocks to its main export products available for exportation. Of course, these numbers do not take into account the politics, market size and the historical context of each of these countries.

Now, in order to see how the concentration level in terms of products and trading partners has changed in ABU after eighty years, we present in Table 15 and Table 16 the calculations of the HHI for products and for countries during 2007-2010, and contrast them with the previous figures. Although the nomenclatures applied then and now are different, the level of aggregation (2 digits) of the selected chapters from the Standard International Trade Classification (SITC Revision 1) chosen for the period 2007-2010 is similar to the 1913 Nomenclature in terms of the products included per heading and we applied the same criteria of exclusion of products or trading partners (<3%), so that it is possible to draw general conclusions. The HHI shows that Brazil and to a lesser extent Argentina present a less concentrated trade both in terms of export products and destinations. In the case of Uruguay, although it underwent a process of some diversification in the last ten years, during 2007-2010 the concentration of products was similar compared to the thirties, but the concentration of countries seems to be higher, and in both cases also higher than Argentina and Brazil. In relation to the higher concentration of Uruguayan exports by country, this outcome can be explained by the fact that even though during the thirties its trade was highly concentrated on the UK, in the present that country has been replaced by a strong dependence on regional trade, namely Argentina and Brazil, in the framework of the Mercosur. Overall, the evidence points out that ABU during 2007-2010 have been less vulnerable to external shocks from key commercial partners than during the Great Depression. That is because of a lesser concentration level either in terms of export products or destination markets, and this outcome is stronger in the case of Brazil, somehow less significant for Argentina as it has always been relatively more diversified, and in the case of Uruguay this argument is only valid if the shocks imported from the neighbouring countries are not taken into account. The Uruguayan exposure to the region was clearly demonstrated with the aftershocks of the Argentine collapse of 2001.

Table 15 ABU: Herfindahl-Hirschmann index by products (2007-2010 and averages)

	2007	2008	2009	2010	Average 2007-2010	Average 1928-1934
Argentina	0.032	0.033	0.062	0.046	0.043	0.087
Brazil	0.036	0.039	0.024	0.060	0.040	0.724
Uruguay	0.116	0.155	0.141	0.122	0.133	0.121

Source: calculated from Foreign Trade Database BADECEL-ECLAC (various years).

Table 16 ABU: Herfindahl-Hirschmann index by trading partners (2007-2010 and averages)

	2007	2008	2009	2010	Average 2007-2010	Average 1928-1934
Argentina	0.122	0.116	0.153	0.178	0.142	0.177
Brazil	0.104	0.077	0.080	0.089	0.088	0.281
Uruguay	0.113	0.118	0.193	0.180	0.151	0.117

Source: calculated from Foreign Trade Database BADECEL-ECLAC (various years).

One way to see the differences is to compare the structure of the foreign trade then and now for each country. In Table 17, Table 18 and Table 19, we present the average share of the main export products of ABU for the period 2007-2010 and 1928-1934, as well as the corresponding HHI. As mentioned, for the recent downturn we chose to work with the SITC (Revision 1), and similarly to previous calculations, we included only those chapters that individually represent 3% or more of total exports. It becomes evident from the tables that, saving the differences, the three countries are still strong producers of foodstuffs and primary commodities, although the export concentration is weaker than during the thirties.

However, ABU have undergone profound changes in structure of their export basket compared to eight decades ago. Notably, during 1928-1934 the main export products of the region were agricultural, but now energy and mining products are also present, and for a large economy such as Brazil, there is a strong component of industrialized products. Indeed, the change of Brazil is the most striking because of its high degree of diversification now as compared with its absolute dependence on coffee exports during 1928-1934. While during that period only four agricultural headings of the 1913 Nomenclature (prominently coffee) accounted for an average share of 80.1%, during 2007-2010 ten chapters of the SITC Nomenclature accounted for 67.5% of the total, and half of those chapters were industrial. And if those chapters were translated into the 1913 Nomenclature they would have been included in the fourth category of manufactured products.

Table 17 Argentina: Main export products (average percentage share then and now)

Heading (1913 Nomenclature)	Average 1928-1934
20 Wheat	19.9
24 Maize	20.9
61 Grains (linseed)	13.2
08 Meats (chilled and frozen)	9.9
92 Wool	6.5
50 Raw, salted, tanned crust hides and raw fur	5.1
Subtotal (≥3%)	75.5
HHI	**0.087**

Chapter SITC Rev.1	Average 2007-2010
08 Feedstuffs for animals excl. unmilled cereals	12.6
73 Transport equipment	11.0
04 Cereals and cereal preparations	9.0
33 Petroleum and petroleum products	8.9
42 Fixed vegetable oils and fats	8.4
22 Oil seeds, oil nuts and oil kernels	6.2
05 Fruit and vegetables	4.2
01 Meat and meat preparations	3.3
Subtotal (≥3%)	63.7
HHI	**0.043**

Table 18 Brazil: Main export products (average percentage share then and now)

Heading (1913 Nomenclature)	Average 1928-1934
36 Coffee	68.5
50 Raw, salted, tanned crust hides and raw fur	4.6
37 Raw cocoa	3.5
94 Cotton	3.4
Subtotal (≥3%)	80.1
HHI	**0.724**

Chapter SITC Rev.1	Average 2007-2010
33 Petroleum and petroleum products	10.7
28 Metalliferous ores and metal scrap	10.6
73 Transport equipment	9.8
01 Meat and meat preparations	7.1
71 Machinery, other than electric	6.2
22 Oil seeds, oil nuts and oil kernels	5.7
67 Iron and steel	5.7
06 Sugar, sugar preparations and honey	4.6
51 Chemical elements and components	3.8
72 Electrical machinery and appliances	3.5
Subtotal (≥3%)	67.5
HHI	**0.040**

Table 19 Uruguay: Main export products (average percentage share then and now)

Heading (1913 Nomenclature)	Average 1928-1934
92 Wool	31.2
08 Meats (chilled and frozen)	19.3
50 Raw, salted, tanned crust hides and raw fur	12.3
09 Prepared or conserved meats	10.1
61 Grains (linseed)	6.0
Subtotal (≥3%)	79.0
HHI	**0.121**

Chapter SITC Rev.1	Average 2007-2010
01 Meat and meat preparations	20.7
04 Cereals and cereal preparations	13.6
22 Oil seeds, oil nuts and oil kernels	7.4
02 Dairy products and eggs	7.3
61 Leather, lthr. manufs., nes & dressed fur skins	4.5
24 Wood, lumber and cork	3.8
03 Fish and fish preparations	3.4
26 Textile fibres, not manufactured, and waste	3.4
89 Miscellaneous manufactured articles	3.1
Subtotal (≥3%)	67.1
HHI	**0.133**

Sources for tables 66-68: the period 1928-1934 calculated from "International Trade Statistics", League of Nations, after applying Brussels 1913 Nomenclature; and 2007-2010 calculated from Foreign Trade Database BADECEL – ECLAC after applying SITC Rev. 1 Nomenclature.

It is relevant to note that in the past in this country the coffee represented 68.5% of its exports and in 2007-2010 it is not even included among its main ten export products shown in the table! And the most important export chapters, petroleum products and metalliferous ores, metal scrap and transport equipment average around 10% each. Also Argentina and Uruguay show a higher number of headings than in the past, averaging 63% and 67% of total exports, respectively, although most of the chapters are still agricultural. Something similar to coffee could be said for Argentine and Uruguayan meat. Argentina exported during the thirties fundamentally grains, meats, wool and hides; but now feedstuffs for animals (soya and its by-products) are in the first place, while meat products are relegated to the eight position, after petroleum, some industrial products and cereals. For the case of Uruguay, meat products are still first in the ranking of export products. However, this country has received major foreign investments, and since 2008 produces pulp of wood that is not present in the statistics because it is exported through free zones[199] and also soya has been increasing its share. From this data, it is possible to conclude that ABU show a more diversified basket of export products, and consequently they are nowadays less vulnerable to shocks to specific products. This explains why the transmission of the global crisis through the trade channel was less severe this time or inversely why the Great Depression hit so hard.

In a similar way, in Table 20, Table 21 and Table 22 we present the structure of trade by main trading partners, taking into account the same criteria of including only those countries that represent 3% or more of total exports for each of our case studies. The most interesting issue is the current relative position of the main partners during the thirties. While the UK had a share of 35.4% in Argentina and 28.8% in Uruguay, importing practically all the chilled beef from both countries, during 2007-2010 neither for Argentina nor Uruguay was the UK included among the main destinations for their produce. However, this is not the case for the US, which historically ranked among the main trading partners with a share between 6% and 8% for Argentina and Uruguay. And in the case of Brazil, while during the thirties coffee was by far its most significant export produce, and most of it was sent to the US, nowadays this country is still the first export destination, but its share fell from 43.3% during 1928-1934 to 12.5% in 2007-2010. In any case, the US remains among the main trading partners of ABU.

Another key change is the emergence of new markets in Asia. Notoriously, China is the second most important trading partner for both Argentina and Brazil and the fifth for Uruguay. This is not a minor detail, since an important difference between the Financial Crisis of 2008 and the Great Depression is precisely the role of China and other emerging markets as a powerhouse that was capable of offsetting the contracting forces transmitted from the US to the rest of the world after 2008.

[199] In this research we are considering the traditional concept of 'exportation', which means the exportation of goods by one country from inside its borders to abroad. For more detailed information about changes in the concept of 'exportation' see de Haedo (2012).

Table 20 Argentina: Main trading partners by average share then and now

Trading partner	Average 1928-1934
United Kingdom	35.4
Netherlands	10.6
Belgium	9.9
Germany	9.4
United States	7.2
France	7.0
Italy	5.3
Brazil	3.7
Share (≥3%)	88.5
HHI	**0.177**

Trading partner	Average 2007-2010
Brazil	20.2
China	8.5
Chile	7.3
United States	6.6
Netherlands	3.9
Spain	3.6
Share (≥3%)	50.1
HHI	**0.142**

Table 21 Brazil: Main trading partners by average share then and now

Trading partner	Average 1928-1934
United States	43.3
Germany	9.8
France	9.1
Netherlands	4.9
Argentina	5.9
Italy	4.0
United Kingdom	7.4
Uruguay	3.5
Share (≥3%)	87.9
HHI	**0.281**

Trading partner	Average 2007-2010
United States	12.5
China	11.1
Argentina	9.0
Netherlands	5.4
Germany	4.3
Japan	3.1
Share (≥3%)	45.5
HHI	**0.088**

Table 22 Uruguay: Main trading by average share partners then and now

Trading partner	Average 1928-1934
United Kingdom	28.8
Germany	14.6
France	11.0
Argentina	11.0
United States	8.2
Italy	7.8
Belgium	6.1
Brazil	3.0
Share (≥3%)	90.4
HHI	**0.117**

Trading partner	Average 2007-2010
Brazil	18.6
Argentina	8.3
United States	5.2
Russia	4.3
China	4.1
Germany	3.7
Venezuela	3.3
Spain	3.2
Mexico	3.0
Share (≥3%)	53.6
HHI	**0.151**

Source for tables 69-71: for the period 1928-1934 calculated from "International Trade Statistics", League of Nations; and for 2007-2010 calculated from Foreign Trade Database BADECEL-ECLAC. Note: for Uruguay 2007-2010 Free Zones has an average share of 11.3% but this has not been included for the HHI calculations.

Also the significance of the regional trade is different. For Argentina, the bilateral trade with Brazil climbed from 3.7% of total exports during the thirties to 20.2% during 2007-2010. And for Uruguay the smallest of the three, exports to Brazil and Argentina together climbed from 14% to almost 27%, although the relation reversed, because Argentina reduced its share from

11% to 8.3%, while Brazil became the single most important trading partner after increasing its share from 3% to 18.6%. By contrast Argentina and Uruguay represented during 2007-2010 only 9% and 0.8% of the Brazilian exports, respectively. That means that eighty years later Argentina and especially Uruguay increased their dependence on Brazil, but in an asymmetric form. In this regard, it is worth mentioning that the commercial trend of Brazil during this decade has been to export its commodities to developed countries (e.g. the US, China and Europe) and to export manufactures to Latin America, especially to the Mercosur countries.

iv. Conclusion

In this chapter we have seen the relative position of ABU, in perspective, and considered the changes that that position suffered over eighty years.

Brazil and Argentina were both major players in the Latin American context, but Brazil was lagging in terms of per capita GDP. Uruguay was small, but was as rich as Argentina. However, all of them were in the semi-periphery of the global markets, and in general they did not have the economic or military power to influence global politics. In spite of that, they were key suppliers of primary products, such as grains, beef, wool and coffee. They were also strongly vulnerable to the swings in prices of those commodities. Countries such as the UK and the US had strong leverage on those economies, not only because of the trade flows, but also because of the investments and control of the lending conditions. The smallest country, Uruguay, had similar patterns of dependence as Argentina and was deeply affected by the exchanges with the UK.

The figures presented suggest that the Great Depression was deeper and more far-reaching for the three countries than the Financial Crisis of 2008. In both events, Uruguay was the hardest hit in terms of the absolute contraction. In 1934 Uruguay was still far away from reaching the pre-crisis level, while Argentina was able to do so and Brazil clearly did since 1933. In Part Three of our Thesis, we will compare each one of the main macroeconomic aggregates of the three countries in order to obtain richer conclusions, with an emphasis on the relative situation of Uruguay as a small country among its bigger neighbours.

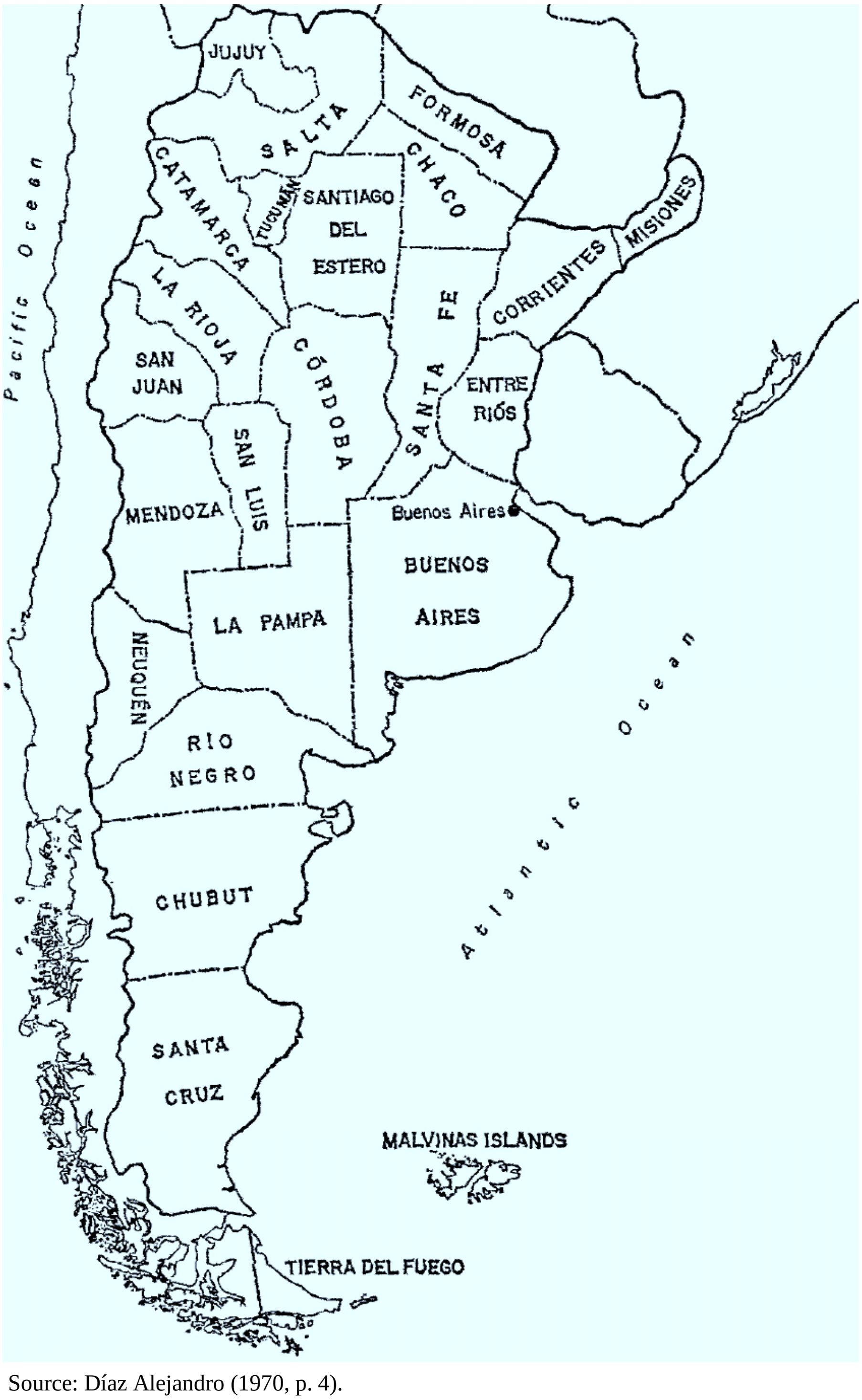
Those were patterns of dependence more clearly present during the thirties than nowadays, as other players, such as China and other Asian countries have increased their presence. The baskets of products exported are also more diversified, especially in the case of Brazil. This is well evidenced in the results of the Herfindahl-Hirschmann index (HHI), that show that during 1928-1934 the Brazilian economy was by far the most export product-concentrated among the three because of the significance of coffee exports. If we compare in Table 18 the structure of Brazilian foreign trade of 1928-1934 with 2008-2010, we see that the predominance of coffee was replaced by a highly diversified export basket that includes petroleum, metals, iron, steel, transport equipment, chemical products, etc. Thus, its export basket is by far the most diversified of the three. Further, ABU intra-trade is also more relevant, as the index of regional concentration reveals. Moreover, the role of Brazil is also quite different, because it multiplied its own population and economic weight.

All in all, the comparison with the present allows us to verify from a different analytic perspective that these countries were more vulnerable to trade shocks when the Great Depression arrived. During 1928-1934 ABU were more vulnerable to the transmission of a crisis through the trade channel, than during 2007-2010. This outcome comes from a higher concentration in terms of export goods, a result more striking for the case of Brazil. We also corroborate that during the thirties there was a stronger concentration of export markets. As a consequence, ABU were more vulnerable to shocks from specific countries (e.g. the US and the UK). Other markets that are relevant nowadays to smooth the shocks through trade and investment flows were simply marginal in the past (e.g. trade within the region and with Asian countries, mainly China).

In the next Part Two, chapters V, VI and VII we turn to the analysis of the general situation of each of the three countries during the twenties, in order to situate the reader in the national historic context. It is the prelude to our detailed comparative analysis of the Great Depression itself that we address in Part Three.

Part Two – Argentina, Brazil and Uruguay before the crash

Map of the Argentine Republic



Source: Díaz Alejandro (1970, p. 4).

V. Argentina in the road to the infamous decade

Over the years Argentina has been regarded as one of the most successful of the new countries of the nineteenth century that enjoyed the *belle époque* of liberalism. It had shown tremendous economic expansion until the beginning of the First World War and it was ranked among the first places in per capita GDP. In this regard, Díaz Alejandro (1970, p. 3) states that the real GDP grew at an average annual rate of at least 5% during the fifty years preceding the war whilst rural output and exports expanded *pari passu* with the railway network. It was a country that had everything: wealth; important cultural and social development making Buenos Aires, its capital, one of the greatest cultural centres in the world; and political stability in the democracy. This scenario was definitely propitious to encourage European investment and immigration beyond the Great War. Remarkable examples of this situation were that the British invested in utility service companies (railways, ports, etc.) and activities associated with export trade (e.g. *frigoríficos* -meat-packing plants-); and that Argentina received 6.3 million[200] immigrants during 1857-1930, most of them Italians and Spaniards. All these factors contributed to the improvement of economic market conditions prompting a growing international insertion of the country based on the export of primary goods such as meat and grains, which constituted the base of its wealth and let Argentina earn the reputation of being the 'barn of the world'.

However, the international scene was changing very quickly, marked by conflict, uncertainty and pessimism. Firstly, the outbreak of the First World War revealed the vulnerabilities of Argentina which would contribute to its rapid deterioration. As mentioned previously, this country had a high dependence on the external world, not only because the engine of the economy was exports (fundamentally to the UK) but also due to the imports of foreign capital (especially from the UK and the US) and labour, together with all the difficulties surrounding these factors of production in a context of a continued expansion of the agricultural frontier. In this respect, the war negatively affected Argentine foreign trade and entailed the deterioration of the terms of trade, sinking the country into a severe crisis while the world suffered an excess in supply with permanent agricultural surpluses that triggered every government to protect its producers. But, even worse, foreign capital was repatriated because the UK and other European countries were not in a condition to make investments. Thus, in a similar way to other parts of the world, their place was taken by the US. In this respect, the same North American bankers, such as J.P. Morgan, that granted loans to Europe, after then started to lend to Argentina too.

[200] This figure was taken from Díaz Alejandro (1970, p. 24).

Then during the twenties the US exported to Argentina cars, lorries, industrial machinery and so on, established large industrial firms such as General Motors and General Electric and particularly competed with the British for the investments in meat-packing plants, as well as in public utility service companies. However, North America was closed to imports of Argentine commodities, so that did not contribute to generate exports from Argentina which created an important imbalance of payments, difficult to handle for the government. In addition, in spite of the fact that the UK had lost ground as an international leader and it had been replaced by the US, Argentina kept a complex relationship with it. Argentina exported meat and grains to the UK which the British paid for with the profits from the sale of railway materials, coal and textiles and with the profits from the railway companies, among others. But the UK did not have the capacity to supply new consumer demands in Argentina or to inject the necessary capital to promote the transformations that the North Americans were encouraging. At the same time, fundamentally after 1921, Argentina lacked alternative buyers, especially for meat[201] just in a period (between 1921 and 1924) when the country suffered another negative shock with significant contractions in agricultural prices but in this case as consequence of the post-war adjustments. Increasingly under the threat of the advance of the North Americans in Argentina, the British exerted pressure on the Argentine government with the argument of a possible increase of purchases inside the Empire, a situation that was effective later in the framework of the Ottawa Agreements. Thus, from all the elements exposed above it is possible to conclude that Argentina was part of a delicate international economic network closely connected with the swings in the European conjuncture.

Moreover, although the country enjoyed a period of calm until 1929, the political tensions, the social and economic gap between the rural masses and the urban middle class, and regional frictions complicated more and more the internal panorama. These frictions among provinces related to the particular structure around the port of Buenos Aires as the gateway to the world markets. In fact, Argentina was characterized by the famous Argentinean economist Alejandro Bunge as a '*país abanico*' ('fan country')[202] where one-third of the total territory centred in Buenos Aires concentrated 80% of the total population and 90% of the economic capacity of the country and where the cultural, economic and social conditions deteriorated according to the distance to the capital: a situation that generated resentment in the rest of the country.

In this chapter, as the background of the impact of the Great Depression, we analyse the prosperity that Argentina was enjoying by the twenties and its rapid deterioration in a difficult

[201] See Romero (2002, p. 43).

[202] '*País abanico*' (in Spanish) is an expression from Alejandro Bunge (1880-1943) in his book '*Una Nueva Argentina*'. According to Bunge (1984, pp. 233-234) in 1924 studies proved that one-third of the total territory of Argentina, covered by an arc of circle of 780 km of radius with a central point in Buenos Aires, included 80% of the total population and 90% of the economic capacity of the country. Then in 1938, in order to analyze how this situation had changed, this author did other studies dividing the country in three zones formed by concentric circular areas to Buenos Aires: the first zone with a radius of 580 km (a nuclear area that concentrated more than 80% of the national production), the second zone with radius of 1,000 km and the third one covering the regions beyond the second arc (a peripheral area, which included, in complete form, the '*patagónica*' region). The result was that when one moves away from the central point, located in Buenos Aires, the population density, the cultural level and the economic capacity of the country decrease.

political and social context, focusing on its economy and its vulnerabilities associated with the main political facts. In addition, in order to have a complete picture of the weaknesses of the country by that time, we present its economic structure and we explain trade aspects more deeply, as well as describing the international standing of Argentina at the beginning of the storm.

i. A South American big player

In this section we tackle Argentina's standing in the world at the outbreak of the Great Depression in aspects such as: per capita GDP, world exports, trade openness, as a recipient of UK and US investments, international reserves level, real wages and social conditions, and finally its interconnectedness with other countries.

This wealthy country with 2,797,000 square kilometres[203] and eleven and a half million inhabitants[204] in 1929 shared worldwide leadership in many aspects with countries such as Australia and Canada. It shared with its small neighbour, Uruguay, by 1929, a high per capita GDP. According to figures from Maddison (2010), as mentioned before in 1929 the per capita GDP of Argentina was 4,367 dollars[205] which was not far from the per capita GDP of Australia (5,263 dollars) and Canada (5,065 dollars) and Uruguay enjoyed a per capita GDP of 3.847 dollars. However, this was not the case for the larger Brazil[206] which had a per capita GDP almost four times lower than Argentina (1,137 dollars), a situation that could be explained, among other things, by the differences in the population growth rate.

In addition, Argentina, categorized as a 'non-tropical agricultural country' by the League of Nations' terminology as an exporter of goods of rural origin, according to data from the League of Nations (1930, pp. 148-149) in 1928 ranked tenth among the major trading nations practically reaching 3% of world exports. Furthermore, taking for the calculations figures from the League of Nations (1942, pp. 99-100), Argentine exports represented 32% of the total Latin American exports and 30% of the total imports from that region, whereas the figures for Brazil were 15% and 16% respectively. On the other hand, after using information on exports and population from the League of Nations (1930), in 1929 Argentina reached per capita exports of 80 dollars a year, a high figure well comparable with developed countries. For example, in countries such as Australia and Canada the per capita exports were 105 and 125 dollars in terms of 1928-1929 US dollars respectively[207]. Thus, there is no doubt that Argentina had an important international position as a supplier of primary products. In this regard, Table 23 with data compiled from Taylor & Taylor (1943) shows that during the period 1924-1928 and in relation to the grain trade Argentina was the premier exporting country of maize representing more than 60% of world exports. It was followed by the US, the Union of South Africa and countries from Eastern

[203] This figure was taken from the League of Nations (1930, p. 20).
[204] This figure was taken from Maddison (2010).
[205] They are 1990 international Geary-Khamis dollars (Maddison, 2010).
[206] Brazil had a large area ranked near first place, among countries such as Canada, the US, China and Australia. However, Argentina had an area three times smaller than Brazil and Uruguay forty-five times smaller than that country (League of Nations, 1930, pp. 18-23).
[207] See Díaz Alejandro (1970, p. 56).

Europe. Moreover, this country ranked in first place for linseed also supplying around 60% of world exports[208]. And it was the third largest exporter of wheat with a share of around 17%, sharing the world market with countries such as Canada, the US and Australia. In this regard, with these high shares in world exports it is possible to conclude that Argentina for these products (maize, linseed and wheat) had an important influence on the formation of their international prices, that is to say that Argentina in those markets was not a price taker. For example, one of the world reference prices for wheat was from Buenos Aires -*Barletta* market- and for maize (yellow) and linseed from Buenos Aires -*La Plata* market-, too. Concerning the meat trade, Argentina ranked in first place as an exporting country of beef and veal with a share of around 60% of world exports followed by Uruguay, Australia, Brazil, New Zealand and Canada; and in second place in mutton and lamb representing almost 28% of world exports. Finally, this country was the second largest exporter of wool (as a primary product) with a share of around 12% and the fourth largest exporter of cattle with a share of around 6% among countries such as Ireland, Hungary, Mexico, Denmark, Canada, France, the US and Uruguay.

Table 23 International position of Argentina among main exporting countries (1924-1928)

Product	Ranking	Competitors (in order of importance)	Net exports	% of world exports
Maize	1	United States, Union of South Africa, countries from Eastern Europe (as primary exporters)	213.3 million bushels	63.4
Beef and veal	1	Uruguay, Australia, Brazil, New Zealand, Canada	1,616 million pounds	61.0
Mutton and lamb	2	New Zealand, Australia, Uruguay	178 million pounds	27.9
Wheat	3	Canada, United States, Australia	146.9 million bushels	16.8
Wool	2	Australia, New Zealand, Union of South Africa, Uruguay (as primary exporters)	292 million pounds	12.2
Cattle	4	Eire, Hungary, Mexico, Denmark, Canada, France, United States, Uruguay	164 thousand heads	6.3

Source: compiled from Taylor & Taylor (1943). Notes: a) wheat includes wheat flour; and b) 'pounds' as measure of weight.

In relation to the trade openness coefficient of Argentina as the quotient between trade (exports) and GDP, taken from Cortés Conde (2009, p. 322) and if one takes into account the possible limitations of this indicator, in 1927 it reached the figure of 57% whilst in 1929 this was 49.9%. That means that by the late twenties Argentina was decreasing its trade openness. However, as a

[208] See Royal Institute of International Affairs (1932, p. 118).

result of its moderate protectionism by the twenties, as Table 24 shows, its ratio of total tariff revenues to the total value of merchandise (15.2%) remained lower than Australia and very similar to Canada but higher than the US, a country that traditionally had been characterized by having high tariffs.

Table 24 Ratio of total tariff revenues to the total value of merchandise (1925)

	%
Australia	18.5
Argentina	15.2
Canada	15.1
United States	13.2

Source: Díaz Alejandro (1967, p. 81) from "Tariff Level Indices" of League of Nations, Geneva (1927).

Moreover, Table 25 with information compiled from the Royal Institute of International Affairs (1937) describes how in 1930 Argentina ranked in fourth place for both UK and US long-term investments. By that year, the British had invested in Argentina around 450 million pounds representing 12.1% of their total long-term investments. This total sum was divided as follows: 57% in railways, 16% in government bonds and the rest was channelled into activities associated with the export trade. On the other hand, for the case of the US, the share was 5.2% reaching 808 million dollars. 449 million dollars were portfolio holdings[209] and 359 million dollars were direct investments, mainly in power, transport and communications, banking, meat-packing plants, and petroleum companies. Thus, this scenario shows not only the important position of Argentina for UK and US investments but also the great dependence of the Argentine economy on UK and US capital as another key vulnerability in the case of a downturn in either of these investing countries. It is important to note that British holdings of Argentine securities had tended to decrease since the war, both because a considerable part of US direct investments during this period took the form of purchases of enterprises previously owned by the UK, and because, in the absence of any significant new investment, the process of amortization helped to reduce the volume of capital outstanding[210].

Furthermore, another factor that positioned Argentina in the world was its international reserves level. By 1928, this country was reinforced with a high sum of reserves with gold backing, 490 million gold pesos[211]; a lot more than in the previous great Argentine downturn in 1899 when the reserves were less than 2 million gold pesos[212]. Probably this aspect, and also considering the gold flight from Argentina since 1928, could explain why this country did not default in the thirties.

[209] Of which about 72% were in national bonds, 19% provincial bonds and 9% in municipal government bonds (Royal Institute of International Affairs, 1937, p. 270).
[210] See Royal Institute of International Affairs (1937, p. 271).
[211] According to the yearbook of League of Nations, this gold stock refers only to Conversion Office (League of Nations, 1935c).
[212] See Díaz Alejandro (1970, p. 57).

With regard to real wages and social conditions, before 1930, the real wages of most Argentine urban and rural workers were at the level of those of many Western European workers. However, the social and political conditions of the workers were worse than in Europe. Health and education facilities for workers of the livestock farms and for cereal tenant farmers were few and of low quality. Moreover, trade unions were scarce and basically related to railway workers. Social legislation before 1930 was basic, there was none concerning trade unions and a general system of social security did not exist, unlike in neighbouring Uruguay which at that time had made progress in this area. It was only in 1930 that the *Confederación General del Trabajo* (CGT, National Confederation of Workers) was created in Argentina as a result of an agreement between Socialists, syndicalists and Independents[213].

Table 25 Geographical distribution of British and American long-term investments (December 1930)

Ranking	**UK investments**			**US investments**		
Nº	**Country or region**	**Million pounds**	**%**	**Country or region**	**Million US dollars**	**%**
1	**India and Ceylon**	540	14.5	**Canada and Newfoundland**	3,942	25.2
2	**Canada**	525	14.1	**Germany**	1,421	9.1
3	**Australasia**	494	13.3	**Cuba**	1,067	6.8
4	**Argentina**	450	12.1	**Argentina**	808	5.2
5	**Europe**	295	7.9	**Chile**	701	4.5
6	**South Africa**	263	7.1	**Mexico**	694*	4.4
7	**United States**	201	5.4	**United Kingdom**	641	3.9
8	**Brazil**	190	5.1	**Brazil**	557	3.5
9	**New Zealand**	123	3.3	**France**	472	3.1
10	**Malaya (including non-British)**	108	2.9	**Japan**	445	2.8

Source: compiled from the Royal Institute of International Affairs (1937, p. 142 and pp. 186-187). Notes: a) for the case of the US the data include direct and portfolio investments; and b) 'Europe' includes all of Turkey. ***** Portfolio investments estimated at 116 million dollars by Edgar Thurlington; but market value not more than 15 million dollars.

Concerning international relations, by 1929, Argentina had the reputation of an important player, not only in the inter-American scene but also in intercontinental political affairs. As Díaz Alejandro (1970, p. 59) argues, many influential Argentine leaders mentioned that their country acted as counterweight to the US in the Americas and dreamed of increasing the influence of Argentina in neighbouring countries. However, regarding Anglo-Argentine relations, in spite of their mutual respect and independence in a politic level (since citizens of Buenos Aires defeated a British attempt to end Spanish control in *Río de la Plata* in 1807), on an economic level there was a complex and delicate interdependence. In this respect, O'Connell (2000, p. 169) argues

[213] See "Se creó la CGT" (1930, p. 482) in *El Bicentenario*.

that Argentina had limited its autonomy for the UK. This country was the main export market for Argentine products (especially beef that was adapted to British tastes) and Argentina constituted important recipient country of British investments, but also Southern European immigrants had inserted into Argentine social life Anglo-Saxon ways and customs.

However, in addition to everything mentioned before, it is worth noting that during the period 1925-1929 Argentina had lost ground in its relative world position and its failure to fulfil pre-1930 expectations had created frustration in society in general. Certainly, many Argentineans started to feel that welfare had declined because of the swings in the economy and the struggle of interests linked to politics.

ii. The undermined prosperity

During the twenties, Argentina enjoyed a relative prosperity. As it is possible to appreciate in Table 26, which shows the evolution of the total and the per capita GDP during the years previous to the Great Depression, both variables steadily grew, marking the notorious success of the Argentine economy during the Radical government that dominated the political scene since 1916[214]. Between 1925 and 1929 the total GDP increased at an average annual rate of 5.5% and the per capita GDP 2.5%, taking into account that Argentina was historically characterized as a country with high per capita GDP. In this regard, in 1929 the per capita GDP not only was the highest in Latin America reaching the figure of 4,367 dollars, but also it was similar to the per capita GDP of France (4,710 dollars) and was not far from Canada (5,065 dollars), New Zealand (5,262 dollars), Australia (5,263 dollars) or even the UK (5,503 dollars).

But, everything was not '*color de rosa*'. In line with Falcoff & Dolkart (1975, p. x) we consider mainly that the dislocation in Argentina occurred because of the abrupt disappearance of the conditions that made possible the emergence of the modern Republic in the late nineteenth century. Those conditions were the existence of the British Empire as a main market for foodstuffs, the international division of labour, and the relatively free movement of goods and services across national boundaries. Therefore, it is possible to argue that together with the disappearance of those conditions and the existence of important vulnerabilities, the failures of Hipólito Yrigoyen's government (1928-1930) which was not able to respond adequately to the international crisis known as the Great Depression, prompted the interruption of Argentine success.

In particular, Figure 8 illustrates the different vulnerabilities of Argentina grouped in economic, political and social aspects –i.e. high dependence on the external world, imposition of the gold standard, political instability with conflicts and divisions, struggle of interests around foreign capital and social and economic antagonisms, among others- as well as external factors that impacted on the economy. In this regard, it is relevant to mention that those external factors were linked to the economic decisions taken by the UK and the US in a context of a changeable international scenario. All these elements, which we develop in this section, caused the rapid

[214] The Radicals had the control of the government, alternating the presidency between Hipólito Yrigoyen (1916-1922 and 1928-1930), and Marcelo T. de Alvear (1922-1928).

deterioration of the country at the end of the twenties mainly characterized by fiscal deficit, currency depreciation, contraction in export values, capital outflows and disorientation in the society in general.

In 1922 Marcelo T. de Alvear assumed the presidency, succeeded in 1928 by Hipólito Yrigoyen. Alvear was a member of the *Unión Cívica Radical* (UCR, Radical Civic Union) and one of the country's wealthiest landowning families. He boosted the rapid expansion of the middle class and the wealthy social elite that constituted the base of the Argentine liberal economic model of the decade. But, he had to face three important issues: crisis in the beef industry, tariff reform, and the public debt[215], together with all the Argentine vulnerabilities.

Table 26 Argentina: Total GDP and per capita GDP (1928=100)

Year	Total GDP Million 1990 International Geary-Khamis dollars[216]	Total GDP index 1928=100	Per capita GDP 1990 International Geary-Khamis dollars	Per capita GDP index 1928=100
1925	40,597	84	3,919	91
1926	42,544	88	3,994	93
1927	45,567	94	4,156	97
1928	48,414	100	4,291	100
1929	50,623	105	4,367	102

Source: calculated from Maddison (2010)[217].

The first issue was dominated by the power wielded by the meat-packing plants (fundamentally of foreign capital origin) in Argentine politics. Thus, for a proper comprehension of the real situation, it is essential to keep in mind the most important facts related to the meat industry. Firstly, the meat boom ended abruptly in 1921 when the British government ceased stockpiling supplies from Argentina, abolished meat control and began to liquidate its accumulated holdings. In this respect, Smith (1969, p. 83) argues that as the UK was focused on reconstruction after the Great War and they were unable to maintain much purchasing power and as they had also stockpiled large amounts of canned and frozen beef, they decided to consume those stocks before importing more. This decision negatively affected the Argentine meat trade. Rock (1985, pp. 204-205) states that in 1921 the number of livestock slaughtered for export was less than half that in 1918 and prices also dropped by half. And therefore the production of frozen and canned beef fell abruptly. As a consequence, the beef trade remained dominated by chilled beef to the point that the proportion of chilled in total beef exports jumped from less than 12% in 1920 to more than 60% in 1922![218]

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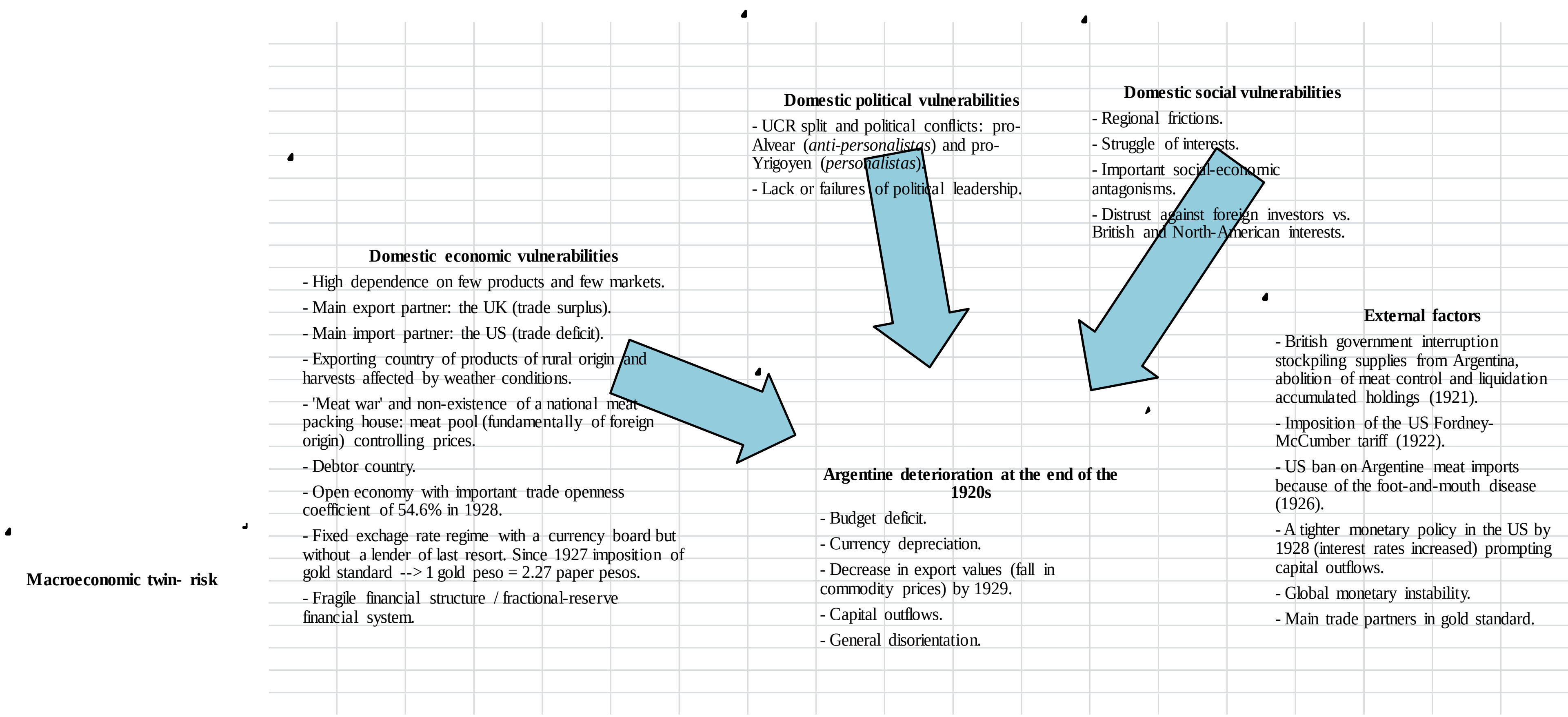
[215] See Rock (1985, p. 203).
[216] For more detailed information about Maddison's methodology see the "Introduction" of this thesis.
[217] Maddison (2010) was taken as source of information in order to make international comparisons and this information is consistent with, for example, the figures taken from Cortés Conde (2009, p. 309) that show the sharp growing of the total GDP, too. These figures (base year recalculated to 1928) are as follows: 1925: 86, 1926: 92, 1927: 99, 1928: 100 and 1929: 101.
[218] See Smith (1969, p. 83).

Figure 8 Argentina: Deterioration at the end of the twenties



Moreover, the depression affected all sectors due to the particular vertical organization of the industry and in this concern a key element was that the losses were unevenly distributed. In this regard, the way out of this bad situation for the meat business was to attempt to protect the profit margin by lowering the prices, which was detrimental to subordinate sectors (e.g. fatteners cut prices to breeders). And in this context the meat-packing plants had the greatest power and freedom of manoeuvre. In addition, at the most difficult phase of depression a group representing the livestock breeders led by Pedro Pagés won control over the *Sociedad Rural Argentina* (SRA, Rural Society). That meant significant progress for those who were worst hit in the meat sector because one of the most important functions of this institution was to put pressure on the government to intervene against the meat-packing plants, which were accused of operating a buying pool to protect their own profits.

With the purpose of fighting against the meat-packers' pool the SRA proposed creating a nationally owned plant that would pay higher prices than the American and British buyers. Other important recommendations were: the introduction of an officially regulated minimum price determined by weight rather than pedigree (in order to assist livestock farmers overstocked with creole livestock), and a more severe measure, the exclusion of foreign meat packers from the domestic market, which would be reserved for those with lower-grade stock[219]. In this regard, in 1923, with support from Alvear, Congress passed legislation that incorporated most of these proposals. But, the packers reacted very badly and imposed an embargo on all livestock purchases, an action that entailed confusion, frustration and division among the livestock farmers. Thus, in response to that situation, the government desisted from the idea of other interventions, a reaction that demonstrated the power of foreign-dominated monopsonies.

However, according to Smith (1969, p. 112) the prelude to the 'meat war' began in January 1925, when the British-owned Smithfield & Argentine firm announced the modernization and enlargement of its plant and demanded a two-thirds increase in its quota (from 5.65% to 8.50%). Two years later, after arduous negotiations, the packers reached an agreement of distribution of the market share: Americans, 54.9%; British, 35.1%; Argentineans, only 10%[220]! Thus, more than ever before, the Argentine beef trade was controlled by foreign interests and in this regard the war was already established between foreigners and the Argentineans who desired to increase their market share. In this respect there is a relevant difference between Argentina and its neighbouring country Uruguay. The latter had a margin of negotiation in the meat market because it had had a national meat-packing plant since 1928 while in Argentina that was only a project in discussion supported mainly by the breeders, very difficult to make a reality. That was because of the pressure generated by the foreign presence, a situation that, as Figure 8 describes, made the country more vulnerable. In this regard, according to Díaz Alejandro (1970, p. 61) frictions between foreign investors and Argentineans were perhaps the most potentially

[219] See Rock (1985, p. 205).

[220] By the 1920s the Argentine meat trade was handled by the following companies: the North Americans, Swift, Armour and Morris; the English, Vestey Bros, Smithfield and Argentine Meat Co. Ltd, and the English and Dutch Meat Co. Ltd; and the Argentine firm Sansinena, which used English and French capital (Gravil, 1970, p. 147).

explosive issue kept under control by the twenties[221]. In general, public service companies such as railways and meat-packing plants, all of them using foreign capital, were involved in terrible scandals accused of making exorbitant profits from the abuse of their oligopolistic and oligopsonist power.

A second issue that Alvear had to handle was the need for a tariff reform because by that time the tariff structure did not reflect reality, showing the predominance of the nineteenth century thinking towards tariffs and industrial development. In this regard, in 1923 Alvear presented to the Congress some proposals that, according to some researchers, could be interpreted as a strong shift towards protectionism in support of domestic manufacturing[222]. Some of the main proposals were: to reduce duties on imported raw materials used by the metallurgical industry, to extend the protection to cotton, yerba mate[223], and temperate fruits (in order to assist government colonization schemes in the Chaco, Misiones and Rio Negro) and to increase tariff valuations (*aforos*)[224], the notional values applied to each category of imports upon which variable schedules of duties were imposed[225]. But, in the end, after the resignation of the Minister of Finance Herrera Vegas, these readjustments resulted in no greater effect than to restore duties to the level of 1914, introducing a 60% increase in official valuations and raising specified duties by one-fourth with the main purpose of increasing customs revenues[226]. This meant a clear adjustment that attempted to restore normality in a context of imposition of protectionist measures in developed countries. That is the case of the US with the enactment of the Fordney-McCumber tariff that in 1922 restored and extended the earlier policy of exclusion.

Finally, the third issue that Alvear's government had to face was the public debt. A large floating debt[227] that was inherited from the high public expenditure in Yrigoyen's term, turned into a divisive factor in the Radical party ironically entailing the resurgence of Yrigoyen as a popular leader and favourite to win the presidential elections of 1928. The main reason was that in order to fight against the volume of public debt, large-scale dismissals were begun that affected appointees from the previous administration and therefore Alvear quickly lost the support of his party. Even worse, the middle class and mainly the beneficiaries of government patronage and jobbery overwhelmingly renounced Alvear and followed Yrigoyen.

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[221] It is important to keep in mind that since 1862 when Argentina began to receive capital flows from abroad, a certain distrust against foreign investors, especially the British, was not exceptional (Díaz Alejandro, 1970, p. 60).

[222] This claim was first made by Alejandro Bunge, early apostle of industrialization and a proponent of protectionist programs emulating Japanese practice (Rock, 1985, p. 205).

[223] 'Yerba mate' is a plant with green leaves belonging to a species of holly, well-known as the source of the mate beverage. The infusion, called 'mate' in Spanish-speaking countries or '*chimarrão'* in south Brazil, is prepared by steeping dry leaves (and twigs) of the mate plant in hot water, rather than in boiling water.

[224] The 1906 Law set an estimated unit value (*aforo*) on each imported item that could be changed only by law (Díaz Alejandro, 1970, p. 281).

[225] See Rock (1985, p. 206).

[226] See O'Connell (1986, p. 88). By the early twenties the real incidence of the *aforos* had reduced substantially, due to the wartime inflation, and government revenues along with them (Díaz Alejandro, 1970, p. 206).

[227] Floating debt: debt issues in bonds or treasury bills with fixed maturity at short-term with the possibility of rescue in order to finance extraordinary expenses. It is the part of the public debt which is not consolidated (Andersen, 1999).

Another factor in the vulnerability of Argentina shown in Figure 8 was that by 1924 the differences in thinking on political conduct (e.g. as mentioned above, differences in the management of the public debt) between the followers of Yrigoyen (*personalistas*) and the followers of Alvear (*anti-personalistas*) caused the split of the UCR. In this regard, severe conflicts in the UCR began and the turbulent scenario was extrapolated to society in general, prompting discontents fuelled by the struggle of interests, regional frictions and important social-economic antagonisms. In the latter matter, by 1929, in a similar way to the events that occurred during the nineteenth century, the discrepancies between the Province of Buenos Aires and the rest of the country were a source of disorder and political tensions in Argentina because of the existence of resentment by the rest of the country against this zone. This area, rich in natural resources, enjoyed the concentration of wealth with a real income higher than the average for the whole of the country and the concentration of population especially around the metropolitan centre of Buenos Aires, which had an important geographical position and a strategic port. All these characteristics allowed the Province of Buenos Aires, as political and economic centre, to control the rest of the country. In this regard, Real (1962, pp. 25-26) stresses that in an area of 300 km around the port of Buenos Aires 72% of cattle, 60% of sheep, 95.7% of cultivated cereals and linseed, 81% of industrial establishments, 80% of invested capitals, 80% of total production and 86% of industrial workers were concentrated. These figures show the split in the national unity of the country divided into a powerful and wealthy coastline concentrating more than 80% of the total production, domestic and foreign trade, and the rest of the country, the North-western quasi colonial and uninhabited, and the '*Patagonia desértica*' (deserted Patagonia).

In the agricultural field, there were also serious antagonisms between those that supported free trade and others who preferred protectionist policies to safeguard their interests[228]. On the other hand, the cereal tenant farmers since the late nineteenth century complained about high rents and oligopsonist commercial interests in the grain export trade. In this regard, as in the case of the meat trade mentioned before, the belief grew that a corrupt alliance of foreigners and domestic 'oligarchs' in both import and export activities ran the country only for their own profit[229]. Thus, in this conflictive context, whenever Argentina suffered bad harvests or was hit by the fall of commodities prices, these conflicts acted as aggravating factors of the downturn.

However, as it is represented in Figure 8, the main vulnerability of the country was given by the fact that it was an open and export-led economy with a trade openness coefficient around 55%[230] in 1928 which showed a strong dependence on the external world. At this point, Argentina was a developing and debtor country[231] and an exporter of foodstuffs and raw materials which depended on the swings of the international prices of commodities or using the expression of Díaz Alejandro (2000, p. 17) on the 'commodity lottery'. But, making the

[228] It is important to note that in days of Spanish domination and under the Rosas regime, restrictions on exports had been used to maintain low domestic prices of wage goods, favouring the worker class (Díaz Alejandro, 1970, p. 65).
[229] See Díaz Alejandro (1970, pp. 61-65).
[230] This figure was taken from Cortés Conde (2009, p. 322).
[231] However, Argentina was well positioned in the world. See the section "A South American big player".

situation worse, its few most important export products had as destination few markets; fundamentally the UK and Western Europe. In addition, as mentioned before, Argentina depended not only on US goods -constituting it in its main supplier- but also on US and UK capital to finance and supply its private and public activities and to resolve its problems of balance of payments. In this regard, the external factors fuelled the vulnerabilities and the first signals of the forthcoming Argentine crisis started to appear.

In relation to the evolution of its foreign trade in dollars between 1925 and 1929, Table 27 reveals that in 1926 exports and imports decreased 8% and 5.4% respectively relative to 1925, showing a trade deficit in merchandise of 28 million dollars. This evidence is not a surprise due to the persistent fall in agricultural prices after the First World War[232]. In addition, it is important to keep in mind that Argentina suffered harvest losses due to drought every 3 to 5 years[233] and during the period 1924-1925 Argentina had a bad harvest again pushing down the grain export volumes. And to aggravate more the situation by the end of 1926 meat exports were seriously affected because of the sanitary barrier imposed by the US against Argentine meat, banning the imports of meat from the River Plate –a measure opposed to the interests of the American packers-, affecting also Uruguay, under the justification of the presence of foot-and-mouth disease in the region[234]. In this regard, it proves evident that although at first this measure taken by the US was a product of the fear to import infected meat, in the end it acted as a protectionist device. Ironically, this embargo had been prompted, in fact, by a British discovery[235] and in spite of the fact that in June 1926 the British government had prohibited imports of carcasses slaughtered in continental Europe, UK did not apply this measure to Argentina and only demanded a tightening-up of sanitary measures[236].

However, the year 1927 was spectacular in terms of trade: exports increased 33% in comparison with the year before, imports also increased but to a rather lesser extent (8.8%) and for the first time during the period the country reached a trade surplus of 147 million dollars. In that year, although maize, linseed and chilled beef, among the main export products, showed a bad price performance, salted and dried cattle hides increased their prices around 30%[237] and according to

[232] The first downturn in the twenties was during the period 1919-1921 because of a sharp reduction in agricultural prices after the end of the First World War. For more information in this regard see O'Connell (2000, pp. 166-169).

[233] See O'Connell (2000, p. 166).

[234] For more detailed information see O'Connell (1986b).

[235] The British discovered that the foot-and-mouth virus remained alive for several weeks in the bone marrow and in some of the blood vessels of refrigerated carcasses (O'Connell, 1986, p. 85)

[236] Argentine government introduced some additional measures of sanitary control late in 1927 and early 1928 after the British inspections (O'Connell, 1986, p. 85). For example, in early 1928 Lord Bledisloe, parliamentary secretary to the British Minister of Agriculture, made an inspection tour of Argentina. He noted the mildness of the disease where it existed and recommended several measures for its control; these the livestock farmers promised to carry out. However, Bledisloe's visit was also inconclusive; more would have to be done (Smith, 1969, p. 120). With this evidence, it is possible to conclude that the British were aware of that the imposition of an embargo, like the US did, could cause a disaster for the Argentine economy and probably the UK economy –impacting on the cost of living- taking into account the importance of the British market for Argentine meat exports (see next section) and, therefore, the British government had to stand firm against the pressure exerted by the UK livestock farmers to stop importing Argentine beef.

[237] See Prebisch (1991, p. 261).

Viales (2000, p. 98) the Argentine wheat price reached its maximum in May, 1927[238]. Then, in 1928 the improvement in export prices was significant with rises in maize, linseed, chilled beef, cattle hides and wool[239] and, as it is possible to appreciate in Table 27, exports increased 4.6% in relation to 1927 while imports decreased 2.2%, achieving a trade surplus of 210 million dollars! But this prosperity was about to end. Once again, the evolution of the agricultural prices was not favourable to Argentina. In spite of the fact that in 1928 average prices of commodities increased…by mid-1928 wheat market prices declined. In addition, news of larger harvests in the Northern Hemisphere season by mid-1929 only made the situation worse. Thus, wheat prices fell almost 30% between May 1928 and May 1929[240]. In 1929, although Argentina enjoyed a positive trade balance, this one did not reach the level of 1928. Exports decreased 10.8% in relation to 1928 and kept below the level of 1927 in a context where clear signals of problems of access to external markets started to appear because of the financial constraints and monetary instability all over the world. Wheat, maize, cattle hides and wool prices suffered contractions; the exceptions were linseed, meat and dairy products[241].

Table 27 Argentina: Foreign trade in million US dollars (1925-1929)

Year	Exports	Imports	Trade balance
1925	793	801	-8
1926	730	758	-28
1927	972	825	147
1928	1,017	807	210
1929	907	820	87

Source: calculated from Statistical Yearbook of the League of Nations (various years). Economic Intelligence Service. Geneva. Notes: a) special trade, only merchandise; b) the export values are FOB values and the import values are CIF values, '*valores reales*'; c) original data expressed in paper pesos, in order to obtain the figures in current million US dollars, the US dollars/gold pesos exchange rates from Officer (2011) and the parity 1 gold peso = 2.27 paper pesos were applied; and d) it is important to highlight that the values expressed in current million dollars are the closest possible to the transaction values taking into account the monetary and exchange rate instability for the period of analysis.

With regard to the value of the Argentine currency, beginning in 1926 the peso –which had depreciated under inconvertibility- started to rise against the pound and the dollar[242] whilst capital inflows increased. Furthermore, in 1927 there was a new expansion of capital inflows; especially channelled into fields such as public borrowing and foreign trade. Thus, in that year Argentina found the pre-conditions to adopt the gold standard following the international trend and the monetary authorities established the parity of 1 gold peso = 2.27 paper pesos[243]. That

[238] However, in 1927 in average terms the wheat price (11.31 pesos per 100 kg. = 4.79 dollars per 100 kg.) remained below the level of 1926 (12.20 pesos per 100 kg. = 4.95 dollars per 100 kg.). Figures based on Prebisch (1991, p. 261) and after conversions expressed in dollars by the author.
[239] See Prebisch (1991, p. 261).
[240] See O'Connell (2000, p. 170).
[241] See Prebisch (1991, pp. 137-139, 261).
[242] According to della Paolera et al. (2003, p. 54) in their study about the contemporaneous macroeconomic performance of Argentina, during Alvear's period (1922-1928), in average terms the devaluation rate was -2.72% (that meant the revaluation of the peso). For peso quotations in pounds and US dollars see Balboa (1972, pp. 159-160).
[243] Before that year, Argentina was in the gold standard during the period 1899-1914 (Geller, 1975, p. 1).

was two years after the main importer of Argentine products, the UK, adopted that regime as well as its main supplier, the US, a country that was in the gold standard since 1919. In this regard, with the adoption of the gold standard this country increased its level of vulnerability in the face of external shocks in a scenario where the peso was touching parity whilst the banks accumulated sizeable foreign reserves[244].

Regarding financial aspects and turning to the exchange rate regime, Argentina was very vulnerable and faced an important macroeconomic twin-risk: the existence of a fragile financial structure with a fractional-reserve financial system[245] and a fixed exchange rate regime with a system of *caja de conversión* (currency board) since 1899 but without a lender of last resort[246]. The task of the Conversion Office was the exchange of paper pesos for specie. Hence, the authorities could not control the nominal quantity of the monetary base in the economy leaving the government without any margin of manoeuvre in case of an economic crisis[247]. In addition to this, by 1928, a tighter monetary policy in the US[248] immediately prompted important capital outflows, which meant, according to the expression used by Bulmer-Thomas (1994, p. 161), that the 'dance of the millions'[249] in Latin America had ended. Argentina was not the exception. In a context of a strong Argentine peso under free convertibility, Table 28 shows the capital flows in Argentina by that time. During the period 1928-1929 there was a capital flight of millions of gold dollars because of the egregious decrease in value, especially short-term capital items (-10.9)[250], a situation that to a lesser extent continued for the case of short-term capital during the period 1929-1930. Thus, 1928 meant a special year, not only for the general elections in April but also for the existence of capital outflows, a significant trade surplus and increases in export prices, though the evolution in agricultural prices was not clear (erratic with important falls). In this scenario, in that year the country started to feel an economic dislocation towards the depression as can be seen in the core of Figure 8.

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[244] See O'Connell (2000, p. 169).

[245] Fractional-reserve financial system is a sort of system whereby the main bank, in this case *Banco de la Nación Argentina* (BNA, Bank of the Argentine Nation), does not retain all of a customer's deposits within the bank. Funds received by the bank are generally loaned on to other customers. This means that available funds (so-called bank reserves) are only a fraction (the so-called reserve ratio) of the quantity of deposits at the bank. As most bank deposits are treated as money in their own right, fractional reserve banking increases the money supply, and banks are said to create money. Bank runs (or when problems are widespread, a systemic crisis) can occur in fractional-reserve banking systems. To mitigate this risk, the governments of most countries, usually acting through the Central Bank, regulate and oversee commercial banks, provide deposit insurance and act as lender of last resort to commercial banks. The latter was not the case for Argentina which created its Central Bank just in 1935 and its main bank did not act as lender of last resort. Thus, Argentina could not mitigate that risk. See also Nuri (2002).

[246] See della Paolera & Taylor (1997, p. 17).

[247] See della Paolera & Taylor (1999, pp. 575-576).

[248] The speculation in the New York Stock Exchange market was so extraordinary that it added to the need for the Federal Reserve to catch more gold reserves, and the interest rates rose (Thorp, 2000, p. 5).

[249] This famous phrase was coined by two Colombians, Laureano Gómez and Alfonso López Pumarejo, who were highly critical of the loan bonanza (Bulmer-Thomas, 1994, p. 161).

[250] The relevance of these figures is, in a framework of monetary and exchange rate instability, in the sign (positive or negative) of the capital flow because the values in million gold dollars are influenced by the changes in the price of gold.

In 1929, while exports decreased, capital outflows continued, government expenditures increased and the budget deficit reached 2.3% of GDP[251] but imports did not diminish, the value of the Argentine peso started a decline[252]. In this regard, Balboa (1972, p. 157) argues that Argentina was constantly a country that needed to keep a significant positive trade balance to face its permanent outflows from financial services and remittances of immigrants which in those years were more than 400 million dollars. By contrast, when the conditions of the economic cycle diminished or the trade balance was negative; the pressure of those outflows had inevitable consequences on the equilibrium of the balance of payments and on the value of the peso.

Table 28 Argentina: Capital items from the balance of payments (million gold dollars)

Period	Capital items		
	Long-term	Short-term	Total
1927/28	106.4	24.3	130.7
1928/29	48.7	-10.9	37.8
1929/30	175.7	-8.3	167.4

Source: compiled from Statistical Yearbook of the League of Nations 1934/1935, p. 214. Economic Intelligence Service. Geneva, 1935. Notes: a) 1.X-30.IX; b) private compilation by M. Carlos A. Tornquist; and c) amortization of the public debt and certain mortgage bonds is not included in long-term capital items.

In the political sphere, the problems of budget, specially the difficulties of Alvear's government in dealing with the public debt, the turbulent political scenario -the UCR split and the dissatisfaction with Alvear's political conduct- and the conflicts around foreign capital, for example in the meat trade, paved the way for the victory of Hipólito Yrigoyen in the elections of 1928. In relation to the latter matter, in the twenties a justifiably strong feeling of society in general against imperialism grew. That was not only for the exorbitant profits of the British companies by using oligopolistic or oligopsonist power but also for the behaviour of the US towards Argentina. It is important to keep in mind that some of the main acts were: in 1922 the imposition by the US of the Fordney-McCumber tariff which restored its policy of exclusion against Argentine products, and later in 1926 the imposition of an embargo on Argentine meat, and in 1928 with its higher interest rates this country boosted an important capital flight throughout Latin America. Thus, during the election campaign, Yrigoyen took advantage with his *personalista* style closer to the people and showed off his anti-imperialist thinking. Indeed, his big bet was the creation of a state monopoly over petroleum, boosting the nationalization of this resource through the *Yacimientos Petrolíferos Fiscales* (YPF) in an attempt to fight against the 'Yankee imperialism'[253]. This argument attacked American petroleum interests, particularly the Standard Oil Company –the most prominent private company in the petroleum industry-[254] and it turned into a key element in a growing crisis in relations between Argentina and the US.

[251] This information was taken from della Paolera & Taylor (1999, p. 571).
[252] See Cattaruzza (2001, p. 25).
[253] Despite the expansion of the YPF –the first vertically integrated state petroleum industry outside the Soviet Union- in the twenties rapid growth took place among the private companies, which by 1928 had increased their share to almost 38% of nationwide production (Rock, 1985, p. 209).
[254] Whilst attacking Standard Oil, the *yrigoyenistas* carefully refrained from giving offense to the British, who had an important presence in the petroleum industry, mostly through Royal Dutch Shell. Yrigoyen apparently

Finally, Yrigoyen -the *caudillo*- despite his advancing age with rumours that he was senile, won the elections and assumed his second presidency (1928-1930) with around 60% of the popular vote. Yrigoyen's administration became a vast employment agency serving the government's political ends, attempting to keep at bay the conservative and military opposition for his political survival. In 1928, that situation boosted the government expenditure by 22% against a fall of 10% in revenues in the previous year. In 1929 revenues rose against those of 1928 by 9%, but expenditure did so too by 12%. Thus, by 1929 revenues were 1% lower than 1927, but public expenditure around 34% greater! [255].

In the meantime, while the petroleum issue remained unresolved[256], at the end of 1928, Yrigoyen received with indifference, amid a hostile reception, the President-elect of the US, Herbert Clark Hoover who was visiting some Latin American republics in order to promote trade. By contrast, in the face of the deterioration of the Argentine foreign trade and the fact that after that the US kept its market closed to imports from Argentina and taking into account that the SRA led a campaign for preferences for British goods against American by the slogan '*Comprar a quien nos compra*' ('Buy from those who buy from us'), in 1929 Yrigoyen warmly invited a British commercial mission headed by Lord D'Abernon. In August 1929 D'Abernon succeeded in arranging a trade agreement with Argentina, under which each country undertook to buy up to £ 8,700,000 in value of products from the other[257], which represented only around 4% of the total exports of Argentina and 14.5% of the exports to the UK. In addition, Argentina guaranteed the supply of materials for the *Ferrocarriles del Estado* (Argentine state railways), that is to say that this country agreed to buy from the British all these materials for two years. And it granted preferential tariffs for the UK artificial silk, in exchange for a promise that UK would continue to buy Argentine meat[258]. Thus, it is evident that this agreement which was finally signed on September 6th (a similar agreement was signed between Brazil and the UK, too)[259] granted important concessions for the UK without any clear benefit for Argentina. That was a situation that showed that Yrigoyen fundamentally tried to strengthen bilateral relations

tried to give the British the role of chief petroleum importers and suppliers of equipment required by the YPF, a concession that would both reduce the trade surplus with the UK and improve Argentina's bargaining position in the face of imperial preferences (Ibid., p. 210).

[255] See Rock (1985, p. 212).

[256] The nationalization measure submitted by the *yrigoyenistas* in 1927 had passed through the popularly elected Chamber of Deputies, but was ignored in the Senate. Again Yrigoyen did not have enough allies in the Senate to enact his program (Rock, 1985, p. 211).

[257] See Normano (1932, p. 95).

[258] But this achievement meant more than this particular transaction in D'Abernon's mission. He studied the commercial situation of Argentina, Brazil and Uruguay, analysed it, and arrived at a full understanding of it. The "Report of the British Economic Mission to Argentina, Brazil, and Uruguay" concluded that the backwardness of European forms of production was the main cause of North American success in South America and perhaps all over the world. In particular, English production was at that time in a sense 'old-fashioned'. Precisely, the main area of North American success lay in the supply of new commodities. For example, concerning Argentina, the report states that the average Argentine household of that time thought more in terms of motorcars, gramophones and radio sets than of Irish linen, Sheffield cutlery, and English china and glass. But, this report did not neglect the importance of cultural influence in the commercial battle because of the marked similarity of ideas between South-American peoples and the British (Normano, 1932, pp. 95-98).

[259] See "La Argentina y Gran Bretaña trocarán bienes" (1929, p. 478) in *El Bicentenario*.

with the UK, which was detrimental to those with the US[260]. However, although this agreement was signed by Yrigoyen and passed through the Chamber of Deputies, in the end, because the government was overthrown and the Congress dissolved by the coup of 1930, it did not get to pass through the Senate, resulting in only a background to the Roca-Runciman Treaty in 1933[261].

To sum up, by the end of the twenties the complicated panorama in economic, political and social terms described above prompted the rapid deterioration of Argentina just when in October 1929, the Wall Street Stock Exchange market of the US crashed and the crisis was transmitted worldwide. Thus, in a scenario of global monetary instability and with serious problems of balance of payments, the Argentine authorities began to think that to remain in the gold standard would involve high costs for the economy and society in general. And indeed a change of economic model for Argentina could be the suitable response in case of crisis. A similar process was going on in Brazil and Uruguay, although in the former the abandonment of the gold standard was more imposed by the depletion of the gold reserves and the coup of Getulio Vargas.

iii. The mirror of the vulnerabilities

In this section, we present the economic structure of Argentina in the late twenties, that is to say, the structure of its GDP, the composition of exports and imports, as well as the degree of the geographical diversification of its foreign trade. In this regard, it is important to keep in mind that the hypothesis of the current research is that Argentina, Brazil and Uruguay were highly vulnerable to the Great Depression, and among them the smallest country was the most vulnerable of all. Thus, it is of relevance to have a complete depiction of the economic structure of the country of analysis.

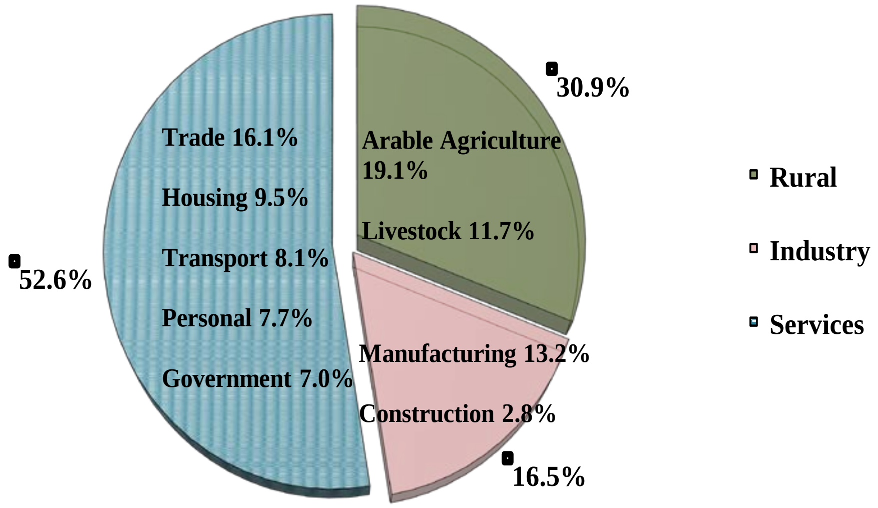
As Figure 9 describes, during the period 1925-1929, the services -fundamentally associated with trade activities- represented more than half of the total GDP of Argentina. On the other hand, rural activities had a share of 30.9% -with arable agriculture ranking in first place and cattle farming second- while industry based on manufacturing activities represented around 50% less than the rural activities (16.5%)[262]. Thus, it is verifiable that in that period rural and trade activities were most important for the country.

With regard to the progress in industrialization, although before the thirties rural entrepreneurs showed little interest in this matter, foreign capital and domestic urban capitalists took industrialization ahead hand in hand with factor endowments changes and the expansion of the domestic market, making more profitable the competition with imports. According to Villanueva (1972, p. 458), an interesting figure from the Industrial Census of 1935 that shows that the process of industrialization was prompted before the thirties is that 66% of the total

[260] See Romero (2002, p. 56).
[261] See Cattaruzza (2001, p. 26).
[262] The data were taken from the Economic Commission for Latin America (ECLA) at 1950 prices and converted by the author at 1937 prices using national accounts data at current prices for that year (Díaz Alejandro, 1970, p. 10).

industrial establishments in the country were established before 1930. However, Rock (1985, p. 206) argues that by that time the government attitude towards national industry continued to echo a nineteenth century theme, that protection was justifiable only to support local products that would quickly become price competitive with imports, for the most part only agricultural goods. To support 'artificial' industries, it was argued, would induce chronic inefficiencies and social tensions. But, in this concern it is important to highlight the relation between the contribution of industrialization to the value added of products and their destination. Of the goods whose destination was the export or domestic market, one-quarter of the total value of rural production was exported after substantial processing by domestic industry (meat, flour, etc.), another quarter was exported with negligible processing (maize, oats, etc.) and one-half was consumed domestically either in situ or after being transported to, and processed in, consuming centres within Argentina[263]. Thus, following this argument, in spite of exports representing almost exclusively goods of rural origin, these goods possessed value added by industry and modern services and, therefore, the rural sector constituted the 'mother industry'.

Figure 9 Argentina: Structure of GDP (1925-1929)



Source: compiled from (Díaz Alejandro, 1970, p. 10).

Table 29 shows the structure of Argentine exports, which were quite diversified in comparison with the rest of the Latin American countries. The main export products which represented 84.3% of total exports were –in order of importance-: wheat, maize, meat –in this group chilled beef had a share of around 50%- linseed, wool in the grease, and dried and salted cattle hides. Thus, it is possible to conclude that for this sort of export products, e.g. grains or meat, the changes in foreign trade and consequently in output depended on their seasonality and the

[263] See Díaz Alejandro (1970, p. 13).

livestock cycle. Furthermore, the composition of the exports shows the clear comparative advantages of this country. The Pampas[264], extending for 300-400 miles from Buenos Aires, and the Mesopotamian area[265] between the rivers Parana and Uruguay, were given over to cattle and cereals; Patagonia[266] to sheep-rearing; and the Chaco or northern lowlands[267] produced forest and semi-tropical products[268]. In addition, there were other factors apart from the character of the land that contributed to the development of the large export trade of specific products. For example, Taylor & Taylor (1943, p. 142) argue that two conditions contributed to increasing the export of maize from Argentina: first, a form of land tenure in the country which encouraged this sort of export rather than the feeding of it to livestock; and second, the market in North-western Europe arising from the development of the livestock industry based on imported feeds.

Table 29 Argentina: Structure of exports (1928)

Product	% (percentages of total)
Wheat	23.8
Maize	21.6
Meat	12.7
Chilled beef	6.7
Frozen beef	1.9
Preserved meat	1.5
Chilled mutton	1.4
Other meat	1.2
Linseed	12.4
Wool in the grease	7.1
Cattle hides (dried and salted)	6.7
All others	15.7

Source: compiled from "International Trade Statistics 1930" in Memorandum on Trade and Balances of Payments, 1930. Vol. III. League of Nations, Geneva (1932). Note: the group 'all others' includes live animals, dairy products (butter and others), cattle by-products (tallow and others), other cereals, wheat flour and its by-products, oilseeds and their oil (excluded linseed), fresh fruits, cotton, quebracho (very hard wood tree) and its products, sugar, products from mining, fishing and hunting and other products.

With regard to the degree of geographical diversification of the exports, as it is possible to appreciate in Table 30, in 1928 the main destinations for Argentine exports were: the UK (28.7% of total exports) and countries of Western Europe such as Germany, the Netherlands, Belgium, Italy, and France with shares between 6% and 13.7%. On the other hand, the US reached a share around 8%. Furthermore, Brazil had a share of around 4%, Spain 2% and some countries of Northern Europe such as Sweden and Denmark and other neighbouring countries (Chile and Uruguay) had shares around 1%.

[264] The Pampas region includes the provinces of Buenos Aires, La Pampa, Santa Fe, Córdoba and part of Entre Ríos. Moreover, most of Uruguay, and the southernmost Brazilian State, Rio Grande do Sul have land of this kind.
[265] The Mesopotamian region includes the provinces of Entre Ríos, Corrientes and Misiones.
[266] Patagonia includes the provinces of Neuquén, Río Negro, Chubut, Santa Cruz, eastern Tierra del Fuego, southern Mendoza and south-western La Pampa.
[267] The Chaco includes provinces of Formosa, Chaco, eastern Salta, a big part of Santiago del Estero, northern Santa Fe and part of Tucumán and Córdoba.
[268] See Royal Institute of International Affairs (1932, p. 117).

Table 30 Argentina: Exports by destination and imports by provenance (1928)

Exports				Imports			
Nº	**Destination**	**Million USD**	**%**	**Nº**	**Provenance**	**Million USD**	**%**
1	**United Kingdom**	292	28.7	**1**	**United States**	187	23.2
2	**Germany**	140	13.7	**2**	**United Kingdom**	158	19.6
3	**Netherlands**	113	11.1	**3**	**Germany**	94	11.7
4	**Belgium**	93	9.2	**4**	**Italy**	72	8.9
5	**Italy**	89	8.7	**5**	**France**	58	7.1
6	**United States**	84	8.3	**6**	**Belgium**	43	5.3
7	**France**	60	5.9	**7**	**British Possessions**	38	4.7
8	**Brazil**	39	3.8	**8**	**Brazil**	31	3.8
9	**Spain**	22	2.2	**9**	**Spain**	22	2.8
10	**Sweden**	12	1.2	**10**	**Peru**	15	1.9
11	**Denmark**	10	0.9	**11**	**Netherlands**	11	1.4
12	**Uruguay**	7	0.7	**12**	**Uruguay**	8	1.1
13	**Chile**	7	0.7	**13**	**Canada**	6	0.8
	All others	50	4.9		**All others**	63	7.7
Total:		**1,017**	**100.0**	**Total:**		**807**	**100.0**

Source: calculated from "International Trade Statistics 1930" in Memorandum on Trade and Balances of Payments, 1930. Vol. III. League of Nations, Geneva (1932). Notes: a) special trade, only merchandises; b) original data expressed in gold pesos, in order to obtain the figures in current million US dollars, the US dollars/gold pesos exchange rates from Officer (2011) were applied; c) it is important to highlight that the values expressed in current million dollars are the closest possible to the transaction values taking into account the monetary and exchange rate instability for the period of analysis; d) import values are *'valores de tarifa'*; e) the figure for UK includes Irish F. State; and f) 'British Possessions' exclude Australia, Union of South Africa, New Zealand and Canada.

But, in spite of the apparently high degree of geographical diversification of exports –which in comparison with the rest of the Latin American countries was indeed higher-, Argentina had to face an important vulnerability in that it had a strong dependence on very few markets for the case of its most important export products. In that respect, Table 31 details for 1929 the shares of the main Argentine export products grouped by destination. Practically 100% of chilled beef had as its destination the UK. Moreover, the UK imported important quantities of frozen mutton, frozen beef and butter and to a lesser extent it was a significant importer of wheat, wool and linseed. That situation turned the UK into the main customer of Argentina. On the other hand, Germany was the main customer for wool and imported around 20% of total hides and skins. While the US was the main importer of these products (44%) as well as for linseed, importing 35% of the total. The main destination for maize was Belgium and this country was an important importer of wheat and wool, too. The Netherlands was a key importer of linseed and wheat, and finally, Italy and France imported each around 10% of the total maize from Argentina, a little below the main customer, Belgium.

In relation to imports, in general, except beef and a few other foodstuffs, high quality products for private consumption were imported. In 1928 the four main import products were: textiles and their manufactures (20.2% of total imports), machinery and vehicles (17.9%), foodstuffs –including the tropical ones and yerba mate- (9.3%) and petroleum and naphtha (8.2%). Other import products were coal (especially from the UK), rubber tyres, paper, iron and even wood, cement and sand for construction[269]. In addition, in relation to the degree of geographical diversification of the imports, Table 30 shows that in 1928 its main supplier was the US (23.2% of total imports) followed by the UK and countries of Western Europe such as Germany, Italy, France, and Belgium, with shares between 5.3% and 11.7%. British Possessions (fundamentally India, Burma and Ceylon[270]) had a share of 4.7%, Brazil almost 4% and Spain around 3% and Peru, the Netherlands, Uruguay and Canada shares between 1% and 2%.

Table 31 Argentina: Dependence of exports (1929)

Product	Destination	%
Chilled beef	**United Kingdom**	99
Frozen beef		54
Frozen mutton		91
Butter		85
Hides and skins	**United States**	44
	Germany	21
Wool	**Germany**	23
	United Kingdom	18
	Belgium	17
Wheat	**United Kingdom**	34
	Belgium	14
	Netherlands	11
Maize	**Belgium**	16
	Italy	11
	France	10
Linseed	**United States**	35
	Netherlands	23
	United Kingdom	10

Source: compiled from Díaz Alejandro (1970, pp. 20-21) from "*Anuarios de Comercio Exterior"*, Buenos Aires, 1931.

Regarding the import surplus of Argentina from the US, it is necessary to clarify that it dates back to the nineties when the Argentine economy went into a stage of rapid progress, due to the rapid growth of grain exports and to the development of the frozen beef trade rendered possible by refrigeration. These exports went to Europe and competed with US exports of cereals and meat; but they supplied Argentina with the means of financing a growing import surplus from the US, thus contributing to the rapid growth of that country's manufacturing industry[271]. The US, first with Texas petroleum and then with vehicles, lorries, tires and other consumer and capital goods (e.g. agricultural and industrial machinery)[272], could obtain a large share in the

[269] All figures were calculated from League of Nations (1931b).
[270] After calculations from League of Nations (1942, p. 139), the share of India, Burma and Ceylon -British Possessions in that year- reached 4% of total Argentine imports.
[271] See League of Nations (1942, p. 55).
[272] Argentina imported from the US particularly manufactured goods, such as vehicles. Thus, it is not a mere coincidence that Argentina was ranked ahead of the UK in per capita number of vehicles, reaching the figure of twenty-six inhabitants per automotive vehicle in 1930. For more detailed information see Díaz Alejandro (1970, p. 56).

Argentine market (23% in 1928), but Argentina had been unable to develop reciprocal exports to US (reaching only 8% of total Argentine exports in 1928)[273]. A good example of this is that after the American Civil War Argentina suffered the closure of the US market to its wool. Later, this country failed to win access for its main grain and meat products and the US seemed to be closed to Argentine products in its market. As mentioned, demonstrative of this situation were the increases of tariffs on products exported from Argentina due to the imposition in 1922 of the Fordney-McCumber tariff[274], and the embargo on the Argentine meat trade in 1926.

Argentina had generated enough capacity to supply Europe and by the late twenties it presented a trade surplus with the UK which roughly matched its deficit with the US. This situation was very different until the middle twenties when Argentina had an import surplus from the UK. This import surplus, and the payments due to the UK on account of interest and dividends, had to be financed by net exports to continental Europe. Thus, since that time Argentine trade with the UK had resulted in an excess of exports[275], representing in 1928 almost 30% of total exports but not supplying more than 20% because the British goods were displaced from the Argentine market by 'modern' goods (consumer and capital goods) from the US or because of the overvaluation of the sterling. Thus, the British market constituted a key market –fundamentally for chilled beef exports- as a source of foreign currency and to balance the economy, and it was a priority to keep it. In this regard, the tensions in US-Argentine relations together with the anti-imperialism campaign with the slogan '*Comprar a quien nos compra'* led by the SRA made Argentina attempt to strengthen UK-Argentine relations, shown by the Lord D'Abernon commercial mission. But, when the international panorama became complicated, Argentina feared that the UK would soon respond with discriminatory action, decreasing its imports from Argentina to relieve its trade deficit. If, for example, the campaign in progress for imperial preferences in the UK were successful, British dominion producers –Canada, Australia, New Zealand and South Africa- would appropriate the Argentine share in the British market[276].

During the late twenties, the trade imbalance of Argentina with the US and the UK was always compensated because of the financial flows: the remittances of interests, utilities and dividends, as well as the net flow of capital in a scenario where the US substituted for the UK as the main capital exporting country and British capital in Argentina was considerable[277]. That situation started to change when global conditions abruptly altered and the world was immersed in a depression. And although the triangular nature that authors such as Abreu & Svirsky (1985) and Rapoport (2003) attribute to these trade and financial ties of Argentina with the UK and the US is well known, it would be more accurate to say that these ties did not form a complete triangle if one takes into account the export surplus from Europe to Asia and from Asia to the US. Moreover, it is worth noting that this remarkable characteristic of the trade balance of Argentina, that is to say, the trade surplus with the UK and the trade deficit with the US, was

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[273] See Romero (2002, p. 43).
[274] See Rock (1985, p. 210).
[275] See League of Nations (1942, p. 55).
[276] See Rock (1985, p. 210).
[277] See Abreu & Svirsky (1985, p. 545).

common to other 'non-tropical agricultural countries', e.g. Uruguay, which suffered problems of balance of payments[278]. These countries were more dependent upon the US as a source of supply than as an export market, importing from the US more than twice as much as they exported to that country. By 1928, the US absorbed only 8% of the exports of the non-tropical agricultural countries against about half the exports of the tropical agricultural countries, as in the case of Brazil[279].

iv. Conclusion

Over the period Argentina was a relevant actor, together with Brazil, in the inter-American scene. And although nowadays Argentina is under the shadow of a new default, by the twenties it was a wealthy country with considerable reputation in capital markets and increasing influence in intercontinental political affairs. By that time, its exports represented around one-third of total Latin American exports and, as currently, it was a key supplier of primary goods and foodstuffs, such as meat and grains.

It was a crucial net recipient of foreign investments from the UK and the US. Argentina depended on the capital from those countries to finance and supply its private and public activities and to resolve its problems of balance of payments. In this regard, external factors fuelled the vulnerabilities. Among other vulnerabilities, there was a high dependence on the external world, the management of the public debt was difficult and there was a high exposure to the 'commodity lottery'. The fact that its few most important export products had as their destination the UK and Western Europe entailed strong sensitivities to, for example, trade distorting measures taken by key commercial partners (e.g. sanitary barriers imposed by the US against Argentine meat).

Indeed, just as coffee was a very sensitive issue for Brazil, for Argentina the meat industry held a priority in the national debate. The strong presence of British and North American-owned meat-packing plants was also a source of tensions with local cattle producers. Meat trade was controlled by foreign interests and that fact led to clashes between foreigners and the Argentineans who desired to increase their market share. Argentina was also very vulnerable due to the fragile financial structure and the fixed exchange rate regime linked to a currency board system.

Finally, there was a turbulent political scenario that gradually would undermine the second presidency of aging Hipólito Yrigoyen. The political instability with conflicts and divisions, struggle of interests around foreign capital and social and economic antagonisms linked to regional discrepancies added to the sum of complex vulnerabilities that faced the country in the twenties.

[278] For more detailed information see Balboa (1972).
[279] League of Nations (1942, p. 54).

Map of the Republic of the United States of Brazil in 1922

VI. Brazil, the United States of Coffee and Milk

It is possible to identify the late twenties as a turning point in the long-term development patterns of Brazil. In this regard, it is important to keep in mind that today Brazil ranks among the six biggest economies in the world, which is about five times the economy of Argentina. It has a solid internal market, a profile of diversified exports of competitive worldwide agricultural and resource intensive products, as well as highly technological and capital intensive ones. The country has an important industrial production sector, primarily consumed by its own important internal market, and exports evenly distributed among neighbouring countries in Latin America, the US, the European Union and China. In sharp contrast, by the time of the Great Depression, Brazil was a mostly semi-agrarian country, deeply underdeveloped, even when compared with neighbouring countries like Argentina or Uruguay. The economic downturn of 1928-1932 paved the ground for continuous and striking changes in the country's economic profile up to the present day.

In this chapter we sketch the general situation of Brazil during the late twenties at the sunset of the Old Republic, the political panorama in the background to the Great Depression, the importance of coffee for the country and the obsession of the Luís administration to return to the gold standard. The aim is to introduce the reader to the general panorama of the country in order to understand the forces that influenced the policies applied in the period.

i. The sunset of an old Republic

By the twenties, Brazil was heavily underdeveloped in many aspects. As Hilton (1977, pp. 28-29) recollects, a former Minister of Foreign Affairs said shortly before the Great Depression that Brazil was a country without an army, without a navy, heavily divided and meaningless in international life. People lived on the coast line, but the interior of the country was mostly uninhabited with poor communications. Only the Southeast of the country was better connected by roads and railways. There was no real economic integration of the territory. And recalling a figure from Abreu (2008, p. 286), the agrarian configuration of the Brazilian economy becomes evident from the fact that by the end of the thirties agriculture employed almost 66% of the active economic population[280]. Moreover, Brazil was historically described as a mono-exporter of commodities that replaced each other over time. The Royal Institute of International Affairs (1937, p. 272) judged that Brazil was a one-crop country, except for transitional periods. In the seventeenth century it was the world's largest supplier of sugar; in the eighteenth century gold

[280] This figure was taken from Abreu (2008, p. 286).

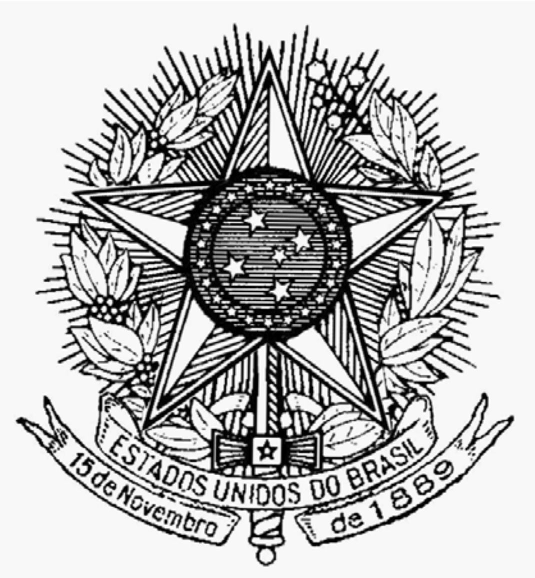
became of greater importance, only to be succeeded by cotton. In the nineteenth century the supremacy in cacao was won and lost, and then rubber became the staple export at the beginning of the twentieth century, only to be replaced by coffee. During the thirties, cotton and fruits rivalled coffee. But as a conclusion, for the period we are interested in, Brazil was mostly known for its coffee.

Indeed, by 1929-1933 the Brazilian coffee accounted for almost 57% of world coffee exports[281], a share of the market which allowed the country to exert oligopolistic influence over the markets. However, this feature meant for Brazil strong vulnerability to the prices and market conditions of this single crop. Moreover, not only were exports strongly concentrated in one commodity, but there was also a heavy dependence on one single market: the United States. Indeed, if we take into account the estimates of the League of Nations, around 45% of Brazilian exports in 1928, mostly coffee, was exported to the United States. Other important trade partners were Germany, France, Argentina, the Netherlands, Italy, the United Kingdom, Belgium and Luxembourg and Uruguay[282]. However, the US did not always make use of its strong commercial leverage on Brazilian policy making, at least before Second World War. This is an important aspect highlighted by several authors that allegedly provided the Brazilian authorities a greater autonomy as compared with their southern neighbours, Argentina and Uruguay, which were heavily dependent on meat exports to the UK. Nevertheless, there is some ground to relativize this assessment, as will be discussed later.

The twenties and thirties can be considered as a turning point in the productive structure of the country in many ways. Regarding the predominance of coffee in the Brazilian export profile, the collapse of the coffee *defesa* scheme after 1929 and the increasing market pressure from new suppliers abroad favoured the shift of production to other crops. This was the case for cotton, which increased its share from just 1% in the basket of Brazilian exports in 1928 to 19% in 1937[283]. Although in 1929 it did not account for more than 5% of the worldwide supply[284], and probably had a minor impact on the external position of the country as compared with coffee. Other products like rubber, beef and veal, and fats and oils (cottonseed) only made up a negligible portion of the world supply during the twenties. Also bananas, oranges, grape-fruits, tangerines and pineapples were increasingly exported by Brazil. It was also a time of increasing industrial production. As early as 1919, textiles was the main industry in the country, which accounted for up to 30% of the production value and made up the greatest part of the aggregate index of industrial production[285]. But during the twenties other important industries were established, namely the cement and the iron and steel industries, under the umbrella of extensive official support. The emergence of this incipient industrialization process was a driving force behind the ascension of new urban forces that claimed more participation in the country's politics, and entailed a renewed potential trend for protectionist policies.

[281] This figure was taken from Taylor and Taylor (1943, p.68).
[282] According to data from IBGE (1990).
[283] This figure was taken from League of Nations (1942, p. 22).
[284] This figure was taken from Taylor and Taylor (1943, p.26).
[285] This figure was taken from Villanova & Suzigan (2001, p. 175).

Another striking aspect of the Brazilian context was the peculiar political system, which managed since the declaration of the first Republic in 1889 to keep united a country with a size similar to the US and a population close to France. Indeed, most of its population, with an estimate of 37 million people for the period of analysis, was illiterate and excluded from politics, since it was a requirement for casting a vote to be literate. Even for the people that actually voted, the democratic practices of the first Republic were far from optimal. It is fair to say that the country was economically and politically run by landowner families which controlled key state level politic institutions and from there the federal level[286]. The British Embassy in Rio de Janeiro reported to capital that voting in Brazil was open, and that enabled every kind of pressure to be exerted upon the electorate. Furthermore, the electorate itself numbered less than 3 million and these were in general drawn from the propertied class. The lower elements in the population were numerous but powerless[287].



Not surprisingly for a federal State dealing with strong federated oligarchies, Brazil lacked true nationwide politic parties with coherent structures and unified political platforms. Most of the states were run by a local *Partido Republicano*, loosely connected with the government in Rio de Janeiro, and with local strongmen or *caudillos* who directly or in the background retained strong authority or influence. The political system relied also on the so-called '*coroneis*', local rulers who controlled the ballot results and reported to their State Presidents, who on the one hand influenced the election of the Federal President and on the other were influenced by the respective state oligarchies[288]. Among state oligarchies, the strongest ones, of course, were those

[286] Often, the oligarchies were constructed by bonds of family, education and financial power, but were also open to talented individuals who studied law at the main state universities. See for example Casalecchi (1986).
[287] See despatch Nr. 34 from Mr. Seeds to the Foreign Office dated April 1st 1930, p. 128.
[288] As clearly Smith & Vinhosa (2002, p. 97) wrote: "Elections were just as one-sided as during the Empire. The 'politics of the governors' and *coronelismo* were successful in virtually guaranteeing certain victory in state and federal elections for the candidates chosen by the elites and bosses. In terms of the presidential elections the margin of victory was invariably overwhelming and often represented more than 90 per cent of the popular vote. The political system was openly corrupt and repressive. The turn-out at elections was low because the franchise was narrowly restricted and registers of voters were carefully monitored by the *coroneis*.

of São Paulo and Minas Gerais. It was natural that among the twenty states of the Union, the most important coffee producing State, São Paulo, retained strong leverage on the federal affairs. The other key player was the State of Minas Gerais because of its importance as the main constituency inside the Union[289]. The gravitation of these two states heavily influenced the political life of the Union, to the point that for more than three decades there was an alternation of federal Presidents coming from those two major states. Brazilians used to call the agreement '*café com leite'* (mix of coffee produced by São Paulo and milk produced by Minas Gerais)[290].

In spite of the apparent stability of the '*café com leite*' pact, key changes were occurring in the background of the first Republic. Other states increasingly contested this predominance, the most notorious being the southern Rio Grande do Sul. This State claimed more influence in federal affairs, and held the sympathy of part of the military, since one-third of the federal army was located at the Brazilian borders to the south with Argentina and Uruguay, along with the main military academy outside Rio do Janeiro. In sharp contrast to the coffee predominance of São Paulo and Minas Gerais, this Southern State produced mostly agricultural and meat products for the internal market. The main produce was *charque* or jerked beef, which was consumed by the low income population of Rio de Janeiro and the pauperized North East of the country. It also produced butter, cattle hides, rice, wheat, wine and mate[291]. But the changes also emerged within urban society. All over Brazil cities were growing, and with them a new bourgeoisie was becoming aware of its increasing political power and aspired to increase its influence on the federal structures. Furthermore, those key families which constituted the bulk of the landowner oligarchy were far from politically unified. Although they shared similar views, their different roles in the long chain of the coffee production, transport, stocking and distribution did not always mean similar interests, which were often conflicting. This characteristic constituted a key element of weakness in face of the nationalistic forces of the time, the emergence of new interest groups in the cities and the crisis in the coffee market.

From the intellectual point of view, there were also changing trends. There were prolific thinkers who since the beginning of the century had analysed the underdevelopment of the

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Moreover, there was no secret ballot and votes were usually cast publicly. Where opposition emerged, it was often suppressed by fraud and violence. The closed nature of the political system facilitated the growth of one-party state politic machines, a development that further stifled political participation and acted as an obstacle to the formation of national political parties with competing ideologies and programs. The power of the state machines was also evident in the National Congress whose members were selected mainly for their loyalty and obedience to their particular state party (…)". According to Dulles (1967, p. 14), votes were reported by the local political bosses, known as 'colonels', whose powerful positions were the reward of supplying election returns satisfactory to the State machinery. The country had no secret vote, and if the vote on a ballot was ever a secret from anyone it was secret only from the person recorded as casting that particular ballot. Not infrequently districts reported the results before the voting was done, and there was plenty of well-founded doubt as to the currency of the lists of electors. Other analysis of this aspect of the Brazilian politics can be found in Aspásia (1983).

[289] The other states were: Amazonas, Pará, Maranhão, Piaú, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia, Minas Gerais, Espirito Santo, Rio de Janeiro, São Paulo, Paraná, Santa Catarina, Rio Grande do Sul, Mato Grosso, Goiás and Distrito Federal.

[290] In words of Dulles (1967, p. 14), there was a "golden rule in Brazil, which ensured that the two wealthiest and most populous of Brazil's twenty states, São Paulo and Minas Gerais took turns supplying presidents of the Republic".

[291] This product is a traditional tea consumed in Argentina, South of Brazil, Paraguay and Uruguay.

country and proposed more nationalistic approaches to overcome what they perceived as the disintegrating forces within the society. That is the case, for example, of Alberto Torres, who between 1910 and 1914 argued for a strong and efficient national government ruling with renewed powers over the federal states. He even proposed to change the name of the country from '*República dos Estados Unidos do Brasil*' to '*República Federativa do Brazil*'- the official name nowadays-, as a way to highlight national unity over local autonomy, with strong federal intervention in all aspects of the country. In a way, the consolidation of the federal structures would become the triumph of the Nation over the decadent structure of the states' oligarchies[292]. Those ideas deeply influenced a generation of young military men, the '*tenentes*', who during the twenties had a leading role in the uprisings from 1922 to 1924 in Rio de Janeiro, São Paulo and Rio Grande do Sul. Although their points of view were somewhat confused, they wanted a deep change in the national administration with a strong federal government, public services devoted to assisting society and a strong national identity. In order to achieve these goals, they believed they had to resort to an elite of technocrats not connected to the political structures of the time.

Regarding the international standing, Brazil chose an uncompromising policy. It retired from the League of Nations, refused to sign the Kellogg–Briand Pact[293] and its part in the Bolivia-Paraguay dispute was ambiguous. Foreign observers such as the British Ambassador to Rio attributed these policies to the state of fraternal peace in which Brazil and its Spanish-speaking neighbours lived, that rendered its adherence to external pacific organisations superfluous[294]. And even though he also criticized the Brazilian diplomacy for being 'slumbering and incompetent'[295], the fact is that the so-called '*Itamaraty diplomacy*' has always been renowned among South American countries as one of the best. Its major achievement has been the consolidation of its enormous territory with secured and defined borders, almost without the conflicts that other nations had to suffer in other to consolidate themselves.

ii. It's all about coffee. Isn't it?

As we have pointed out, the politics of coffee was at the core of the Brazilian economy and politics. Many authors spend significant effort in analysing the role of coffee in the political developments and the economic policies before and after the fall of the old Republic. And indeed it is not possible to understand Brazil in the context of the thirties without the analysis of the Great Depression in coffee.

At the end of the XIX century, Brazil escaped unharmed by the diseases that affected other key world coffee competitors like Ceylon. Good luck, good weather, abundant labour and a well-established coffee growing class consolidated Brazil as the main worldwide supplier of coffee.

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[292] For more detailed analyses of Torres' work, see Lauerhass (1986).

[293] The Kellogg–Briand Pact (also so-called the General Treaty for the Renunciation of War or the World Peace Act) was signed by France, Germany, Italy, Japan, the UK and the US among others on August 27th 1928, and it provided for a prohibition on the use of war as 'an instrument of national policy'.

[294] See telegram from Mr. W. Seeds to the Foreign Office (Mr. A. Henderson) dated June 27th 1930. Report presented by the Minister of Foreign Affairs to the President, in FO 371-14200, p. 47.

[295] Ibid.

Coffee also benefited from the abundant credit for financing the opening of new producing land and the depreciation of the Brazilian currency. São Paulo became the main producing State thanks to wise policies that took advantage of newly autonomy from the federal government achieved after the proclamation of the first Republic in 1889, the inflow of immigrants from Europe, and the high productivity of the new coffee lands in the North-west of that State. Those factors contributed to areas being rapidly planted up during the twenties which eventually fostered overproduction and strained its management[296].

In spite of its contribution to the national economy, coffee also entailed a heavy dependence on a very unstable staple. Certainly, the coffee market was strongly price-inelastic, so the demand did not react significantly to price fluctuations. Specifically, in case of plunging prices, the demand tended to be less responsive, and as a consequence the value of exports was more prone to fall than to surge, and if in addition the market deterioration occurred in the context of an economic downturn in the core countries, the prospect of serious balance of payments deterioration was almost certain. Furthermore, the supply side was also unstable. Bumper crops were frequent because of uncontrollable factors such as good weather, combined with the incorporation of new producing areas of high productivity, favoured by structural causes such as high levels of immigration and construction of new roads and railroads, especially in São Paulo.

Coffee was unique at the time because no other staple in Brazil presented the kind of monopolistic market conditions which would make it a suitable candidate for a profitable market control mechanism. And the federated states enjoyed the benefits of the decentralization under the first Republic and were constitutionally able to resort to export taxes to finance the costs of such mechanism and contract loans abroad[297]. Knowing this, the presidents of the states of São Paulo, Minas Gerais and Rio de Janeiro, signed the Taubaté Agreement of 1906 that established the basic outline of what would be called the *defesa* system and would involve also the federal government over time. The mechanism was aimed to increase the value of coffee, to promote its consumption, to regulate its commerce and to prevent the sudden flooding of Brazilian coffee on the world markets which used to destabilize world prices[298]. Following Furtado (1985, p. 179), its main elements were:

- The government would restore the equilibrium between supply and demand by purchasing the excess of supply.
- The purchases would be financed with foreign loans.
- The service of such loans would be financed by a tax to be levied in gold on every bag of coffee exported.

[296] Some authors highlight the weather as a key element. For example, (…) “when full weight has been given to such factors, the weather must be adjudged to have played the most important part. The 1929 bumper crop was mainly just bad luck from the control's point of view, just as it was pure chance that it should have occurred when the impending Wall Street crash made further borrowing impossible. Nevertheless, from Brazil's longer-period point of view, these were fortunate events, for at least they forced the control to draw in its horns, and face the problem as one of liquidation, not continued valorisation” (Rowe, 1965, p. 135).
[297] See Furtado (1985, p. 180).
[298] See Stein (1979, pp. 61-62).

- The state governments would discourage the expansion of plantations in order to reduce the problem of oversupply.

The key element of the *defesa* system was the storage of a significant part of the world coffee stocks at government controlled warehouses, with the aim of regulating world prices and preventing a negative impact on the international balance of the country. Probably the most accurate definition of the Brazilian coffee scheme was given by Rowe (1965, p. 122), who described it as an incomplete national cartel of a compulsory character seeking to influence the world market by regulating exports. It was in no sense an international cartel, even though it was largely financed by bankers in a number of European countries, and at least for the coffee planters and politicians of São Paulo it was beneficial for that State and Brazil as a whole.

For many contemporaries this scheme was a good solution to the overproduction that used to affect the coffee market, and indeed for several years it contributed to some degree of price stability and continuous expansion of the land devoted to the crop. As a consequence, coffee became a key element in the inflow of gold and a major determinant in the exchange stability of the country. It also consolidated São Paulo and its main port, Santos, as the main economic pillar of the country´s economy. However, it entailed two key flaws: distortions in the price transmission mechanism and dependence on the availability of foreign loans. Investments in coffee remained attractive as the scheme artificially ensured steady profitable prices for long periods of time. Thus, the problem of oversupply only deepened over time as the price transmission mechanism was altered and stimulated further investments regardless of market conditions. The authorities were incapable of discouraging plantation since there were no other staples profitable enough to attract investments away from coffee. As explained by Furtado (1985, p. 180-182), the success of the scheme strengthened the power of the coffee elites, which managed to submit the federal government until 1930.

Since 1922, the system of price support relied on the direct intervention in the quantity of coffee flowing from the countryside to the main ports of loading in Rio de Janeiro and São Paulo, by crop-withholding at producing areas and at warehouses located at main railway junctions. There were also port entry controls, so that the planter could only ship quantities defined by the federal government according to a first in-first out schedule. The government assumed the responsibility for purchasing the coffee delivered by the farmers to the warehouses, and the farmers received cash advances after the delivery of the product to the warehouses on the basis of the financial system’s assessment of the price ruling at the Santos terminal on the day of the actual sale. Normally, cash advances accounted for 60% of the real price of the sale[299].

In 1924 at the end of the Bernardes government, the federal government withdrew from the system and the State of São Paulo took control of the *Instituto de Defesa Permanente do Café*, in a decision that gave for the first time to the state’s oligarchy the power to defend its own

[299] To be more precise, the official regulating warehouses, issued negotiable certificates of deposit against which the farmers or their commissaries should procure the cash needed to cover the farms' working capital requirements during the retention period. It was the farmer, as the ultimate holder of the stocks, who would bear the risks of the operations and reap the resulting profits.

interests. This outcome was almost natural if one takes into account that this State alone was delivering by the mid-twenties about 50 or 60 % of the 16 million bags a year provided by Brazil to a world market demand of about 20 million bags a year. The governing council of the Institute was in the beginning a college of five members, but in 1926 a loan provided by Lazard's of 10 million pounds to the government of São Paulo strengthened the state's position and allowed it to transform the governing council into a merely consultative body, appointed directly by the President of São Paulo[300]. The Institute was renamed as the *Instituto do Café do Estado do São Paulo* (ICESP), and was allowed to buy the regulating warehouses and a bank which was renamed *Banco do Estado de São Paulo* to manage the Institute's finances. The main purpose of the ICESP was to negotiate foreign loans and coordinate assistance to the planters, while the *Banco de São Paulo* took responsibility for keeping the Institute's funds and financing the coffee industry. As explained by Fritsch (1988, pp. 128-129), the bank lent the proceeds of the Lazard's loan on the security of warrants issued by the official warehouses against coffee delivered to them, at a fixed valuation of 60 milréis per bag, which was about 40 per cent of the current quotation of the grade 4 option at the Santos market. The system was completed by a special tax of milréis *ouro* in gold on the coffee transported in the State of São Paulo that was levied to warranty the service of the foreign loans. Furthermore, the *Instituto* extended credits to the coffee producers and traders with the warranty of the coffee stockpiles, collected statistics and promoted the coffee in general.

But regardless of the importance of the paulista coffee production, this scheme was not able to work without the cooperation of the other coffee producing states, and for that purpose the *Instituto* was in charge also of negotiating agreements with other coffee state producers, especially in order to promote the extension of the transport tax to the rest of Brazil. Indeed, the 8 million bags that other Brazilian states could produce along with the 7 million produced by other countries, meant a limited potential for the *Instituto* to control the market by itself. It needed the support of the other Brazilian states, especially Minas Gerais and Rio de Janeiro, which represented 20 or 30% of Brazilian output. Consequently, these two states cooperated with São Paulo in order to keep the system running.

However, two important aspects regarding the stability of the coffee scheme need to be kept in mind in relation to the upcoming Great Depression. On the one hand, the federal government did not include coffee as the main priority of its macroeconomic policies. Washington Luís, during his presidency of the State of São Paulo in the early twenties, had not really been open to the idea of artificially supporting the price of coffee. During his federal presidency, he remained consistent to his beliefs and continued to rule out further involvement of the federal government in the coffee *defesa* scheme. Furthermore, since the *paulista* oligarchy tended to identify the national interest with the coffee sector interest, a clash with the federal government was a matter of time. Thus, it is possible to think that the stubborn orthodoxy of the Luís administration and

[300] At the time, it was difficult to find sources of financing in the United States, since the Secretary of Commerce, Herbert Hoover, denounced the Brazilian plans to defend coffee prices, arguing that it would be prejudicial for American consumers. Nevertheless, the London merchant bankers had no difficulty finding a market for the São Paulo bonds (Marichal, 1989, pp. 195-196).

his tendency to subordinate the coffee sector to the big macroeconomic picture under the rationale of the gold standard cannot be ruled out as one contributing factor to the revolution of 1930. And this is possibly an important difference with Argentina and Uruguay, whose governments were more open to debate the enactment of heterodox policies, at least before the arrival of Getulio Vargas to the presidency.

On the other hand, the simplifying concept of an 'oligarchy' may be misleading, since it was far from politically unified or coherent. In spite of the wealth produced by coffee during the twenties, the relative heterogeneity of the coffee sector and the dependence on foreign loans to keep the valorisation scheme running reduced its autonomy in the face of the federal government. This characteristic becomes evident from the analysis of the ICESP composition. Since 1926 the ICESP was under the complete control of the *Partido Republicano Paulista*, the same political party that projected Washington Luís to the presidency of the State and later to the federal government. This state of things, however, left aside parts of the state's oligarchy, which although sharing similar interests, remained mostly excluded from the benefits of power. In this line of thinking, Fritsch (1990, pp. 64-65) plays down the influence of the oligarchy in the federal government, at least in economic policy. For example, the government ruled out the support of the *defesa* system in 1929 and did not support a federal structure to control the *defesa* system during the twenties. Although the coffee oligarchy was key in the politics of the country, there were other players that had equal or more influence in monetary and fiscal policy. The stubbornness of Luís in keeping the country under the gold standard and the aversion of the foreign bankers, the US government and national conservative sectors, notably in Minas Gerais, to the involvement of the federal government in the control scheme, kept that possibility out of the question. The government only intervened in support of the coffee prices whenever the macroeconomic stability was at stake due to the overall influence of the coffee sector in the economy and in the foreign imbalances. Another aspect to take into account is that there were coincidences between the interests of industrialists and coffee producers, as frequently the latter tended to diversify their interests into the import substituting industries.

As a reaction to this state of affairs, a new *Partido Democrático* was created in 1925, in a move that contested directly the leadership of Luís. It mostly represented the traditional urban middle class, but was also tied to the coffee sector. Eventually, the *Partido Democrático* supported the candidacy of Getulio Vargas for the presidency under the umbrella of the *Aliança Liberal* in 1929, even though as we have explained the opposition did not question fundamentally the coffee valorisation scheme. This particular aspect of the developments of the twenties, namely the role of the coffee interests for both political contenders, is quite important in understanding why the revolution of 1930 was initially so lacking in new economic ideas to correct the deteriorating economic situation of the balance of payments and the consequences of the economic downtown. Probably, the apparent coincidence of interests between the political leaders of the revolution and the paulista coffee oligarchy may explain the fact that during the first years of the Vargas administration the federal government would step again into the rescue of the coffee industry, once the reluctance of President Luís was suddenly ended. However, the end result was an increased centralization of the coffee policy by the federal government, a feature exemplified by the creation of the *Conselho Nacional do Café*, later replaced by the *Departamento Nacional do Café*. This policy, added to the economic dislocation of the agro exporting backbone of the economy in favour of a new emerging industrial and urban centred model, reduced the power of the regional elites, notably the coffee interests in São Paulo. At the same time, the creation of *conselhos econômicos* following the corporative representative model opened new channels of articulating industrial interests within government structures[301]. But this process was neither bloodless nor easy. The paulista coffee interests in particular and the paulista society in general were reluctant to accept a deepened process of subordination to the federal government. That hostility manifested in the so-called *revolução constitucionalista* of 1932 that started on July of that year, and was only suppressed in September. Not only had the agro interests participated in this uprising, but also industrialists and the middle classes. The civil war affected commerce in 1932 at the beginning, but the public expenditure associated with the war attenuated the financial impact of the conflict, and during 1933 the country emerged from depression[302].

Although further involvement in the long-term analysis of the role of coffee in the society and politics of the time lies beyond the scope of this research, it is a matter that will be popping up, as it remains in the background of the policies applied in the face of the international downturn that accompanied the fall of the old Republic and the birth of a new Brazil. The message is that the long-term role of the coffee oligarchy and interests remain as an obligatory framework to understand the short-term economic emergency policies, and were indissolubly linked to the inflow and outflow of gold and the economic and social stability of the country as a whole. That, of course, would change a few years after the new Vargas administration consolidated over time, and especially after 1937 with the so-called *Estado Novo*, but for the time we are interested in analysing, coffee was still a key element in the decision-making process in the face of the Great Depression and the imbalances that it rendered evidently unsustainable. As Furtado (1985, p. 180) notes, the mechanism of the coffee economy was ultimately a process of transferring to the future a problem that would become increasingly worse. Simply put, the supply in Brazil outbalanced a consumption that, for example, remained steady at the end of the twenties in its main export market, the United States. The collapse in our view was unavoidable, even without a Great Depression as a precipitating factor.

iii. A golden illusion

At the beginning of the Luís administration in 1926, the main lines of the deflationist policies pursued by the previous Bernardes administration were retained. At the end of the year the prices had stabilized and the external position was improving, although the government was in deficit. According to Fritsch (1988, pp. 121) it was a time of very tight monetary policy between a past of great exchange rate instability with a strong underlying depreciating trend and a future in which, according to the general expectation, there would be a favourable balance of payments position due, particularly, to the good prospects of foreign capital inflows. Both Luís and

[301] See Diniz (1986, p. 45).
[302] See Hilton (1977, p. 94).

Bernardes agreed about the need to return to the gold standard, as well as the negative differential effects of exchange fluctuations on the real income of the social classes, although the latter prioritized the short-term effects of the exchange rate fluctuations on the economy and society. The key difference was the rate at which to peg the exchanges and the timing of stabilization. Bernardes was deeply influenced by the orthodox opinions common in financial circles that stressed the risks of devaluation-induced inflation and their negative impact on labour.

For the new Luís administration tight monetary policy, currency stabilization and budgetary equilibrium were the three main pillars. Luís favoured immediate stabilization without revaluation, in order to allow a sustained increase in the balance of payments. With the subsequent reinforcement of foreign capital inflows and loans, the accumulation of gold reserves needed to achieve the ultimate objective of returning to the gold standard would be possible**.** For that purpose, on November 21st 1926, a currency bill was introduced with the objective of eventually reintroducing the gold standard in three stages: stabilization proper, convertibility, and coinage of the gold cruzeiro to replace the milréis. In the first stage, a new standard for the milréis was fixed at 200 milligrams gold, .900 fine, which corresponded almost exactly to 40 milréis to the pound sterling. A special agency called *Caixa de Estabilização* (stabilization fund), effectively functional since April 16th 1927, was granted the authority to receive all present and future gold stocks in the country and to issue paper currency against Brazil's gold credits in London and New York. And as a consequence, at the time there coexisted in Brazil three kinds of currency: the Treasury's unconvertible bills, the old notes of the *Banco do Brasil* and the gold certificates of the stabilization fund[303]. Similar authority would be granted to the *Banco do Brasil* if the stabilization fund were extinguished, in order to keep the exchange at the new parity, at rates that should correspond exactly to the national monetary situation. The second phase would be implemented as soon as the stock of gold accumulated at the *Caixa* reached a level suitable to allow for the convertibility of all other circulating currency, including the notes not issued by the *Caixa*. Finally, the *Banco do Brasil* would assume the full authority to issue a newly created currency that would be named the *Cruzeiro*, equal to one milréis per unit[304]. Behind this proposed program lay the big debate of the time, namely the convenience or not of transforming the *Banco do Brasil* into a full Central Bank, an idea debated at least since 1905 and opposed by the conservatives[305].

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[303] According to Frisch (1990, pp. 57-59), the creation of the *Caixa* in 1926 had a clear political objective. It was designed to comply with the domestic producers' demands, who sought a reduction in the appreciation path of the currency and more credit. The expected recovery and the expansion of the American and British investments in the context of the gold standard meant an automatic increase in the *Caixa* issues, reversing in that way the contraction of the monetary base in previous years. On the other hand, the gold standard forced the government to apply fiscal constraint and a non-discretionary monetary policy, both aspects mostly welcomed by policymakers and most importantly by the external creditors.

[304] See for example Fritsch (1990, pp. 56-57), Fritsch (1988), Bello (1966, pp. 259), among others.

[305] According to Frisch, by the twenties the so-called real bill doctrine in the monetary policy was increasingly influential in the debates, which holds that issuing money in exchange for real bills is not inflationary: "This agitation, as noted by Neuhaus, also reflected the worldwide growing influence of the real-bills doctrine among Brazilian banking and business circles, which saw in the granting of certain central banking powers to the *Banco do Brasil* the solution to the problem of adjusting the supply of money to the seasonally variable

The stabilization process benefited from favourable conditions on several fronts. Until the crisis of the coffee sector in 1929, there was a continuous influx of gold so that the *Banco do Brasil* received 10 million pounds sterling for its exchange activities and the *Caixa* another 20 million pounds (in total around one-third of 1929 exports). As predicted by the gold standard model a renewed inflow of gold reversed the previously restrictive monetary policy by increasing the monetary base and fuelled an inflationary process, in an environment of improving economic activity since the second half of 1927. This trend allowed Brazil's gold reserves to rise back up to 35 % of the total outstanding issue by mid-1928. As the government did not issue long-term domestic debt, those measures reinforced the expansionary effect of the increased monetary base during 1928. This monetary easing, together with the expansion of the commercial bank loans that lasted up to the first semester of 1928, contributed to the improving economic performance since the second half of 1927. According to Bulmer-Thomas (1994, p. 191), excluding cotton textiles, where ferocious international competition took its toll, industrial output rose by 55% between 1920 and 1929, meaning an annual growth rate of 5%. Many new industries were established in the twenties, including a number of firms making capital goods, and the iron and steel industry made some progress. Perhaps most importantly of all, imports of industrial equipment rose sharply, creating new industrial capacity and modernizing existing plants. Indeed, imports of industrial machinery reached a peak in 1929. Foreign trade also peaked in 1928 and as it explained 47% of the government's revenue in 1928, the fiscal balance improved significantly. Furthermore, the Luís administration also increased tariff revenue due to the suppression of tariff exemptions on certain imports of intermediate and capital goods, and made a conservative use of public social spending. All of which resulted in a substantial budgetary surplus for the first time since 1907.

The dark side of this booming economy is that the country increased its dependence on foreign loans. Many important firms took risky financial positions due to the good prospects for the economy and to the lenience of the Brazilian bankruptcy laws[306], and the accumulation of foreign debt amounted to 1,142 million US dollars by 1928 or 2.36 times the annual exports of the country[307]. The public sector also boosted its share in the economy supported by foreign loans. By 1930 the federal government owned close to one-third of all Brazilian railroads, half the merchant marine and the largest bank. Only Uruguay could be mentioned as a frontrunner in this regard during the thirties, with its monopolies in banking, insurance, ports, electricity and

'needs of trade'. The idea of reforming the Bank on these lines, endowing it with powers to issue inconvertible notes on a fractional gold reserve basis as proposed by its President had, however, encountered strong opposition during the war from a group of influential politicians who held orthodox views on monetary policy" (Fritsch, 1988, p. 55). "The idea of eventually having the *Banco do Brasil* operating as a Central Bank, under a fractional gold reserve system with full convertibility, was still envisaged. Although not explicit in the reform Bill, the President (Luís) repeatedly proclaimed his intentions to devolve central banking powers to the Bank after full convertibility was achieved" (Ibid., p. 125).

[306] See Fritsch (1988, pp. 140-141).

[307] See Abreu (2008, p. 290). According to this author, it is important to highlight the importance of the debts from states and municipalities. Regarding this matter, a decree brought the financial support of the Federation for the payment of the state debts on December 20th, 1930. Later, in 1933, the *Comissão de Estudos Financeiros e Econômicos dos Estados e Municípios* was created, with the main task of analysing the problem of debts at state and city level.

fuels, among other strategic economic infrastructures. The federated Brazilian state governments also became public entrepreneurs, using foreign loans to assume control of local railways and ports. Similarly, municipal governments used foreign funds to become chief promoters of the electrical power industry, there being more than 400 municipal lighting companies by the twenties[308]. This reliance on foreign loans would become one important source of vulnerability for the Brazilian economy.

Conclusion

By the twenties, Brazil was heavily underdeveloped. It was a mono-exporter of commodities. By 1929-1933 almost 57% of world coffee exports were of Brazilian origin, and for that reason Brazil had an oligopolistic influence over the markets. Thus, the country was highly sensitive to the volatility of international prices of the product and other market conditions of this single crop. There was also an important dependence on exports to the US, as around 45% of Brazilian exports in 1928 were exported to that country, followed by European countries. Consequently, in the balance of complex vulnerabilities, even though Brazil had influence on the international market of coffee, it was highly vulnerable to changes in the policies affecting its trade.

However, the Great Depression can be considered a turning point in the productive structure of the country in many ways. Coffee success was the result of direct intervention of the government through the coffee *defesa* scheme. Even before the failure of the coffee policy during the Great Depression, other agricultural products such as cotton, as well as new industrial activities, started to change for good the productive profile of the country. The emergence of a process of steady industrialization was a driving force behind the ascension of new urban forces that claimed more participation in the country's politics, and entailed a renewed potential trend for protectionist policies.

From the political point of view, during the twenties there was an erosion of the first Republic created in 1889, marked by a growing opposition to the '*café com leite*' pact between the states of Minas Gerais and São Paulo, by other states seeking more influence in the federal government. Any difficulty in the economic front would put this pact to further strain.

Finally, the issue of the gold standard had a strong influence on the policy decision-making of President Luís' administration. The return of Brazil to the gold standard was a strong governmental vow, but that commitment was supported with increased reliance on foreign loans, and determined potentially a risk of strong tight monetary policy in an eventual context of strong deficit in the foreign balance of hard currency.

[308] See Marichal (1989, p. 199).

Map of the Oriental Republic of Uruguay in 1911

VII. Uruguay in between

Uruguay constitutes a special case study because it is a small economy with favourable natural endowments, sparse population in comparison with a vast area of natural pasture and has a good strategic position between two key countries in South America, Argentina and Brazil. Following the League of Nations' estimates for 1928, the country had 187 thousand square kilometres and a population of 1.8 million inhabitants. Furthermore, although it was - and still is - fifteen times and forty-five times smaller than Argentina and Brazil respectively[309]. It was ranked highly in terms of wealth with a per capita GDP similar to Argentina, and four times higher than Brazil[310]. And due to its relatively high standards of culture from its mostly European-descended population, as well as its particular geopolitical situation, the country was internationally known in its own right as 'the Switzerland of America'. A land of which politicians used to say that '*como el Uruguay no hay*' ('there's nowhere like Uruguay')[311].

Historically, the country had been a battlefield for Portuguese and Spaniards during colonial times and between Argentina and Brazil during the nineteenth century, but by the twenties, the River Uruguay and the River Plate constituted natural borders with Argentina, and the land border with Brazil was mostly settled. As in the case of Argentina, by the twenties Uruguay was an export-led economy of primary goods with significant trading ties to European countries, being the UK its main export market, and a strong importer from the US. Secondly, it was –and still is- an urbanized economy whose social structure, as mentioned, was based on European immigration. In this regard, the immigrants did not find employment in the rural sector with the result that they remained in the city of Montevideo prompting its development as the nerve centre of the country. As Vaillant (2004, p. 156) recalls, economic activity circulated around the cattle farming activities, and the production of agricultural commodities. There are three key elements to understand the historical roots of the country's integration to the world: prairie, border and port. They reveal comparative advantages in the relative abundance of factors of production suitable for food production (prairie), its relative size in relation to its neighbours

309 According to the League of Nations Yearbook of 1929 (1930) in 1928 Argentina had 2.8 million square kilometres and 10.9 million inhabitants and Brazil had 8.5 million square kilometres and 39.1 million inhabitants.

310 Per capita GDP figures from Maddison (2010) in dollars of 1990 for 1928: Argentina, 4,291 dollars; Uruguay, 3,906 dollars; and Brazil, 1,158 dollars.

311 This expression was used in the course of a speech in 1949, did President Luis Batlle Berres express euphoric sentiments of satisfaction with the state of the Uruguayan nation (Finch, 1991).

and geography which places it as a strategic natural node in the Plata basin (border), with an historic link with the northern world, especially Europe (port). Indeed, the main natural port of the country and also its capital, Montevideo, remained the centre of economic activity and accounted for almost half of the Uruguayan population. It was also -and still is- a strong competitor of the Buenos Aires port, a fact that has always been underlying the bilateral relations.

At the end of the nineteenth century, Uruguay was a Nation that had completed its basic institutional framework. The defeat in 1904 of the rebellion of Aparicio Saravia signalled the end of the era of regional strongmen (*caudillos*) and the definitive consolidation of the authority of the central government, so that during the first two decades of the twentieth century Uruguay was able to consolidate its democracy. The political system relied on the two traditional multi-class parties, *Colorado* and *Blanco* (or National), the former with a stronger urban political base especially in Montevideo, and the latter in the countryside and cities and towns elsewhere. Both of them supported legislation to benefit workers and the socially disadvantaged. However, the *colorados* were more efficient in taking political advantage due to their more urban-oriented political base that provided strong support from class-based organizations[312]. Uruguay was also recognized because of its political stability, prosperity and achievements in terms of high levels of welfare and social justice even when compared to European countries. This outstanding position was consolidated under the leadership of the President José Batlle y Ordóñez[313], a statesman and leader of the *Colorado* party who at the beginning of the twentieth century had initiated within this party a movement known as *batllismo*, of profound influence in Uruguayan politics until nowadays.

With these preliminary comments on Uruguay, in this chapter, firstly we introduce the reader to the political and economic context of Uruguay at the end of the twenties and the early thirties. Secondly, from the complex situation of the country by that time, we highlight the importance of the external sector for Uruguay's economy, describing its economic structure, analysing its vulnerabilities and presenting some policies.

i. A paternalistic State's guidance

Perhaps the most outstanding feature of Uruguay during the twenties is that under the guidance of the *batllismo* and thanks to the particular social structure (urbanized and mostly integrated by immigrants), Uruguay was characterized by significant political and legislative achievements in comparison with the other countries of the region. Indeed, by that time, the role of the government in the economy was very important. The *batllismo* basically maintains that in order to develop the country and society the government must control basic aspects of the economy by means of state monopolies, as well as creating an ample body of social laws; with a view to consolidating a strong middle-class society under the shelter of a mighty economy and a welfare State, interventionist and redistributing of wealth. However, it can be said that the *batllismo* was

[312] See Finch (1991, p. 196).
[313] José Batlle y Ordóñez was President of the Republic during 1903-1907 and 1911-1915.

more a national style or ideology rather than a political programme within the *Colorado* party. As a very schematic way of understanding of the Uruguayan economy, the bulk of the country's relative richness was generated in the countryside, then appropriated by the cities, especially Montevideo –its capital-, and then redistributed to the growing public sector through an increasing number of public servants and to the urban society through the welfare State created by the *batllismo*. Several researchers, such as Finch (1991) argue that the influx of immigrants not only boosted the development of the urban economy, but also accentuated the political tensions between the primarily export-oriented interests and the substantially urbanized society. The clever management of these tensions by José Batlle y Ordóñez[314] was one of the most outstanding strengths of the *batllista* policies. The governing *Colorado* party was not only supported by the landowning class, but managed efficiently as honest mediator between the demands of the this class, the emerging influential middle classes and the increasingly self-conscious urban working masses represented by trade unions and left-wing political groups. Indeed, Batlle boosted the role of the State as arbitrator among the conflicting social classes and secured relative social stability, by enacting income-redistributing legislation during the times of economic prosperity and policies such as industrial protection, expansion of the public sector, extension of the educational system and the promotion of entrepreneurship and social mobility[315]. In addition, the *batllismo* promoted the development of the tourist infrastructure in the capital and on the Atlantic coast, opening the door for the attraction of Argentine tourism that from there on became a new and significant source of revenues for the country[316].

In March 1927 Juan Campisteguy from another main competing branch of the *Colorado* party, the *riveristas*, won the elections and assumed the presidency of the Republic for the term 1927-1931[317]. However, the President was in a way handicapped. According to the Constitution of 1918, approved by plebiscite on November 25th, 1917 and in force since 1919 - the executive power was shared by the President and the *Consejo Nacional de Administración* (CNA - National Council of Administration-). The Council was composed of nine members elected by popular vote for six years who could not be re-elected without an intermediate two years between the election and dismissal from office. The CNA was renewed by thirds every two years, and was in charge of education, public works, labour, industry, finances, health care and the general budget of the Nation. This complex institutional framework allowed the *blancos* to participate in government decisions without endangering the *de facto* monopoly of the *colorados* in the presidential elections.

Regarding the economy, Uruguay counted several comparative advantages. It profited from its favourable natural endowment, its extensive natural pastures and its natural port, along with its

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[314] During the twenties, Batlle remained an important influential figure, although for most of the period he did not occupy any official post. During the presidency of the *batllista* José Serrato (1923-1927), Batlle was elected to preside over the CNA for second time in 1926 but resigned in favour of Luis C. Caviglia (Rela, 2009a, p. 324).

[315] See Finch (1991, p. 196).

[316] See Bertino et al. (2001a, p. 8).

[317] In 1927, the cabinet was integrated by Eduardo Acevedo Álvarez (Finance, *batllista*), Pablo Ma. Minelli (Industry, *batllista*), Venancio Benavídez (Public Works, *vierista*), Enrique Rodríguez Fabregat (Public Education, *sosista*). For more details, see Rela (2009a, pp. 326-327).

favourable social structure supported by political and legislative attainments. However, during the twenties, the country went through two stages, one of recession (1920-1925) and another of acceleration with heavy indebtedness (1925-1929). On the one hand, its reduced internal market was heavily dependent on exports of primary goods and imports of manufactured goods, oil and capital. After the expansion of world demand for Uruguayan export goods during the First World War, difficult times arrived. After 1920 it suffered a severe economic contraction, as it could not escape the 'commodity lottery' that hit all other Latin American countries, tormented by the fast swings of the international commodity prices and the plunging demand from the developed world. This crisis lasted until 1925, and was followed by a sustained recovery that ended when the US and the European core economies fell into crisis. On the other hand, Uruguay also increased its indebtedness level since 1925, which added to the country's vulnerability. In 1926, in a decision questioned for compromising national sovereignty, Uruguay contracted with US banks a 30 million dollars loan known as 'Hallgarten'[318]. Regardless of the criticism, the *batllista* government channelled those funds to implementing active policies oriented to trade, tourism, transport and finances. The port of Montevideo was modernized so that it could become a regional hub, national roads and railways were expanded and credit lines were extended for development projects[319]. The country also had been an important recipient of foreign capital from the UK and the US. Around 78% were British investments, mainly in transport services such as railways and trams; 14% US investments mainly in meat-packing plants; 2% were German and the remaining 6% belonged to several nationalities[320].

Even though the government sought the effective consolidation of the national market and its integration into the international ones, its policies were far from open market-oriented. The public sector deepened its involvement with the national economy by means of the creation of state-owned companies in key strategic sectors. By the end of the twenties, the expansion of the State as an economic agent (*estatismo*) was evident and legislation accompanied that evolution, a trend that had evolved since the second half of the nineteenth century and was accentuated during the Batlle y Ordóñez administrations.

Especially important for the Uruguayan economy was the establishment of the *Frigorífico Nacional* (National Meat-packing Plant) in 1928. Indeed, the government lacked mechanisms to influence the main economic activity, since most aspects of the meat business were controlled by the core countries' interests. For example, in 1927, the Freight Conference assigned to the US 60.9% of the holdings, 22.1% to the British and 3% to the Argentineans. There was indeed a trust policy, and the local cattle producers were irrelevant in the price decision-making process. The freight within Uruguay was monopolized by the trains owned by foreign capital and the salting houses were established in the north of the country (5 in total) or in the Brazilian State of Rio Grande do Sul (25 in total). Furthermore, the power of the Argentinean producers pressured the Uruguayans, and made them in a way dependent. Those reasons led the government to

[318] See Nahum (2008, p. 121). For more detailed information about the Uruguayan foreign debt see Nahum (1995).
[319] See Bertino et al. (2001a, p. 8).
[320] See Jacob (1977, p. 73).

create the *Frigorífico Nacional*, with the aim of defending both the interests of the Uruguayan producers against the voracity of the meat trust by paying better prices as long as the export conditions allowed it, and of the consumers by allocating meat by-products[321].

It also was meant to improve the quality and competitiveness of the meat products as compared with the Argentine ones and to boost the acceptance of the national produce in foreign markets[322]. In this respect, the Uruguayan diplomats maintained that the government followed a comprehensive program of rationalization of meat production, industrialization and marketing. The national meat-packing plant built at the Port of Montevideo (most probably by British concerns) would unify the port's outgoing flow of meat from its original industrialization and with a final regard to facilitate Uruguay's participation within the framework of an eventual general 'cartel' of production and marketing sponsored -with clear integral understanding- by the experts of the Ministry of Agriculture of the UK[323]. The concurrence of this and other meat-packing plants allowed for a significant growth of the industry, so that export values were boosted until 1930.

Picture 1 Uruguay: Meat-packing plants

Note: on the left, a worker packing corned beef from the *Frigorífico Nacional*; and on the right, the North American *Frigorífico Swift* in Montevideo.

It is possible to say that Uruguay was by far the most active country in terms of the creation of public owned monopolies as compared with Argentina and Brazil. In October 1931 the *Administración Nacional de Combustibles, Alcohol y Portland* (ANCAP) was created in order to monopolize the production of alcohol; to import, refine and trade oil and its by-products; and to manufacture cement –*portland*-. The creation of ANCAP was a direct result of the agreement in the same year called '*Pacto del Chinchulín*' ('Pork-barrel Pact'), a term coined by the influential *blanco* politician Luis A. de Herrera which alluded to the distribution of public jobs between the *colorado batllista* party and the *non-herrerista* sector (*nacionalistas*

[321] See Barrios Pintos (1978, p. 237).
[322] See Acevedo Álvarez (1934, p. 74).
[323] See private memorandum dated October 22nd, 1932, from the Uruguayan Embassy to London sent to Mr Craigie at the Foreign Office, in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114.

independientes) from the *Blanco* party according to the proportion of votes. Thus, this was probably the clearest sign of the 'paternalistic' aspect behind the public entrepreneurship. Not surprisingly, this move found strong opposition from powerful oil companies such as Shell and Standard Oil and their governments, which made diplomatic representations[324]. In this regard, the British diplomats indicated that there was considerable concern at the position which had arisen from the setting up by the Uruguayan government of the trading company ANCAP, which had been accorded special privileges, and at the declared intention of the Uruguayan legislature to create an oil monopoly that would provide 50% of the gasoline consumption from the refinery which ANCAP was proposing to erect. The creation of national companies with special privileges, or of a monopoly, was bound to have a detrimental effect on the interests of British oil companies, both from the point of view of the financial loss which the companies would suffer, and on the broader grounds that the adoption of such a trading basis would have a serious effect on the British oil industry in all its branches[325]. Eventually, the foreign companies prevailed in their efforts and managed to avoid the ANCAP monopoly over the oil business, but the fact is that this company contributed from then on and up to our days in strengthening the small national economy.

By the end of the twenties, the State controlled the banking sector and several public utilities, with one of the most prominent being the *Administración Nacional de Puertos* (National Port Administration), which controlled the state monopoly of all services at the Port of Montevideo, and by 1931 it was also in charge of the administration of the ports of Nueva Palmira and Colonia. The *Administración General de las Usinas Eléctricas del Estado* (UTE) was also created in 1931 as the only supplier of electricity and in 1932 the key thermo-electrical power station *Batlle y Ordóñez* started work in Montevideo. This company was also in charge of the expropriation of the private telephone companies, with the aim of installing a monopoly over telecommunications in the country, for which it later was renamed *Administración General de las Usinas y Teléfonos del Estado.* The national airline company *Primeras Líneas Uruguayas de Navegación Aérea* (PLUNA) was set up with a mixture of public and private capital[326]. It is also worth mentioning the C*ooperativa Nacional de Productores de Leche* (CONAPROLE, National Cooperative of Milk Producers), created in 1935 as a monopoly on the pasteurization, distribution and marketing of dairy products, which has had a positive impact on the industrial sector until the present day[327].

Turning to the fiscal situation, the second half of the twenties was a phase of what Uruguayans described as '*vacas gordas*' or 'fat cows'. Between 1924 and 1928 strong economic activity was reflected in soaring tax revenues, so that a surplus of more than 9 million pesos was generated. This surplus, which represented between one-fifth and one-sixth of the annual expenditure, was not only the result of improving customs revenues collected from unprecedented import levels

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[324] See Nahum (2008, p. 143).
[325] See minutes of meeting "Position of British Oil Companies operating in Uruguay", in "Uruguay-UK. Commercial Negotiations", BT 11/294 (1934).
[326] See Rela (2009b, p. 404).
[327] See Nahum (2008, p. 143) and Rela (2009b, p. 404).

but also of the outstanding performance of domestic taxes in a context of a widening domestic market, with indirect taxes being the leading collectors[328]. Although in essence the system inherited from the nineteenth century was not changed so much, some innovative measures such as the increase of the rural and urban property tax and the increase of the inheritance tax became a highly sensitive issue for the livestock farmers' sector, which mobilized in face of the 'tax avalanche' and the 'fiscal ferocity'[329].

The improvement of the tax revenue performance allowed a corresponding expansion of the public expenditure, which accounted during the twenties for around 20% of GDP. Between 1923 and 1929, in real terms, the expenditure had increased to an annual accumulated rate of 5.4%. However, this growth was modest considering that in 1927 the public expenditure of the central government reached the pre-war figures and that in 1929 it only exceeded 15% of the 1913 level (considering constant pesos). Moreover, during the two decades of *batllismo*, the public expenditure growth rate was less than proportional to the increase of public servants due to the access to the service for low wage earners, such as soldiers and policemen[330]. Thus, some researchers conclude that the 'conservative Republic' not only managed to uphold the reformist boost of the *batllismo* but also kept low the share of public expenditure in the aggregate demand. It is even possible to point out that most of the policies applied during this period were essentially liberal in style.

Even though foreign trade was partially regulated through the protectionist legislation, severe state control mechanisms over exports and imports were not in place. Furthermore, in general terms, the monetary and exchange markets continued operating without major regulations, beyond the guiding role performed by the state-owned *Banco de la República Oriental del Uruguay* (BROU, Bank of the Republic). The capital market also operated according to the liberal criteria without any major political intervention[331].

Regarding the labour market, it is important to highlight that in those years the foundations of the welfare State were built. Thus, education, health assistance, housing construction and social security became priorities for the government and increased their coverage nationwide. The *batllismo* promoted key social legislation at a moment when the workers' unions were far from unified, but retained a considerable degree of organization and mobilization. The introduction of social benefits such as the eight-hour working day, the ban on child labour, a compulsory weekly day off, the reduction of working hours in some sectors (e.g. the 'English week' in the trade sector in 1931), among others, became achievements not only for Uruguay, but for Latin America as a whole. And this progress placed Uruguay at the vanguard of the world in terms of working rights. However, during the *batllista* era and until 1933 there was no wage regulation, with two exceptions: the minimum wage for the farm worker according to a law of 1923 and the minimum wage for the workers of the meat-packing plants introduced by a law sanctioned in

[328] See Bertino & Bertoni (2003, p. 18).
[329] See Bertino et al. (2001a, p. 8).
[330] See Bertino & Bertoni (2003, p. 19).
[331] See Bertino et al. (2001a, p. 9).

1930[332]. However, and as a setback brought by the crisis, in 1932 the restrictive policy on immigration was enacted to fight against unemployment, and was very controversial, because it hid the politic and racial aspect of denying entry to undesirable persons, namely blacks, gypsies, Asians, etc. [333].

Nevertheless, the cohesion of the early years of the *batllista* golden age was coming to an end. The economic crisis was reflected in Uruguayan political life in the strained relations between the two major branches of the executive power, the presidency and the CNA. Furthermore, the political panorama was shaken in October 1929 by the decease of Battle y Ordóñez, so that not only the economy would be put to a test, but also the political system. Without the great conciliator of the *batllismo*[334], as we will see, political tensions started to erupt, with splintering forces and internal dissention within the *Colorado* party. The panorama is well summarized in a few words by the *herrerista-blanco* newspaper *El Debate*: "…memory of a time of moral misery and political corruption"[335].

ii. Structural vulnerability and policies

Although from the data collected by the League of Nations (1942, pp. 140-141) it is possible to calculate that in 1928 the Uruguayan trade only represented 3.2% of Latin American exports and imports, the country was known by its agro export-led profile and its high export level relative to its size. In a similar way to Argentina, according to figures from the International Trade Statistics from the League of Nations, Uruguay had the UK as its main customer with an average share in its total exports of 28.8% during the period 1928-1934 and an annual average trade surplus of around 7 million dollars. Other important European trading partners were Germany, France, Italy and Belgium with shares between 6% and 14%. The US was its main supplier[336] and consumed 8.2% of Uruguayan exports in that period, resulting in an annual average trade deficit of around 8 million dollars. In addition, at a regional level the trade was more concentrated with Argentina with an average share of 11% and to a lesser extent with Brazil with a share of 3%. Thus, this country was highly exposed to changes in those markets, and especially to the British one.

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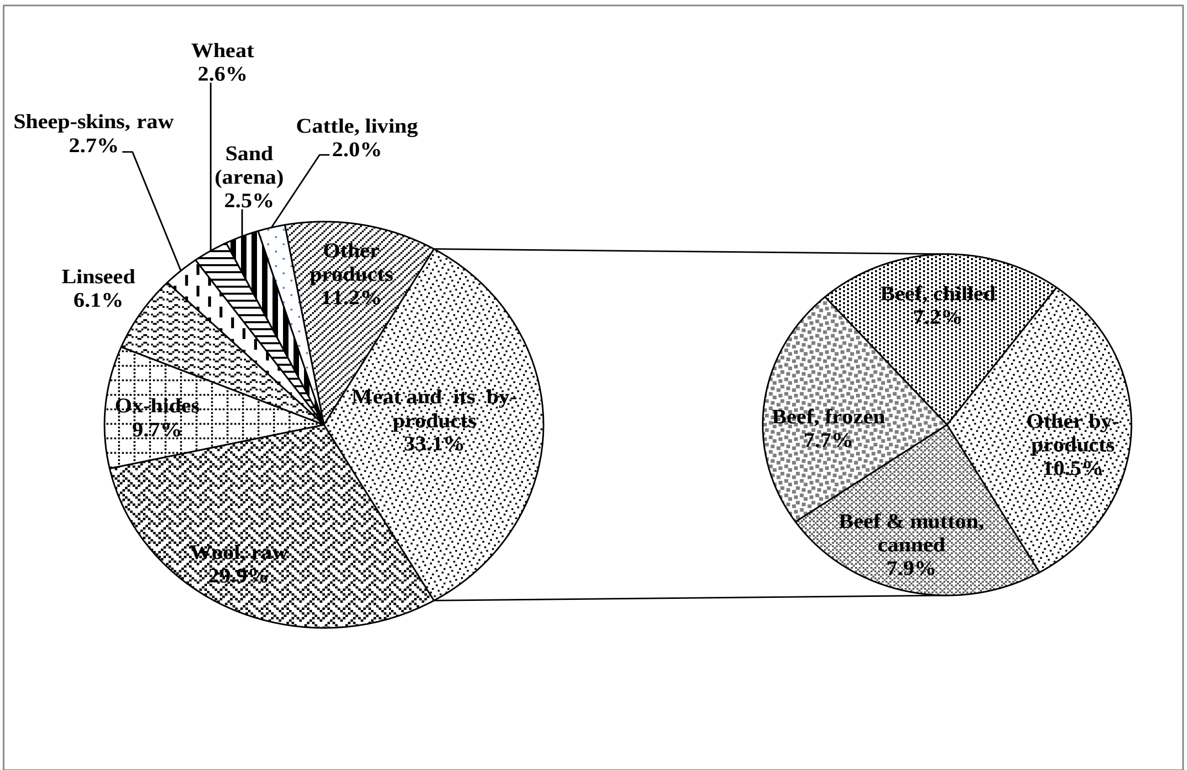
[332] See Bertino et al. (2001a, pp. 9-10).
[333] See Nahum (2008, p. 136).
[334] After the death of Batlle, the negotiations between the two main *Colorado* party factions, *batllistas* and *riveristas,* stopped and the political forces were reorganized into: *batllistas netos* grouped around César Batlle Pacheco (son of José Batlle y Ordóñez), Domingo Arena, Francisco Ghigliani and others; the group *Avanzar* led by Julio César Grauert (1902-1933) founded the previous year, and the *anticolegialistas* groups lead by Manini Ríos. Furthermore, in 1929 Nepomuceno Saravia from the *Blanco party* disagreed with the policy of the *Colorado* party and attempted a revolutionary uprising in the North of the country which was condemned by its own party's Directory (Rela, 2009a, p. 329). For a more detailed account of the political events, see for example Rela (2009a).
[335] This information was taken from Rela (2009b, p. 405).
[336] As mentioned in the chapter on Argentina, the US share was much smaller in the trade of the 'non-tropical agricultural countries' of Latin America (Argentina, Paraguay and Uruguay) than in the two other groups ('mineral-producing countries' and 'tropical agricultural countries' which includes Brazil) whose production was more complementary to that of the US. By 1928, the US absorbed around 8% of the exports of the non-tropical agricultural countries against about half the exports of the tropical agricultural countries (League of Nations, 1942, p. 54).

Another factor that made Uruguay's foreign trade vulnerable to changes in international prices and access conditions for commodities, prompting a bargaining position in trade negotiations, was the high dependence on a few key products. Uruguay exported mainly livestock goods. In Figure 10 we show that for the period 1928-1934 the structure of Uruguayan exports was mainly concentrated in raw wool and meat with its by-products (fundamentally beef) representing a joint share of around 63%, followed by ox- hides and sheep skins (12.4%) and products from arable agriculture such as linseed and wheat (8.7%). And if one sums up all of the cattle farming-related products and by-products we obtain a share of 78%. This fact made the Uruguayan economy not only vulnerable to the shifts in demand from a few foreign markets on those very few products, but also to the natural conditions and diseases that from time to time affected the production.

Figure 10 Uruguay: Exports by principal articles (average share 1928-1934)



Source: calculated from International Trade Statistics, League of Nations, various years. Note: original figures in Uruguayan pesos, converted to dollars by applying exchange rates from Maubrigades (2003) and Vaz (1984).

With regard to the degree of geographical diversification of the Uruguayan exports, as Table 32 shows, similarly to Argentina, practically all chilled beef was exported to the UK and the other key export products were generally exported to the UK, France, Germany, Italy and the US; but it should be stressed that the jerked beef mostly had as its destination Brazil and Cuba.

Furthermore, the meat business was heavily controlled by foreign interests, like in Argentina, with the main difference being that the latter did not have a national meat-packing plant. In this regard Uruguayan diplomacy explained that the foreign meat export trade worked on the lines of the South American Freight Committee that was constituted from London representatives of all the meat-packing plants operating in Uruguay and Argentina, which was called 'The River Plate

Conference'. This conference met from time to time and decided on the volume of meat to be shipped through the River Plate as a whole during specified periods; Messrs. Kaye Sons & Co. who acted as brokers for the South American associated shipping lines, were then requested to arrange the necessary freight for the quantity that was to be shipped and they made arrangements for the shipping service to lift this tonnage from the River Plate. When this committee was created a definite percentage or quota was allocated to each meat-packing plant and the meat interests concerned agreed to ship within the limit of those quotas. The purpose of those arrangements was to sell cheaply, abundantly and to avoid high prices, for that would bring in fresh capital to participate in the privileged position they had managed to impose upon the affected South American countries. However, as some of those meat interests owned more than one meat-packing plant it did not necessarily follow that each plant would ship the percentage allocated to it, as the meat interest concerned had the power to ship the whole quota from even one of their meat-packing plants. That situation was to the detriment of the country where the non-working plants would be situated, such as the English and Dutch plants at Las Palmas and the 'River Plate British and Continental Meat Company' plant at Zárate, which were both closed down and the percentages originally allocated to these plants shipped through other meat-packing plants[337].

Table 32 Uruguay: Export concentration of key products

Period	Product	Destination
1915-1939	Chilled beef	UK (96% - 100%)
1929-1934	Frozen beef	France (39%), UK (25%), Italy (16%)
1928-1934	Canned beef	UK (50%), US (36%)
1928-1939	Frozen mutton	UK (88%)
1928-1934	Jerked beef (*tasajo*)	Brazil, Cuba*
1928-1934	Dried sheep skins	France (82%)
1926-1934	Dried ox-hides	Germany (35%), Italy (26%), UK (16%)
1926-1939	Salted ox-hides	Germany (43%)
1929-1933	Wool	Germany (23%), UK (20%), France (16%)

Source: Jacob (1977). * Information about percentage share by destination in total exports was not found. Since 1928 the exports of this product declined very quickly due to the presence of the meat-packing plants.

In relation to Uruguayan imports, they were mainly raw materials, energy (coal, naphtha, kerosene, fuel oil, gas oil and crude oil) and manufactured products such as vehicles. The main suppliers were the US - provider of vehicles (90%) and naphtha (34%) -, the UK – chief provider of coal (94%) -, Germany, France, USSR and Latin American countries such as Argentina, Brazil, Mexico, Peru, and Venezuela[338]. In the case of the US, imports were more than twice as much as exports to that country. In fact, during the period 1928-1934 the US had

[337] See private memorandum dated October 22nd 1932, from the Uruguayan Embassy to London sent to Mr. Craigie at the Foreign Office in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114.
[338] Figures were taken from Jacob (1977, pp. 21-31).

an average share of around 20% of the total Uruguayan imports (this share being 30% in 1928), followed by the UK (17.8%), Argentina (11.8%), Germany (10%) and Brazil (8.4%), as well as other European countries such as Belgium (4.7%), Italy (4.4%), France (3.6%) and Spain (3.3%), among others[339]. And this particular structure of commerce boosted claims from the main export destination of Uruguayan produce, the UK. This country strove to balance the bilateral trade at the expense of the Americans by requesting, among other concessions, a warranty of a share on the existing market for coal, coke and solid fuels manufactured from coal, as well as better access conditions and tariffs for British cars and textiles. As we will see, those concessions would only be in exchange for keeping the access of Uruguayan meat to the British market[340].

Because livestock was the main source of revenue for the economy, as previously mentioned, another source of vulnerability was nature. According to Bertino & Tajam (2000, pp. 26-28), by 1927 the government was dealing with the 'foot-and-mouth' disease in animals (among other diseases such as ovine mange), which jeopardized Uruguayan exports. As a consequence, and to prevent the disease from spreading, the government banned the mobilization of animals with this disease and their use for the production of meat, with this sort of meat only allowed to be used for the production of canned food. As we will see, like in the case of Argentina, this disease eventually affected Uruguayan exports to a highly protectionist key market, the US, and that explains why at the end of 1934, this country reduced significantly its share in Uruguayan trade flows.

At the end of the twenties, a new package of projects for the recovery of public land or the settlement of former farmers back from the cities to the countryside caused a rapprochement between the livestock farmers and the government, but it was not finally put in practice[341]. Instead, the government implemented measures to boost and improve technically the agricultural and livestock sectors. By 1929, the program of genetic improvement of the livestock was put into effect by the CNA prompting the *mestización vacuna*[342] by means of premiums (*primas*) established for the best meat quality. In this regard, according to the Census of 1930, the complete *mestización* of the bovine stock was achieved by that time[343]. However, since 1930 the stagnation of beef production was apparent because of animal diseases, lack of genetic improvements and investment and excessive reliance on extensive cattle farming[344]. The deterioration of the 'agro' was alarming and an additional problem was the shortage of forage material. Thus, in order to promote a systematic improvement of the natural pastures and to boost productivity the *Sección Plantas Industriales y Forrajeras de La Estanzuela* (Industrial

[339] Figures were taken from International Trade Statistics of the League of Nations (various years).
[340] See minutes of the meetings of the commercial negotiations held from 1933 and 1935, in "Uruguay-UK. Commercial Negotiations", BT 11/294.
[341] See Bertino et al. (2001a, p. 7).
[342] *Mestización* is a process by which creole cattle is crossed with particular breeds in order to improve the genetic quality of the local cattle. By that time it was very common to cross creole cattle with British breeds. For more detailed information, see Bertino & Tajam (2000).
[343] See Nahum (2008, p. 165).
[344] See Bertino & Tajam (2000, pp. 26-28).

and Forage Plants Section from *La Estanzuela*) [345] was created to research new techniques of land management and to incorporate them into production[346].

There were also some attempts to defend producer margins pressured by the intermediaries and consumers. In this regard, for the case of the meat trade, it is worth mentioning the influence of the *Frigorífico Nacional* since 1928, and the brief intervention in the commercialization by the BROU to face specific events for the grains (maize and wheat) during 1928-1930[347]. The government also extended the protection policy to the farmers in the commercialization chain. The main instrument applied was the purchase of harvests by the State and the fixation of minimum prices (e.g. the purchase of cereals at fixed remunerative prices) as occurred later in Argentina; as well as the creation of the *Mercado de Frutos* (Fruit Market) in order to speed up the process of commercialization of the products. Furthermore, with the purpose of providing cheap credit to farmers the *Sección de Crédito Agrícola* (Department of Farming Credit) was created within the BROU[348]. The *terrista* regime (after 1933) continued with these policies and adopted new ones of dubious effectiveness. For example, a few days after the coup, Terra decreed compulsory cultivation by imposing a surcharge on the property tax paid by those landowners that did not cultivate a certain percentage of lands, but the consecutive postponements in the establishment of the surcharges left the measure without effect[349].

Although the country did not export significant quantities of industrial products, by the end of the twenties Uruguay was prosperous enough to build a vigorous domestic market. Among the small republics, only this country could establish modern manufacturing with companies attracted by the concentration of population and high income in its capital, Montevideo[350]. The urban growth of previous decades allowed for an economy that proportionate to its size, became one of the most industrialized in Latin America[351]. According to the Industrial Census of 1930, 59% of industries were established in the period 1919-1929, but they were relatively small, with only 2.4% of the industries operating with more than 100,000 pesos as capital. But perhaps the most important feature of the Uruguayan industry was that it was overwhelmingly locally oriented and heavily dependent on foreign inputs. Indeed, 99% of the industries of the sample[352] operated for the domestic market, and 47% of them incorporated as input imported and national raw materials, 28% imported raw material and 25% national materials[353].

Regarding the scope of the industrial policies during the twenties, their relevance in terms of effective results has been questioned as in Argentina. There was a lack of a general and long-

[345] By that time '*La Estanzuela*' was the official seedbed known as 'Plant Breeding and Seedbed National Institute *La Estanzuela*', whose director was the German scientist Alberto Boerger who was contracted by the Uruguayan government in order to work in the genetic improvement of the country, taking as reference the advanced knowledge in the US and Germany.
[346] See Nahum (2008, p. 125).
[347] See Bertino et al. (2001a, pp. 6-7).
[348] See Nahum (2008, p. 142).
[349] See Bertino et al. (2001a, p. 10).
[350] See Bethell (1994, pp. 103-104).
[351] See Finch (1991, p. 153).
[352] The sample of the Industrial Census of 1930 was 7,403 industries, representing 94% of the total establishments in the country (Jacob, 1977, p. 51).
[353] See Jacob (1977, pp. 51-52).

term planned industrialization policy. Instead, policies were characterized by particularism and sometimes by short-termism. Even so, the industrial protectionist policy applied by the *batllismo*, which dated from the previous century (e.g. the customs law of 1888) but that was extended and deepened, was the government's main mechanism to promote industrialization. And the key policy instruments included the imposition of tariffs on imports of manufactured products competitive with national production and the extension of benefits granted to imports of raw materials, machinery and industrial inputs. For those purposes, the Law of 1912 provided protection to new industries[354] and the Law of *Reaforos* of 1923 updated tariffs that had remained unchanged since the nineteenth century. Furthermore, the law of industrial privileges of 1919 (an extension of the Law of 1885) and its modifications of 1921 established incentives for entrepreneurship that developed new production lines. Other related industrial policies included preferential credit for industrial development; technological support to boost university education in knowledge fields related to industrial production, scientific research and its technological application by public institutions; and the supply of three-phase electric energy[355]. Then, in 1930 the law of industrial privileges was extended and deepened and a law of 'compulsory label' was enacted in order to identify the national products and to promote them within the population. Moreover, by 1931 the ban on the import of some articles considered as competitive with the national industry was added to the imposition of exchange control and the ban on foreign firms to freely send their profit abroad[356]. And probably the textile industry was the most protected since the local wool-manufacturing industry was a natural development in the sense that the raw material -wool- was grown in the country. Thus, it was the central pillar of Uruguayan industrial development and was conducted very efficiently, and for that reason it was not possible "to expose the industry to the destructive influence of foreign imports"[357].

iii. Conclusion

Uruguay is interesting for its strategic position between its major South American neighbours, Argentina and Brazil. Its political system relied on the two traditional multi-class parties. One of these parties, the *Colorado* party, managed by the twenties to ensure political stability under the guidance of the policies of José Batlle y Ordóñez and also thanks to the particular social structure and significant political and legislative achievements. However, there were institutional tensions between the presidency and the National Council of Administration that would eventually create instability.

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[354] The law of October 12th 1912 referred to the protection of new industries by means of benefits granted administratively to the manufacturing companies that settled in the country. Those benefits were: liberation and reduction of taxes on primary products when they were introduced with industrial destinations, tax exemptions for the first installations of equipment, exemptions for the real estate contribution for ten years for the same companies and granting of the rights of temporary admission and drawback. It also authorized the executive authority to restore the taxes when the industry produced the imported raw materials (Faroppa, 1969, p. 112).

[355] See Bertino et al. (2001a, pp. 7-8).

[356] See Nahum (2008, p. 142).

[357] See U.9th minutes of a meeting held at the Board of Trade on July 10th, 1934, in "Uruguay-UK. Commercial Negotiations", BT 11/294.

Uruguay needed foreign loans to support its development, being an example the so-called 'Hallgarten' loans with the US. Similarly to Argentina, it was also an important recipient of foreign capital mainly from the UK.

There was a strong involvement of the government in the national economy by means of the creation of state-owned monopolistic entities in key strategic sectors, including meat, petroleum, ports, electricity, etc. Interventionism was also by means of an industrial protectionist policy that included the imposition of tariffs on imports of manufactured products competitive with national production and the extension of benefits granted to imports of raw materials, machinery and industrial inputs.

Although there was protectionist legislation, strict state control mechanisms over exports and imports were not in place. Furthermore, in general terms, the monetary and exchange markets operated without major regulations

However, as in the cases of Argentina and Brazil there were strong vulnerabilities that in the case of Uruguay were magnified because of its limited internal market. The UK was its main customer. The structure of Uruguayan exports was strongly vulnerable to the market swings of raw wool and meat. Cattle farming-related products and by-products constituted almost 80% of total exports. Also as in Argentina, the meat business was heavily controlled by foreign interests. And cattle illnesses such as the 'foot-and-mouth' disease in animals jeopardized Uruguayan exports.

The case of Uruguay seems to be different in the sense that there was some more institutional stability, probably due to the fact of being a smaller country. It was easier for the central government to keep the country united and the government administration running as usual. However, through trade channels the vulnerabilities were strong, because it was more dependent on meat exports than Argentina. And although it did not have such a strong dependence as Brazil on a single crop, it did not enjoy the advantage of a bigger presence in world affairs or the obviously bigger Brazilian internal market. Nevertheless, the relatively more resilient political system and institutional stability emerge as elements that could outbalance our conclusions regarding the complex vulnerabilities involved.

With this chapter, we end our analysis of Argentina, Brazil and Uruguay in context during the twenties and the early thirties. Now, in the next part we address the Great Depression itself in those countries, but this time from a more comparative approach.

Part Three – A complex vulnerability during the Great Depression

VIII. Political turmoil and revolutions in Argentina, Brazil and Uruguay

During 1930-1933, each of our case countries suffered swift regime changes that involved a breakdown of the constitutional order. As we have seen in the conceptual framework written in Chapter II, in every account of the economic life of a country, the conduct of interest groups working in the background of internal politics helps to explain the specific policies applied by governments. It also explains key events such as the coups of José Uriburu in Argentina (1930), Getulio Vargas in Brazil (1930) and Gabriel Terra in Uruguay (1933).

In each of those regime changes, there are political forces or pressure groups that shape the political outcome, and at the same time the economic situation had a contributing role in those events. In this chapter we mainly review the relationship between politics and economics during the end of the twenties for each of our case countries and the main actors and institutions that gave a framework to the political crises. This review of political events is necessary to tackle in the next chapter the economic contraction itself.

i. A politic maze in Argentina

In this section we present the turbulent political scenario in Argentina at the outbreak of the crisis focusing on the coup of 1930 and the attempt at oligarchic restoration.

In 1930 the government of Hipólito Yrigoyen fell into a trap similar to that which caught Alvear's presidency in 1922-1924, but with far more devastating consequences[358]. On the one hand, Yrigoyen demonstrated his inability to deal with the revenue crisis and the effects of the international crisis on the country. For example the global crisis negatively affected those companies that Yrigoyen's government supported such as the railways and shipping companies tied to foreign trade[359]. On the other hand, Yrigoyen was not able to unify and consolidate his party in a context of political conflict when he was being criticized for his populist and personal style of politics. Even the Chargé d' Affairs of the United States in Argentina, Mr. White, described the regime as exceptionally dictatorial and extraordinarily inactive and how the opposition within the government party was growing[360]. Thus, it started to undermine Yrigoyen's popular backing and this disappointment with the government escalated into

[358] See Rock (1985, p. 212).
[359] See Romero (2002, p. 57).
[360] See note Nº 899 (835.00/461) signed by the Chargé d' Affairs of the United States in Argentina Mr. White to the Secretary of State, in FRUS (United States Department of State, 1945, p. 378).

inflamed opposition. In this regard, just in the congressional elections of March 1930, the *yrigoyenista* vote was 25% lower than two years before, and in Buenos Aires the *yrigoyenistas* lost an election for the first time since 1924, defeated by the Independent Socialist party[361]. Furthermore, the exposure by the press of details of administrative corruption, the fights of university students with rival factions of *yrigoyenistas* and their opponents for control of the streets and reports of the President's senility prompted the disintegration of the cabinet. That situation showed that finally Yrigoyen's opponents had their opportunity to destroy him. In the end, all these events constituted the prelude to what happened on September 6th 1930. On that date, as happened in other Latin American countries[362], Yrigoyen was overthrown by a military coup –the first of the army-led coups in Argentina in the twentieth century- commanded by the Nationalist José F. Uriburu[363], a coup that had little planning and with only small forces (most of them junior officer cadets). He was arrested and sent to *Martín García* Island. This rebellion was the so-called 'Revolution of 1930'; although the country's political institutions were preserved.

The leaders of the coup were divided into two groups: on the extreme right was a nationalist faction led by Uriburu, who became President of the provisional government, but the majority in the revolutionary coalition were the liberal conservatives led by General Agustín P. Justo[364],

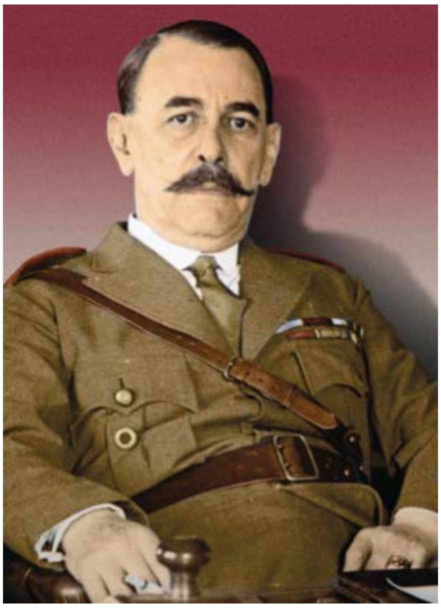
[361] This party was a newly formed offshoot from the old Socialist party aligned with the conservatives. See Rock (1985, p. 212).

[362] According to the telegram 835.00/464 signed by the Ambassador of the United States in Argentina, Mr. Bliss, to the Secretary of State, in FRUS (United States Department of State, 1945, p. 379), the *coup d'état* in Peru made a strong impression in Argentina and it was used by party chiefs in an endeavour to influence the President to believe that his life was in danger and that his only safeguard was to resign.

[363] General José Félix Uriburu (June 20th, 1868 – April 29th, 1932) was the first *de facto* President of Argentina, a position that he achieved through a military coup, from September 6, 1930 to February 20, 1932. He was born in Salta, Argentina, and the former President José Evaristo Uriburu was his uncle. He joined the *Colegio Militar de la Nación* (National Military College) in 1885 and in 1888 he received the rank of ensign, and then was promoted to second lieutenant. By 1890, when Argentina faced an important moral and financial crisis, he participated in the *Revolución del Parque*. He continued with his military career and went to Germany to study in Berlin where he was a member of the Imperial Guard Corps. When he came back to Argentina he was incorporated into the military service and in 1909 was promoted to colonel. In 1913 he joined a mission as an envoy to Germany and the UK as military attaché of the Embassy and in the same year he was elected national deputy from Salta under the auspices of the Progressive Democratic Party. He served several posts in the Armed Forces and in 1926 collaborated with Agustín P. Justo when he was Minister of War but when implementing the Armaments Law presented difficulties he requested exemption from duty. Finally, he led a military coup against the democratically-elected President Hipólito Yrigoyen, in which the far-right Argentine Patriotic League participated. He stayed as head of the government until 1932. Then he was diagnosed with stomach cancer in early 1932 and finally he died in Paris, France on 29th April 1932 (Abad de Santillán, 1971b, pp. 1-4, 34-36).

[364] General Agustín Pedro Justo (February 26th, 1878 – January 11th, 1943) was President of Argentina from February 20, 1932 to February 20, 1938. He was a military man, diplomat, and politician. Justo was born in Concepción del Uruguay, Province of Entre Ríos. His family was very linked to politics. His father had been Governor of Province of Corrientes and he was soon a national deputy. He studied in the *Colegio Militar de la Nación* and being a cadet, he participated in the *Revolución del Parque*. He studied engineering at the University of Buenos Aires and in 1904 he became a military engineer. He continued his military career and with the rank of lieutenant colonel he completed diplomatic actions, becoming military attaché to Argentina's envoy at the centennial festivities in Chile in 1910. Then, he returned to Argentina and in 1915 he was appointed director of the Military College. Pursuant to the radical anti-personalist political branch, during the Alvear administration in 1922 he left the Military College to become the Minister of War and he was promoted to the rank of brigadier general on August 25, 1923. At the end of 1924 he was sent as plenipotentiary to Peru.

who had been Minister of War under Alvear. During the twenties the nationalist wing was characterized as anti-communist, anti-democratic and anti-liberal, and to some extent they were also influenced by Italian fascism as occurred during Terra's dictatorship (1933-1938) in the neighbouring Uruguay. Immediately after the coup, the nationalists were prepared to abolish or make radical revisions to the Constitution of 1853, to suppress elections and political parties and to create an authoritarian system based on corporate representation. But the other group headed by Justo was opposed to any extreme measures; unlike Uriburu's group the main idea was to restore the Constitution rather than to destroy it. The conservatives did not want a government based on corporatism with fascist overtones; instead of that they desired a government responsive to the commercial and landed elites which meant an 'oligarchic restoration'[365]. Thus, Uriburu as President *de facto*, decided to dissolve Congress which had become ineffective in a context of crisis and revolution, establishing a regime of legislation by executive power through 'decree-laws'. But he did not apply extreme measures towards political parties or the Constitution of the Republic, as the conservative wing wanted. In this regard, if one takes into account the imposition of the ideological basis of the majority, another decade of conservative rule started that has been called the 'infamous decade'. This name was an allusion to the fact that, unlike in the twenties, the governments of the thirties attempted to keep themselves in power through fraud and force when necessary amid a political, economic and social crisis.




José Félix Uriburu (1930-1932) Agustín Pedro Justo (1932-1938)
Source: *El Bicentenario* (1930, p.481 and 1931, p. 485)

During the next few years he temporarily was the Minister of Agriculture and Public Works, besides holding the post as Minister of War, which he would not abandon until the end of the term of office of Alvear. Then, in 1930 Justo gave his agreement to the coup of September. But, he rejected several offers of Uriburu to join the government. He only briefly accepted the command of the army, resigning soon after. With the support of an alliance so-called '*la Concordancia'* he ran for President on the elections of November, 1931. With Yrigoyen's faction banned from the elections and its supporters using the strategy of 'revolutionary abstention', Justo easily won against Lisandro de la Torre and Nicolás Repetto, although under suspicion of fraud. His term of office finished in 1938 and he died in 1943 in Buenos Aires (Abad de Santillán, 1971b, pp. 37-38).

[365] See Rock (1985, p. 216).

The political environment was tense: whilst Uriburu strengthened himself by patronizing a paramilitary organization, the *Legión Cívica Argentina* (LCA, Argentine Civic Legion), Justo intrigued persistently to weaken him. Furthermore, although the September revolution of 1930 had had important popular backing in Buenos Aires, that euphoria was short-lived because the depression deepened and the provisional government's emergency measures did not convince the citizens. As a consequence of this situation, in April 1931, at the urging of his Minister of the Interior, Uriburu called elections for Governor in the Province of Buenos Aires. To his dismay, the Radicals achieved an overwhelming victory but the government annulled the results. Moreover three months later there was an attempted pro-Radical rebellion among military personnel in Corrientes which was successfully repressed. In the meantime, Uriburu did not find a way to handle the economic depression. The currency was depreciating very quickly, foreign trade was suffering a rapid deterioration, the activity growth rate plummeted and the country was negatively affected by the world deflation[366].

One possible explanation for the failure of Uriburu's government is the formation of its cabinet that was fundamentally a 'civil cabinet' linked to business activities (e.g. some elected ministers had been linked with petroleum companies) showing its preference for corporatism and the repudiation of political parties which had as a result a lack of political support[367]. In this regard, Table 33 presents the *ministros de hacienda* (ministers of finance) and presidents who had to deal with the crisis during 1928-1934.

The Ministry of Finance during Uriburu's government was run by Enrique Pérez (1930-1931) from the nationalist wing and later by his cousin Enrique Uriburu (1931-1932) who avoided public life and claimed to accept his post as 'patriotic sacrifice'(Beccar Varela, 2010). Both of them did not represent the majority of the revolutionary coalition and of course did not contribute to a period of 'restoration' in favour of the interests of the oligarchy. Thus, we can assume that it was very hard to implement policies to face the hardships in this complicated scenario. In relation to this, the lack of political support and the general situation of the Argentine economy led Uriburu to call general elections for November 1931. The government vetoed the candidature of Alvear[368] and therefore his party (the main opposition), UCR, decided to return to its policy of abstention. On the other hand, General Justo had carefully upheld his military constituency and collected endorsements from the leading power groups. Thus, the way was paved for '*la Concordancia*'[369] -a conservative national democratic party- and its candidate, Agustín Justo, won the presidential elections.

[366] According to della Paolera et al. (2003, p. 54) during Uriburu's period (1930-1932), in average terms, the devaluation rate was 23.26%, the inflation rate -3.31% (deflation), the interest rate 8.72% and the activity growth rate -9.22%.

[367] See Rapoport (2003, p. 215).

[368] The Radicals were excluded by proscription and by the arrest or exile of their leaders (Rock, 1985, p. 217).

[369] '*La Concordancia*' was a coalition of parties. It was integrated by the old-style conservatives (previous to 1916) naming themselves as *Partido Demócrata Nacional* (PDN, National Democratic Party; but few of its members were genuine democrats, and given their continual poor showings in many parts of the country, they were never fully national); the *Partido Socialista Independiente* (PSI, Independent Socialist Party) that was a

Table 33 Argentina: Ministers of finance that had to deal with the crisis during 1928-1934

Minister of Finance	Term of office	Minister's profession and/or political party	President	Term of office	President's political party
Víctor M. Molina	October 1923-October 1928	Lawyer. UCR (*anti-personalista*).	**Marcelo T. de Alvear**	October 1922-October 1928	UCR
Enrique Pérez Colman	October 1928-September 1930	Lawyer. UCR (*personalista*).	**Hipólito Yrigoyen**	October 1928-September 1930	UCR
Enrique S. Pérez	September 1930-April 1931	Lawyer. Nationalist.	**José F. Uriburu**	September 1930-February 1932	Nationalist - LCA
Enrique Uriburu	April 1931-February 1932	Lawyer.			
Alberto Hueyo	February 1932-July 1933	Lawyer and businessman.	**Agustín Justo**	February 1932-February 1938	*La Concordancia* (UCR-A, PSI, PDN)
Federico Pinedo	August 1933-December 1935	Lawyer and Economist. Socialist (PSI).			

Source: compiled from Abad de Santillán (1971 and 1971b). Notes: LCA (Argentine Civic Legion), UCR-A (UCR *anti-personalista*), PSI (*Partido Socialista Independiente* -Independent Socialist Party-), PDN (*Partido Demócrata Nacional* -National Democratic Party-).

After the repression of various revolts, on February 20th 1932, Justo assumed the presidency of the Nation and Julio A. Roca (junior) the vice-presidency, until 1938. It is important to highlight that the victory of November 1931 restored power to the same groups that had controlled Argentina before 1916, the pampas' exporting interests and the landowners in the provinces. But, the achievement of this restoration was down to the Army's backing, the proscription of the Radicals and electoral fraud. A good example of the real political situation is that in various parts of the country the police confiscated the ballot tickets of known opposition supporters; Justo's followers falsified voting registers, and in some jurisdictions the dead were resurrected in multitudes to cast their votes[370].

Nevertheless, in relation to the style of politics, compared with the persecutions and acts of repression of Uriburu, Justo was far more tolerant but he was unsympathetic to the nationalist factions and controlled the Army. In this respect, in 1932 Justo lifted the *estado de sitio* (state of siege) that had prevailed since the coup. He released and amnestied political prisoners, among them Hipólito Yrigoyen. Furthermore, he reinstated university professors who had been

right wing offshoot from Juan B. Justo's original Socialist party formed in 1927 and from which Justo regime obtained two talented figures, Federico Pinedo and Antonio de Tomaso; and the *anti-personalistas* Radicals group, the most important of the three groups throughout the thirties (Rock, 1985, p. 218).

[370] See Rock (1985, p. 217).

dismissed for their pro-Radical sympathies and he suspended the activities of paramilitary groups like the LCA. By 1933-1934, the social unrest[371]and the rivalries among and within the political parties continued. In 1934, while Alvear, after his arrival to the country, began a new attempt to reunify the UCR, the Socialists gained ground in Congress[372]. In this regard, throughout Justo's regime there was neither effective nor organized opposition offering genuine alternatives. The old Socialist party was weakened by the creation of the faction of Independent Socialists (more moderate) and the death of Juan B. Justo in 1928; and when *la Concordancia* consolidated itself under Justo, the initially spirited reaction of the Radicals was diminished[373]. In addition, although the Communist wing was banned but tolerated, as Halperin Dongui (1998, p. 387) argues, they continued protecting the rights and interests of the working class.

Moreover, Justo put all his efforts into facing the crisis that Argentina was going through and the petroleum issue became less significant (as well as during Uriburu's government), dismissing the idea of a state petroleum monopoly and treating the state petroleum directorate – the YPF- and its foreign competitors for the most part equally. In principle, as Table 33 shows, in 1932 President Justo designated the liberal businessman Alberto Hueyo as the new Minister of Finance. But, although during Hueyo's term some important measures were taken, the difficult economic circumstances that the country faced prompted a change of economic model passing from moderate protectionism to serious state intervention. Thus, later in 1933, in order to take the necessary steps to get Argentina out of the crisis by stronger interventionism in the economy and the putting into practice of more innovative ideas, President Justo[374] designated the Socialist economist Federico Pinedo as Minister of Finance, who had a special strategic vision. He was responsible for the implementation of policies that we analyse in the rest of the thesis. However, although during Justo's presidency substantive economic measures were taken to fight against the crisis, his term was marked by significant economic concessions to the UK and its companies set up in Argentina after the signature of the Roca-Runciman Treaty, decisions that generated strong political debates. One good example is the scandal related to the meat trade and the activities of the British meat-packing plants. In 1934, the Senator from *Santa Fe*, Lisandro de la Torre[375], requested an investigation into the meat trade and the activity of the

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[371] In 1933, a new armed uprising was frustrated by the government, which blamed the Radicals and arrested again their leaders ("*1930/39 La década infame*", Cronista.com).

[372] In May, 1934, the Socialists gained ground in Congress, after their victory in elections for national deputies, by over 100,000 votes ("*1930/39 La década infame*", Cronista.com).

[373]According to Rock (1985, p. 219) "…the Radicalism functioned best in times of prosperity, when it had something to offer the electorate, but during the depression it floundered constantly, strong on moral imperatives but usually weak on content, and divided perennially on tactics and strategy…".

[374] According to della Paolera et al. (2003, p. 54) during Justo's period (1932-1937), in average terms, the devaluation rate was -0.62% (revaluation), the inflation rate 3.98%, the interest rate 6.02% and the activity growth rate 1.88%.

[375] De la Torre was a landowner and leader in Santa Fe's SRA. He had been a presidential candidate in the 1916 election won by Yrigoyen and again in 1932 against Justo. He was the outstanding figure among the opposition of Socialists and Progressive Democrats. He denounced the meat-packing companies, as protected by the authorities, for not paying taxes, hiding their profits, and giving preferential treatment to some influential livestock farmers, such as the Minister of Agriculture himself, Luis Duhau, who had been President of the SRA. De la Torre's intervention in Congress was brilliant and lasted several years, attracting public attention and eliciting a violent response from the ministers Duhau and Pinedo (Romero, 2002, p. 72).

meat-packing plants. On this issue, the discovery of tax evasion cases, excessively low prices paid to the producers, monopolistic practices, abuse of power and other irregularities, impacted very quickly on Argentine society and the economy.

In summary, there was not only a turning point in the political life of this country but also a radical ideological change, the decline of *laissez-faire* and the rise of nationalism, encouraging major state intervention in the national economy.

ii. The rise of mate in Brazil

Being the official and only candidate in the elections of March 1926, Washington Luís[376], from the *Partido Republicano Paulista*, assumed the presidency on November 15th, 1926. Not surprisingly, Luís was the successor of a mineiro, Artur da Silva Bernardes from the *Partido Republicano Mineiro*[377], a natural consequence of the already mentioned '*café com leite*' agreement and the influence that the coffee oligarchy had achieved in the federal government. The new President wanted to make currency stabilization one of his administration's main objectives. This endeavour had been facilitated by the lifting of the British embargo on foreign government loans that since 1924 ruined the Bernardes economic strategy of returning to the gold standard with the backing of foreign loans. For this task, President Luís appointed people from Rio Grande do Sul, not much because of professional skills, but for political reasons. The southern State, known for the habit of its people to drink *maté*, had the third largest number of MPs, was more open to supporting the proposed stabilization program than the mineiros, showed an increasing economic performance, and claimed a more equitable share in the federal decision-making process. This explains the selection of Getulio Vargas[378] as Minister of

[376] Washington Luís Pereira de Sousa was born in Macaé, Rio do Janeiro, on October 26th, 1869, but he spent most of his life as a paulista resident and politician. He was a lawyer, historian and Brazilian politician, who took office as the eleventh President of the State of São Paulo, and the thirteenth and last President of the old Brazilian Republic. He was overthrown on October 24th 1930, twenty one days before the end of his mandate. He passed away in São Paulo on August 4th, 1957 (translation of pt.wikipedia.org, page visited in January 2015).

[377] Bernardes governed Brazil from 1922 to 1926, most of the time under state of siege because of the rebellions of 1922 and 1924.

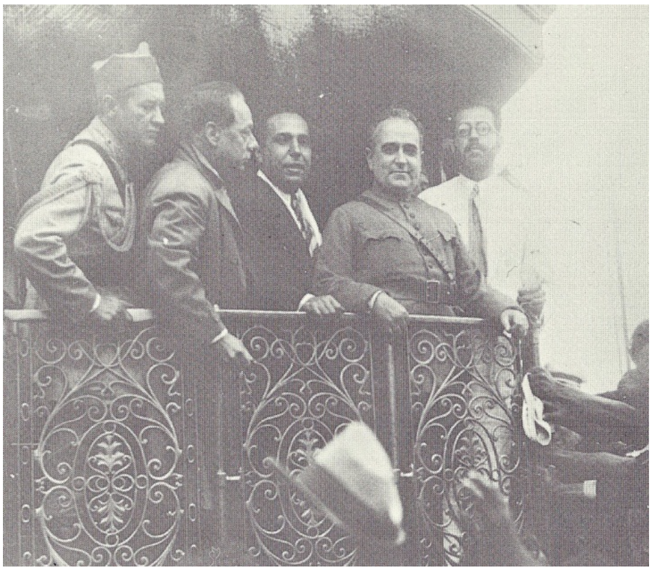
[378] Getulio Vargas was born in April 19th, 1883 in São Borja, Rio Grande do Sul, a town separated by the Uruguay River from Argentina. The district in which Vargas was raised was mainly producer of cattle and according to Dulles (1967) famed for 'contraband and border feuding'.

He was an admirer of the founder of the *Partido Republicano of Rio Grande do Sul*, Julio de Castilhos. His father was the third son of Manoel do Nascimento Vargas, a General who had fought in the Paraguayan War during the Empire. After a brief experience in the military, he chose to study law in Porto Alegre, and graduated in 1907. Soon after he joined the State Assembly under the ranks of Borges de Medeiros. Borges, ruler for 25 years of the Porto Alegre State from the Partido Republicano Rio-Grandense (PRR), was his political mentor.

Vargas married Darci Sarmanho as soon she was fifteen, and they raised a family of three boys and two girls. By 1921 he was majority leader in the State Assembly and secretary of its budget commission.

According to Dulles (1967, pp. 18), Vargas was a unique figure in Brazil, because he was calm, disciplined, prudent, temperate, and silent. He describes him as "(…) an attentive listener, he developed an engaging smile and used it so frequently that visitors spoke of his proverbial affability. No extrovert, he was friendly, patient, and apparently unemotional. Inclined to display genuine appreciation for the opinions which opponents might advance in a discussion, he came to be regarded by fellow legislators as one who excelled at reasonable compromise. The facade of friendliness and calm hid considerable tenseness, and he often felt less cheer than his surface indicated. Vargas was inwardly impatient, resenting late-comers and tellers of stories he already

Finance, a position he assumed at the age of 43 on November 15th, 1926. This appointment meant for him a jump from the state to the federal level, a decision that proved to be a further step in the political career of a figure that would change Brazil forever. Nevertheless, during his brief appointment, Vargas kept a low profile. His main objective as Minister was to implement the financial reform set out by President Luís in December, 1926. As reported by Pacheco Borges (1979, p. 70), Vargas was presented by the press of the time as a simple executor of President Luís' policies, always applying the administrative aspects of the presidential policies and in general was depicted as scrupulous with the tax payer's money and honest.




Getulio Vargas after the Revolution of 1930 (left) and during his last presidency 1950-1954 (right) in Dulles (1967)

For the election of March 1930, the natural candidate should have been the Governor of Minas Gerais, Antonio Carlos Riveiro de Andradas[379], who regardless of the presumed security of his candidacy, had exhibited a high profile during the Luís administration, and even opposed the President's monetary reform bill, his main government project. Even though the strained relations with the federal executive could have justified the rejection of Riveiro de Andradas as candidate, it was a big gamble for Luís, since the failure to support the *mineiro* President meant in fact the expiration of the agreement that secured Brazilian stability during most of the

knew, but self-discipline so dominated impatience that he would hold off moving until his shrewd analysis of a situation told him that the best time had come".

During the revolution of 1930 he was accused of duplicity, because on the one hand he cultivated a relationship with President Luís, and on the other participated in the plot against the government.

In 1954, surrounded by a mob in the presidential palace in Rio de Janeiro, Vargas committed suicide. His farewell words were: "This people whose slave I was will no longer be slave to anyone. My sacrifice will remain forever in your soul, and my blood will be the price of your ransom".

[379] Antonio Carlos Ribeiro de Andrada (Barbacena, 5th of September of 1870 - Rio De Janeiro, 1st of January of 1946) was a Brazilian politician, mayor of Belo Horizonte, President of the Lower House (Câmara dos Deputados), Senator of the Republic, President of the National Constituent Assembly of 1932-1933, Minister of State and President of the State of Minas Gerais (translation of pt.wikipedia.org, page visited in January 2015).

Republic's recent history. It also would open the door for a more important role for Rio Grande do Sul in the coming elections.

In spite of the prospects of possible instability, Luís proposed officially the name of the paulista Governor Julio Prestes, who by the way had introduced the Reform Bill in 1926. The election of Prestes as a candidate was Luís' choice as the candidate that most likely would be prone to continue his policy of financial reform. Luís and Prestes both being *paulistas*, the election proved to be highly destabilizing, not only for breaking the agreement with Minas Gerais, but for dangerously gathering opposing forces in Minas Gerais, Rio Grande do Sul and Paraíba, the states most opposed to the prospects of a paulista monopoly of the federal government. Even before the official nomination, the leakage of the news precipitated the secret negotiation of a pact between the aged *riograndense* strongman Borges de Medeiros and the *mineiro* Riveiro de Andradas, which said that in the event that Prestes became the official candidate, both states would support the candidacy of the former to the presidency. Eventually, the move turned into the support of both states for the candidacy of Getulio Vargas as the main contestant for the presidency. In this way, the scenario was set for the upcoming electoral process. According to Abreu (1990), the stereotype of the time was that Vargas represented the industrialists and the bourgeoisie, while Prestes was the defender of the coffee interests. However, according to many authors, Vargas was more prone to creating compromises among the different interests in conflict within the economy without taking sides. That was probably his main advantage.

The opposition movement was called *Aliança Liberal*, and was not a political party, but a coalition of political parties. As its self-explanatory name tells, the party could not be considered anti-system. In its political platform, the *Aliança* included the necessity to invest in society in order to promote development. As explained by Hilton (1977, p. 104), the proposed labour legislation and the efforts in education show the awareness of the politicians of the importance of the role of human resources in the development of the country. However, as clearly stated by the architect of the *Aliança Liberal* program, Lindolfo Collor[380] in his Manifesto presented to the Convention of the Alliance on September 20th 1929, its objectives were liberal in political terms. It proposed to reform the electoral system and to address the multiple social problems ignored by the government, especially the alleged official disdain of the Brazilian worker, to whom the alliance promised syndicalist liberties, an eight hour working day, minimum wage, holidays, etc.

Regarding economic policies, it is possible to say that the orthodoxy was so predominant, that, for example, in spite of the increasing balance of payments deterioration, there was a general rejection of the enactment of an exchange control under the *Banco do Brasil* as a measure of policy, because it was perceived as an inadmissible interference in the free market. Furthermore, the opposition and the government had only minor differences when dealing with issues such as coffee policy, protection to the farming sector and support to the industries. Even Osvaldo Aranha, a personal friend of Vargas who articulated the alliance campaign and would became

[380] Lindolfo Collor was also the first Minister of Labour, Industry and Trade under the Vargas administration.

later a key Minister of Finance under the Vargas administration, confessed that the opposition program would be presented later and that the presidency and the opposition programs were in fact twins[381]. In other words, the political discourse mostly ran along the same lines as the official one. Probably the most important economic issue during the electoral campaign was Prestes' proposal for conferring on the *Banco do Brasil* complete Central Bank authority with full convertibility of the total note issue[382].

Whatever the political agenda of the Alliance, the logic of the old Republic prevailed, and the official candidate Julio Prestes became the President elect for the new presidential term scheduled to begin on November 1930. However, the fate of the old Republic was already defined, as the failure of the alliance to win the elections only paved the way for a new marriage of convenience among the disaffected old and new oligarchies with the '*tenentes'* to overthrow the government, only this time with resort to the use of force. With the support of Rio Grande do Sul and part of the military, a rebellion started on October 3rd 1930, and it progressed unstoppably throughout the country[383]. Finally, a military Junta overthrew the Luís government on October 24th 1930, and transferred the federal executive powers to Getulio Vargas, who entered triumphantly into Rio de Janeiro one month later. With the exile of Prestes, Luís and other supporters, the old regime was replaced by a provisional government. Vargas assumed control of all institutions of the federal government and the autonomy of the states was eliminated by the direct appointment of federal *interventores*. In Picture 2, for illustrative purposes there is shown a copy of an original telegram sent from Brazil to the Foreign Office in the UK defending the purposes of the revolution.

Many authors agree on the vagueness of the revolutionaries. According to Aspásia (1983, p. 13), the revolution of 1930 from the macro social perspective had a tendency to strengthen the State, which coincided with the readjustment of the oligarchy and the exclusion of the people from the country, the expansion of the middle classes, the framing of the labourers and the consolidation of the bourgeoisie. It was not a classical revolution in the sense that it was an oligarchic revolution, which grew along the same rules of its own game, and tried to re-establish a regional equilibrium. Instead, it contributed to the centralization of power in the federal government. It did not, however, dislocate immediately the power of the dominant elites of the old Republic. It also coincided with the generational change in the old *caudillos*, by new figures previously

[381] See Aspásia (1983, p. 28).
[382] It is important to point out that before the creation of the *Superintendência da Moeda e do Crédito* by law 7293 on February 1945; there was no institution in Brazil that properly conducted the functions of a central bank. Until then the *Banco do Brazil* was at the same time a commercial bank and the financial agent of the monetary authorities. There were contradictory views regarding the role of the *Banco do Brasil* as a monetary authority or a simple commercial bank. The controversy was whether if the bank effectively sterilized the deposits made by commercial banks, or if that bank operated as a commercial bank and those deposits have to be considered the same way as any of the commercial banks, or in other words suitable for lending activities (IBGE, 1990, p. 513).
[383] The spark that ignited the revolution was the murder of the President of the State of Parahyba, Dr. João Pessoa on 26th July 1930. Parahyba was the only small State to support Minas Gerais and Rio Grande do Sul against Dr. Washington Luís' bloc. Dr. Pessoa therefore drew down upon himself the Federal government's displeasure, and became the focus of attention for the violent partisans of both factions. Added to this situation came the revolt against his authority in the backwoods of his own State Dr. Pessoa (see telegram from Mr. W. Seeds to Mr. A. Henderson in the Foreign Office, dated August 18th 1930, in FO 371-14200 1930, p. 350).

excluded. Among them, the most important were the already mentioned *tenentes*, the young military men who had struggled to change the basis of the State during the twenties. Although they were somewhat imprecise and ambiguous in their political program, their discourse emphasized nationalism, the centralization of power in the hands of the federal government, and uniformity of power.

Picture 2 Brazil: Telegram defending the coup


IMPERIAL AND INTERNATIONAL COMMUNICATIONS LIMITED
IMPERIAL AND EMPIRADIO TELEGRAPH SERVICES
200
CABLE ROUTES
WIRELESS ROUTES
24 OCT 30
CENTRAL STATION
25 OCT 1930

NA 1042 PORTOALEGRE 124 NIL -
SERVICE D INFORMATIONS FOREIGNOFFICE LONDON -
LA REVOLUTION BRESILIENNE EST UN MOUVEMENT
DE REVINDICATIONS POPULAIRES PROFONDEMENT MURI
OPINION NATIONALE BUT RETABLIR REGIME
LEGALITE ET MORALITE ADMINISTRATIVE CONTE
SA FAVEUR COLLABORATION EFFECTIVE PRESQUE
TOTALITE ARMEE IRROMPUE SIMULTANEMENT DIVERS

Source: FO 371-14201, dated October 15th 1930, pp. 165-166.

From the very illustrative compilation of letters and documents from those who played a leading role in the revolution compiled by Salgado Guimarães et al. (1982), it is possible to see the lack of economic proposals by the conspirators. Indeed, while in political terms the revolution looked for a more nationalistic approach to the country as a whole and over the interests of the federated states and their oligarchies; in social terms the core proposal included the creation of a Ministry of Labour and Education and the extension of working rights to the labourers. In a similar way to the *Aliança's* experience, there was strong criticism of the government policies, but there was no indication of alternative measures to face the combined economic problems of the country in the turbulent seas of the Great Depression, the collapse of coffee prices and the economic consequences of the emergency measures taken by the Luís government in a state of war. This outcome is almost natural if we keep in mind that Vargas had been Minister of Finance at the beginning of the Luís administration, and as such he devoted his energies to consolidating Luís' stabilization program. It would have been difficult for him to forget this so recent background and apply a different approach once he turned his back on his former boss. Only some communists like Luís Carlos Prestes contested the predominant orthodoxy. After all, as we have seen, the oligarchy still prevailed behind the veil of the new government.

Nevertheless, the revolution did have a nationalistic political and social agenda that ultimately started the modernization of the country, and later would change forever the economic structure of the country. The analysis of this process, however, lies beyond the scope of this work.

This brief but necessarily schematic outline of the social and political context seems to be pointing to the lack of causality between internal political turmoil and the international economic situation, as the revolution can be linked more to the internal political disputes. The Great Depression probably played its role as a contributing factor, but was not the main driver of the revolution. In the remainder of this work, the role of the economic downturn is examined.

Furthermore, it is not possible to neglect the role of the political instability that came on top of the economic hardships, both domestically raised and externally imported. Indeed, if the panorama were not complicated enough, the analysis of the policies implemented in the face of the international downturn gets contaminated by the emergency measures taken by the Luís administration during the brief rebellion of October 1930 and the insurrection of the State of São Paulo in 1932. Those political unrests constitute elements of distortion in our economic analysis, since both events forced the adoption of emergency measures that were superimposed on those policies adopted to face the effects of the Great Depression properly.

In order to address the objectives of this thesis we analyse in next chapters the mechanisms of transmission of the Great Depression, the emergency policies implemented, as well as the role of coffee in the downturn and eventual recovery. In order to do so, it is important to know the authorities that had to deal with the crisis during the period and especially the ministers of finance, who are displayed in Table 34.

Table 34 Brazil: Ministers of Finance

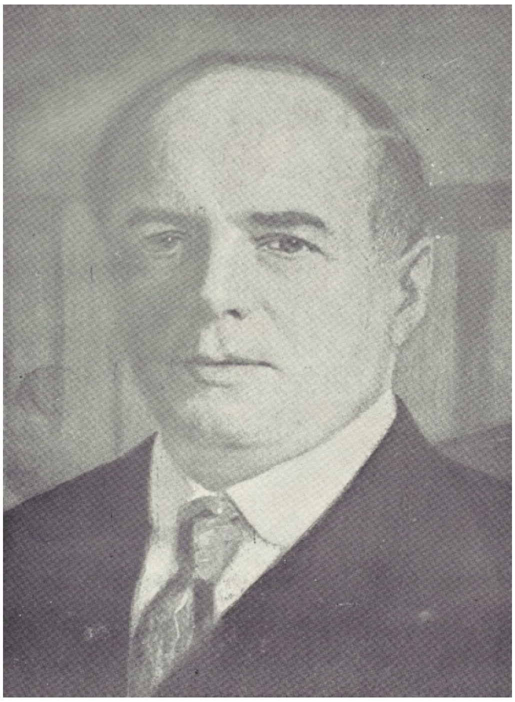
Minister of Finance	**Dates**	**President**
Getulio Vargas	11/15/1926 to 12/17/1927	Washington Luís
Francisco Chaves de Oliveira Botelho[384]	12/17/1927 to 10/24/1930	
Agenor Lafayette de Roure	10/25/1930 to 11/4/1930	Junta Governativa Provisória
José Maria Whitaker	11/4/1930 to 11/16/1931	Getulio Vargas
Osvaldo Euclides de Sousa Aranha[385]	11/16/1931 to 7/24/1934	

[384] Francisco Chaves de Oliveira Botelho (1868 — 1943) was a physician and politician. He was President of the State of Rio de Janeiro in 1906. He ended his political career as Minister of Finance of President Washington Luís (translation of pt.wikipedia.org, page visited in January 2015).

[385] Osvaldo Euclides de Sousa Aranha (1894 – 1960) was a Brazilian politician, diplomat and statesman from Rio Grande do Sul, who played a key role in the campaign of the Alliance in 1930 and the revolt that ended with the fall of the Old Republic. Under the Vargas government Aranha acted as Minister of Finance, Minister of Justice, and Minister of Foreign Affairs (translation of pt.wikipedia.org, page visited in January 2015).

iii. Executive power's tensions in Uruguay

Although the institutional framework of Uruguay is considered as relatively solid and stable, the particular juncture of the thirties was not free from political drama, marked by the authoritarianism of Gabriel Terra, as the international economic hardship translated into internal social and political turmoil. As mentioned, the CNA was created as a branch of the executive by the Constitution of 1918, forming a council of nine members. Whilst the CNA was responsible for the management of the Uruguayan economy and finances, the President was in charge of internal security and foreign affairs. That is why in this institutional framework, a major crisis would easily give grounds to the presidency to denounce its constitutional inability to take measures to fight it and to accuse the CNA of not doing enough. There lay the fuel of instability that found in the Great Depression a proper spark to ignite it, and that would introduce Uruguay into a period of authoritarianism.



Source: Terra, Gabriel -junior- (1962, p. 9).

When the crash of the US New York Exchange unfolded in 1929, the Uruguayan government was headed by the *riverista* President Juan Campisteguy (1927-1931), and the former *colorado batllista* President of the Republic between 1919 and 1923, Baltasar Brum, assumed responsibility as President of the CNA. In this regard, it is worth noting that during 1927-1933, the prime responsibility for the economy fell on the CNA. As a matter of fact, the ministers of finance Javier Mendívil and Eduardo Acevedo Álvarez, both under the direction of the CNA, were the most directly involved in managing the negative effects of the Great Depression during our period of analysis. Meanwhile, Gabriel Terra acted constitutionally as President from 1931 to 1933, but after then he ran a *de facto* regime that ended the Uruguayan democracy and was known as a 'soft dictatorship'. Table 35 lists the ministers of finance during the Great Depression, and the heads of government at the time.

Table 35 Uruguay: Ministers of Finance

Years	Minister of Finance	President
1927-1931	Javier Mendívil	Juan Campisteguy Oxcoby
1931-1933	Eduardo Acevedo Álvarez	Gabriel Terra (constitutional government)
1933	Pedro Manini Ríos	
1933	Pedro Cosio	Gabriel Terra (de facto government)
1934 – 1937	César Charlone	

Although maybe an oversimplification, it is possible to think that the two real drivers of the coup of 1933 were the conjunction of the personal ambition of Terra and the reaction of the property-owning class at a moment of severe crisis against the traditional *batllista* policies. A key element to take into account for the comprehension of the events of this period is the question of whether the CNA was really inefficient or the causes of its abolition were only to be found in Terra's personal interests. On the one hand, researchers such as Finch argue that Terra was widely regarded as a person dangerously ambitious, who sometimes acted inconsistently and impulsively. An example of this was the split with his former colleagues precipitated in 1931 by an agreement between the *batllistas colorados* and the main faction of the *Blanco* (National) party, the *nacionalistas independientes*. It is important to note that despite the effort of the politicians to convince the population that this agreement was meant to boost the process of industrialization and to fight against unemployment, it was known as the (aforementioned) *Pacto del Chinchulín*, ironically referring to its alleged purpose of distributing public jobs between the main factions of *colorados* and *blancos*. But the faction led by Luis A. de Herrera remained outside of that pact, so that the opposition within the *Blanco* party was strong. Therefore, Terra eventually obtained the valuable support of the *blanco* leader, so that they joined in questioning the CNA and supported a campaign for constitutional reform. In essence, although the *Pacto del Chinchulín* legitimized the politicization of the public administration by providing that the boards of public corporations reflected the political composition of the CNA, there was no immediate major increase in the level of public employment before 1933. And counter to all arguments of efficiency or effectiveness, the *batllista*-led CNA implemented quite severe measures of fiscal orthodoxy and conservatism. Similarly to Argentina, only after 1933 was public expenditure allowed to rise, but the Terra dictatorship maintained, albeit in modified form, the interventionist policies of the CNA in foreign trade[386].

On the other hand, there was an increasing discontent within the property-owning class and the British-owned public utility companies because of the alleged unhelpful or hostile attitude of the *batllista colorados*[387]. During the twenties the strong *Federación Rural*, representing the landowners' interests, expressed its growing hostility to the *batllistas* for the expanded state

[386] See Finch (1991, p. 198).
[387] See Ibid., p. 198.

system, the bureaucratic employment and the fiscal burden and for initiatives such as the minimum wage and the reform of the land possession system. In 1929, it played a leading role in the creation of the *Comité de Vigilancia Económica* (CVE, Committee for Economic Surveillance), along with the *Unión Industrial* (Industrial Union) and organizations that grouped retail and wholesale commerce, all of them representing the conservative classes in defence of capital[388]. And therefore these organizations clashed with the increasingly organized movements that contested the system and exacerbated the conflictive political panorama of struggling interests. In this regard, in 1929 the *Confederación General del Trabajo* (CGT), with communist tendencies, was established, whereas the *Federación Obrera Regional Uruguaya* (FORU) and the *Unión Sindical Uruguaya* (USU) had an anarchist orientation[389]. Thus, according to the composition of the CVE, this committee had as its main objective to lobby for constitutional reform to suppress the CNA, to stop the growing size of the government and to diminish the fiscal burden, the bureaucracy and the frequency of elections.

The landowning and trade sector discontent was exacerbated by the government responses to the crisis. Those sectors were the hardest hit by the collapse of world markets, and their main complaint against the government policies was directed at the trade and exchange control policy introduced by the CNA in 1931-1932, which limited the rate of the depreciation of the peso. Another worrying issue was the forthcoming Anglo-Uruguayan trade negotiations that were meant to ameliorate the negative effects of the Ottawa Agreements of 1932, as well as the antagonisms between the British Foreign Office and the *batllistas* that in their view jeopardized the UK as the main Uruguayan export market. Thus, in order to preserve the interests of the conservative classes in the difficult scenario of the thirties, those sectors started to plot with the ultimate objective of ousting the *batllistas* from the government. As Rela (2009a, p. 330) states, this dissatisfaction with the government is well illustrated in January of 1930 by an important assembly of nationalists in the town *Blanquillo* (*Departamento de Durazno*), in which the heavy tax burden on rural producers and the urban middle-class nationwide, the deteriorating image of authority in people's perception and the need to increase the army's wages, among others, were strongly criticized.

The economic crisis affected the political environment by breaking the balance between the presidency and the CNA. In the mist of the Great Depression Uruguay suffered the depreciation of the currency, the fall of exports, and the growth of unemployment, and Terra felt that the CNA tied his hands and prevented him from adequately facing the economic consequences of the international crisis. Indeed, throughout his presidency, Terra insisted that the only way to rescue the country from the crisis was a constitutional reform with the aim of suppressing the CNA, under the argument that the decisions taken by that institution were inadequate to face the severe economic crisis that was striking the country harshly. Thus, in 1932, the political panorama became increasingly turbulent, and a symptom of this was that still during Terra's constitutional government, the communists were accused of conspiracy and of threatening

[388] See Finch (1981, p. 15).
[389] See Nahum (2008, p. 136).

national security, and the left-wing newspaper *Justicia* was forced to close in February 1932[390]. Terra also called for a meeting in June 1932 with the main political leaders to form a common plan for constitutional reform, namely the return to a 'presidential' regime, but some key politicians declined to answer the presidential call. Thus, the only legal way of promoting the idea was to convene a national plebiscite and for its success the President started to give several speeches around the country to convince the electorate. In this scenario of frantic political fragmentation, an important meeting was held in 1933 between Terra and Herrera to coordinate efforts on the campaign to reform the Constitution. 'The radical change prevails, it is necessary to do it now' was the slogan.

As a consequence, radical changes began to happen in the political environment. Followers of the *blanco* Nepomuceno Saravia talked about 'a march on Montevideo' from the northern border with Brazil. The *Federación Rural* and the CVE pronounced in favour of the reform and several meetings among President Terra, de Herrera and other key political figures such as Manini Ríos announced immediate political changes[391]. Accordingly, the *batllistas* accused Terra of 'assembling in the shadow the machine of the dictatorship'[392]. And they were not wrong. As already mentioned, on March 31st 1933, Terra coordinated the coup with the support of the police and the fire-fighters from the fire department headquarters in Montevideo and announced the abolition of the CNA and the legislative power. Instead, a Board of Government was established with advisory functions for the executive and political leaders from the *batllismo* were arrested. A dramatic twist occurred that day when the President of the CNA, Baltasar Brum, put an end to his life while shouting: "*Viva* Batlle*! Viva la libertad!"* ('Long live Batlle! Long live freedom!').

The so-called '*Revolución de Marzo*' ('March Revolution') or '*Revolución del Machete*'[393] received the support of several factions within the society at different levels. Following the classification of Nahum (2008, pp. 147-149), at a political level, the support for the coup came from some close allies of Terra within the *batllismo*, the *anti-batllistas* factions of the *Colorado* party (*sosistas*, *vieristas*, *riveristas*) and the *herrerismo* (the majority of the *Blanco* party), as well as former presidents of the Republic such as Williman, Campisteguy, Serrato, and ex-national counsellors such as José Espalter, Andrés Puyol and Federico Fleurquin. However, there was opposition from *batllistas, nacionalistas independientes (principistas)*, socialists and communists. The split between supporters and opponents of the coup went through each traditional party, showing little or null political ideology. At the economic level, the coup was welcomed by the CVE, the national banking sector, the *Federación Rural*, the chambers of industry and trade and other institutions that felt threatened by the old regime, as well as British

[390] It is important to clarify that by that time the left-wing press were the following newspapers: *Justicia* which responded to the Communist party, and the socialist weekly magazine *El Sol*. On the other hand, the *colorada-batllista* press was the newspaper *El Día* and the *colorada anti-batllista* (*riverista*) press *La Mañana*; the *blancos'* speech was reflected in the newspapers: *El Debate*, *La Tribuna Popular*, *El País* and the *Democracia* (Rela, 2009).
[391] See Rela (2009b, pp. 404-405).
[392] See Nahum (2008, p. 144).
[393] The phrase '*Revolución del Machete*' refers to the weapon used by the police during the coup. See Frugoni (1934, p. 31).

investors and public utilities companies. Even the British Minister in Montevideo, R.C. Michell, immediately congratulated Terra and supported the coup and the British companies provided loans to the new regime, under the assumption that the hostile attitude from the *batllistas* to British capital would be replaced by a more sympathetic one. At a military level, only the police and the fire brigade took part, whilst the military remained mostly neutral. But according to Nahum (2008, p. 148), the neutrality of the military was not a surprise, since most of them were *colorados* opposing the *batllista* faction, and probably were in favour of the coup. Finally, at a popular level, the opposition was lacking in strength and coordination. In 1933, the workers' movement was split into several unions, was not organized enough, and even the occupation by students of the University and the extensive strike they performed did not reach out beyond academic circles. In fact, most of the population was more concerned about the cost of living or the football matches[394] than the political events of the time.

Certainly, although there was some reaction against the coup, most of the population expressed its adherence or was indifferent, and anyway there was almost no active resistance. This soft support and mild reaction could explain why this period was called *dictablanda* (soft dictatorship), as opposed to the more common term *dictadura* (dictatorship) used in other Latin American countries. However, of course there was a generalized violation of basic political human rights such as opposition leaders exiled and jailed, limitations to civic rights, press censorship, suppression of the right to assemble, among others; but the dictatorship did not prohibit political activity nor did it outlaw any political party. In general, the mild repression was matched by an even milder resistance. Nevertheless, Terra needed a new Constitution to legitimize his regime and to remain in power. Thus, a *Convención Constituyente* (Constituent National Convention) was called in 1933 and the resulting new constitution was adopted by plebiscite in 1934. In May of 1934, Gabriel Terra assumed the presidency of the Republic for a second term and Alfredo Navarro the newly created vice-presidency. Since then, the conduction of economic affairs was concentrated on the executive, under the direction of a reshuffled cabinet[395]. The new institutional framework relied on a co-participation agreement between both factions supporting Terra and de Herrera, and this was reflected in the new composition of the Senate at the bicameral Parliament. Despite the institutional breakdown, there was some sort of political continuity beneath the events, as the concept of co-participation continued to guide Uruguayan politics. Moreover, changes in the electoral laws in 1934 gave both traditional political parties the exclusive use of the *Colorado* and *Blanco* party names (*lemas*).

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[394] In 1930 Uruguay had become the first football world champion after winning the first FIFA World Cup against Argentina in Montevideo.

[395] In 1933, the cabinet was completed with: Pedro Cosio in Finance, Andrés Puyol in Justice and Public Education, Aniceto Patrón in Public Works, Alberto Demichelli in Interior (replaced by Francisco Ghigliani from November 24th to April 1934), Augusto César Bado in Industry, Alberto Mañé in Foreign Affairs and Gral. Domingo Mendívil in National Defence. As ministers without ministry were designated: Eduardo Blanco Acevedo in Public Health, César Charlone in Public Works and Social Security, Roberto Berro in Childhood Protection. In 1934, there were other changes in the cabinet. Juan José Arteaga was designated as Minister for Foreign Affairs (until March 19th, 1935), José A. Otamendi assumed the Ministry of Justice and Public Education and César Charlone was designated Minister of Finance (until December, 1937) (Rela, 2009b, p. 408).

Finally, it is worth noting that the totalitarian European regimes gained some growing influence in Uruguay. Italian fascism had impressed Terra, and that was mirrored in Terra's attempt to build a corporatist State. German influence also grew with the increasingly administered bilateral trade and with the involvement in development projects such as the hydroelectric dam on the *Río Negro* effected by the signature of a contract with a German consortium (a project which was also financed by the Italian government). Furthermore, diplomatic relations with Argentina in 1932, the Soviet Union in 1935 and Spain in 1936 were seriously hampered[396]. In this regard, it is important to highlight that these movements curiously occurred while the British thought that they had unmatched leverage in the Uruguayan economy and described Terra as an 'anglophile' because he had been able to suppress the anti-foreign CNA[397]. Moreover, the British companies provided loans to the new regime, under the assumption that the hostile attitude from the *batllistas* to British capital would be replaced by a moresympathetic one[398].

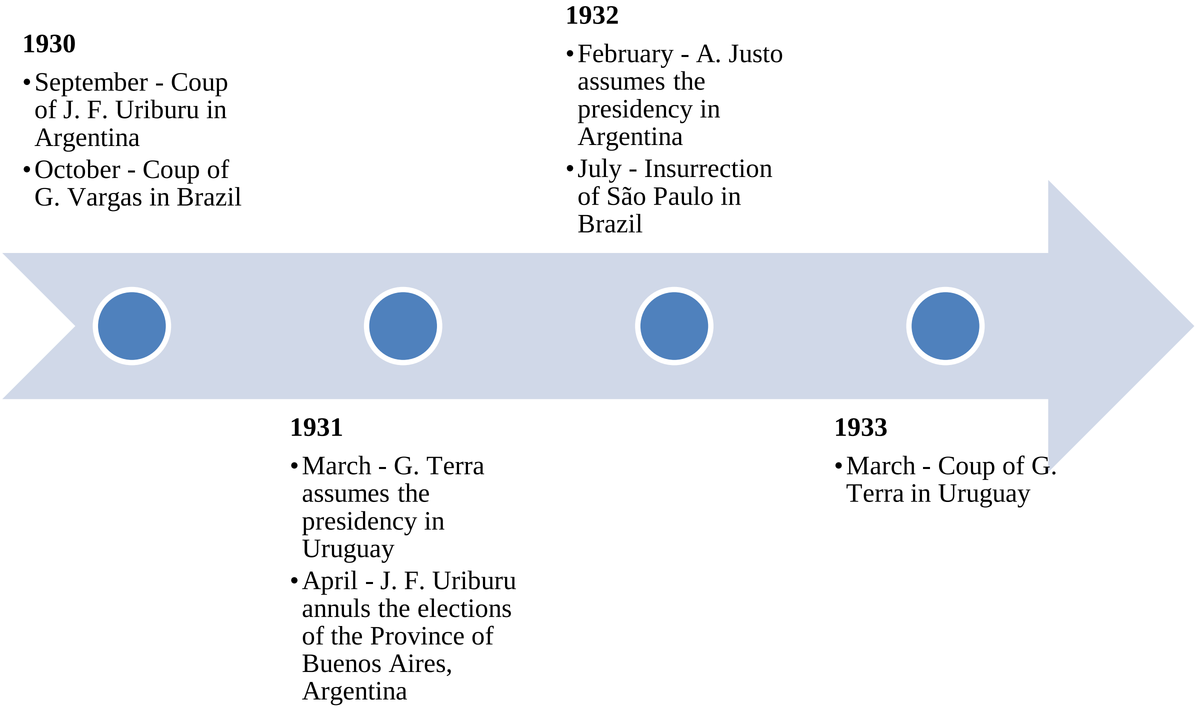
iv. Conclusion

In Figure 11 we contrast these three countries. On the one hand it is outstanding how close together chronologically the coups of Getulio Vargas and José Uriburu were in September – October 1930. On the other hand, the endurance of the Uruguayan government is noticeable, lasting two more years before witnessing a political crisis of concrete consequences. However, the national circumstances were very different. In Brazil and Uruguay there were institutional shortcomings that would be put to a test during the Great Depression.

In Brazil, the Great Depression impacted the coffee prices, which in turn deepened an economic downturn. However, we cannot say that the economic downturn triggered the revolutions of 1930 and 1932, because the seed of those events were already present. There was an increasing illegitimacy in the political pact between São Paulo and Minas Gerais, because it was contested by the rest of the federated states, who were marginalized from the presidency. Even before the crash of October, 1929, there were signs of both economic and politic troubles. Even though after the revolution of 1930 there were sharp changes in the structure of the national and state institutions, by no means there was so evident a revolution in social or economic terms, or in other words, changes so profound that the very foundations of society were shaken. The complex interconnectedness of short-term revolution and external constraints, and the long-term decadence of the coffee oligarchy, continued to influence the policymaking authorities, including those that took office soon after the coup of October, 1930. Finally, regarding economic policies, it is possible to say that the orthodoxy during the Luís administration and its commitment to returning to the gold standard would have an important role after the Great Depression arrived.

[396] See Finch (1991, p. 201).
[397] See note signed by T.G.J dated May 12th, 1933, in "Uruguay Exchange Restrictions", BT 11/151.
[398] See Finch (1991, p. 199).

Figure 11 ABU: Regime changes



In Argentina, the Great Depression has various meanings, marking a turning point in its history. With the military *coup d'état* of September 1930 led by General José Félix Uriburu that overthrew Hipólito Yrigoyen and paved the way for the assumption of General Agustín P. Justo (1932-1938), the so-called '*década infame*' ('infamous decade') started and it would last until the coup that marked the Revolution of '43. This reputation of the decade has its justification. Firstly, this period meant the end of order and progress and the beginning of an age of conflict and frustration. The coup ousted the constitutional government and its institutions and inaugurated a long path of weak democracies, electoral frauds and corruption[399]. Furthermore, this period is characterized by the collapse of Argentine foreign trade, a situation aggravated by its strong dependence on very few markets for its chief export goods fundamentally of rural origin, and on the swings of international prices; as well as the significant rural exodus because many small rural landowners were ruined by the depression. Leaving behind Uriburu's ideas of corporatism influenced by fascist ideology and the repudiation of political parties, a new decade of conservative rule led by Justo started. Unlike Uriburu, Justo found a way to handle the economic depression. He encouraged major state intervention in the national economy and he could manage the commercial and landed elites' interests, attempting an 'oligarchic restoration'.

[399] Many definitions and indicators about corruption exist. Nye (1967, p.419) uses the following operational definition: "Corruption is behaviour which deviates from the formal duties of a public role because of private-regarding (...) pecuniary or status gains; or violates rules against the exercise of certain types of private regarding influence. This includes such behaviour as bribery (...); nepotism (...); and misappropriation (...)". Furthermore, he concludes that corruption is endemic in all governments. On the other hand, Gray & Kaufmann (1998, p.7) use a general definition of corruption: "the use of public office for private gain. This includes bribery and extortion, which necessarily involve at least two parties and other types of malfeasance that a public official can carry out alone, including fraud and embezzlement".

He was more tolerant than his predecessor and it was thanks to his power of persuasion that he collected endorsements from the leading power groups; and he controlled the Army. As happened in Uruguay with Terra's coup, he was close to the foreign interests: one example is that his term was marked by significant economic concessions to the UK and its companies set up in the country after the signature of the Roca-Runciman Treaty.

In the case of Uruguay, the problem was mainly within the executive power. There was an important institutional shortcoming that would put to a test the government stability in the event of a strong economic downturn, due to the inability of the presidency to manage economic policies, under the control of the CNA. There was also an increasing discontent within the property-owning class and the strong British interests. Those discontents were exacerbated by the government responses to the Great Depression. Thus, the balance between the presidency and the CNA broke, paving the way for the coup of Gabriel Terra on March 31st 1933. The delayed economic debacle clearly gave a strong argument to Gabriel Terra to pursue a coup. He aligned himself with the criticisms of the landed class of the inefficacy of the CNA in fighting the economic contraction. Nevertheless, Uruguay enjoyed the benefits of being a small country, easier to administrate, institutionally more stable. The bigger stock of gold probably helped the CNA to manage the crisis longer than its bigger neighbours. All in all, this small country was less vulnerable from the political point of view, since its democratic culture still predominated during the first years of the contraction.

The similarities between the economies of Argentina and Uruguay suggest that the external shock and the political outcomes were correlated, at least in the short and medium-term. However, the analysis of the case of Brazil suggests that the causes of the coup of Vargas were less related to the economic situation. This does not mean that the Great Depression did not have a role. It refers to the fact that the main arguments of the campaign of the *Aliança* and the reasoning of the coup conspirators were not so much linked with economic concerns, but to the need to create a strong national government, to give new rights to the workers, etc. Even the outcome of a new de facto President coming from a state not mainly a coffee producer suggests the predominance of forces that cannot be so automatically traced to the negative effects of the Great Depression on the coffee economy.

However, in all these political changes in ABU, it is clear that the internal struggle for power among pressure groups was determinant to the final political outcome. Possibly the most important difference between Brazil, Argentina and Uruguay is that the bigger complexity of the first is explained by the struggle among states for the control of the federal government, while in the other two the landing classes managed in the end to keep a firm grip on national governments. The role of the military is also one way or another very important. In the case of Argentina there was the first of the army-led coups in this country in the twentieth century, in Uruguay, army inaction during Terra's coup; or in the case of Brazil we see the strong presence of the Rio Grande do Sul military in the overall Brazilian army.

IX. Trade vulnerability and the transmission of the worldwide collapse

In this chapter we analyse and compare the main economic indicators of ABU, starting with the evolution of foreign trade, the international reserves and the fiscal situation during 1928-1934 as an externalization of each country's vulnerabilities. Then we turn to compare those figures, using 1928 as a base year in order to infer the strength of each country's vulnerability to the trade channel swings before the crash. However, in some cases we do not make direct a comparison of figures, since we are conscious that the sources and methodologies applied to build them are significantly different between countries and in some cases even missing. Thus, it is not possible to assess the comparability of data sets. We finally show how much the collapse of trade reached Main Street using GDP figures.

i. The collapse of trade

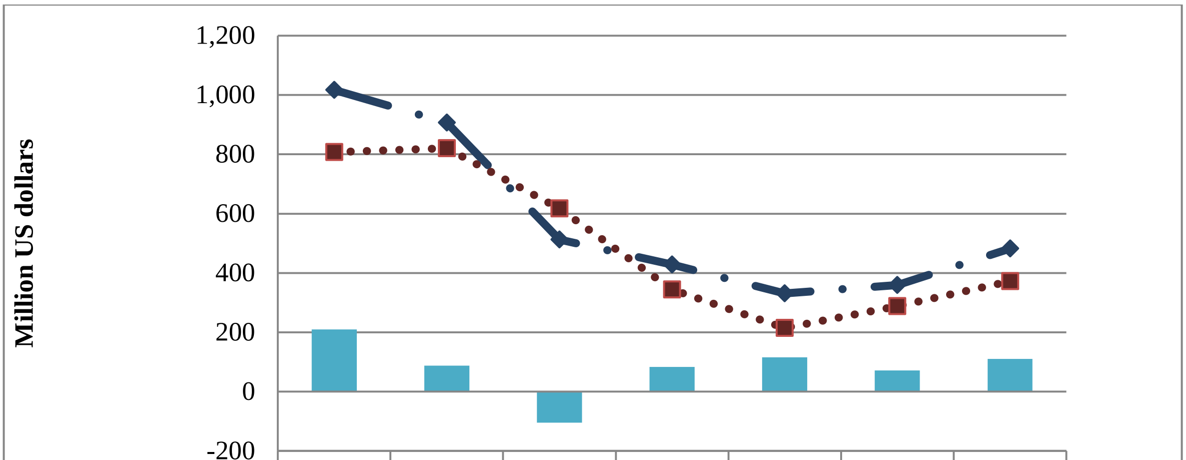
As we have seen in Chapter IV, ABU were strong producers of foodstuffs and deeply interconnected with the main markets in the Northern Hemisphere. However they exported a very limited basket of export products, especially: coffee (Brazil), beef and veal (ABU), wool (Uruguay) and grains (Argentina). This structure resulted in a strong economic vulnerability to the price swings of a few basic export products. Furthermore, the occurrence of natural disasters that hit exports from time to time and the trade policies of their main counterparts also added to the market swings at this juncture. In this section we address the numbers of the contraction in foreign trade during the Great Depression.

As we have already mentioned, Argentina was an exporter of foodstuffs and raw materials which in 1928 ranked tenth among the major trading nations. This country provided around 60% of linseed and 66% of maize' world exports during 1929-1933, for which reason it was known as the 'barn of the world'. During the world depression, and having the UK as its main export customer, it was a victim of the collapse of international trade and the protectionist practices adopted by developed countries.

In this regard, Figure 12 shows the evolution of Argentine foreign trade during 1928-1934 using data from League of Nations and converted to US dollars. As stated, in 1929 exports decreased 10.8% while imports increased 1.6% in relation to 1928 but Argentina still kept a trade surplus.

However, in 1930 foreign trade collapsed. In that year the trade deficit was 104 million dollars and exports fell 50% in comparison with 1928, a situation that was aggravated by harvest failures. It is important to keep in mind that in this period of analysis sometimes Argentina had to face important droughts and at other times it was favoured by droughts in North America, for example in the case of maize. But imports contracted more slowly; in 1930 imports declined 23.5%. In 1931, although Argentina had a trade surplus, lower than the spectacular surplus of 1928, exports and imports continued decreasing to levels of 58% and 57% lower than 1928. Nevertheless, in the year 1932 Argentina was by far worst hit: exports suffered a contraction of 67.5% and imports fell 73.4%. In 1933 this scenario started to change, and exports and imports increased in spite of the fact that export volumes of some main export products were negatively affected by the appearance of locusts in grain crops in certain districts[400]. However, the 'Dust Bowl'[401] in the US benefited Argentina not only because the latter, for example, could export more wheat to the world but also because that crisis of production due to climate factors prompted a remarkable improvement of the international terms of trade. Thus, later, in 1934 there were clear signals of recovery; although without reaching the levels of 1928, exports and imports continued increasing, as well as the trade surplus.

Figure 12 Argentina: Evolution of the foreign trade



	1928	1929	1930	1931	1932	1933	1934
Trade balance	210	87	-104	83	116	72	110
Exports	1,017	907	513	428	331	360	483
Imports	807	820	617	345	215	288	373

Source: calculated from Statistical Yearbook of the League of Nations (various years). Economic Intelligence Service. Geneva. Notes: a) special trade, only merchandises; b) the export values are FOB values and the import values are CIF values, '*valores reales*'; c) original data expressed in paper pesos, in order to obtain the figures in current million US dollars, the US dollars/gold pesos exchange rates from Officer (2011) and the parity 1 gold peso = 2.27 paper pesos were applied; and d) it is important to highlight that the values expressed in current million dollars are the closest possible to the transaction values taking into account the monetary and exchange rate instability for the period of analysis.

If we pay attention to Table 36 about the evolution of the prices of the main export products according to data calculated from Prebisch (1991, p. 261) and converted to current dollars, this

[400] See "State of Trade – July 1933" in C.P. 209 (1933, p. 11).

[401] Recalling words of Arturo O'Connell, the great drought suffered by the US during the thirties, which lasted almost four years, was so important and affected in such a severe way the world economy that John Steinbeck wrote the novel "The Grapes of Wrath" which won the Pulitzer Prize and then was taken by the cinemas.

evolution is directly correlated with the swings in total Argentine foreign trade. In 1930 all prices fell sharply, although it is important to keep in mind that since the late twenties the prices had a downward trend. For example, while in 1929 the price of one tonne of wheat was 41 current dollars; in 1930 that price was 32 dollars and even worse in 1931-1932: around 16 dollars! The situation was similar with maize, linseed, chilled beef, cattle hides and wool. In the most severe year of the depression all these products practically lost more than 50% of their 1928 value. By 1932, the price of maize was 68% lower, linseed 64%, chilled beef 55% (price in ranches) and 42% (price in Smithfield), salted cattle hides 77%, dried cattle hides 78% and wool with an average fall of 79%. Thus, cattle hides and wool were the products worst hit, followed by grain products, and chilled beef was the one that had the lowest fall in prices among these six main export products. However, by 1933 prices expressed in dollars began a weak recovery[402].

Table 36 Argentina: Evolution of agricultural prices (US dollars per tonne)

Year	**Wheat**	**Maize**	**Linseed**	**Chilled beef**		**Cattle hides**		**Wool**	
				Ranches	**Smithfield**	**Salted**	**Dried**	***Cruza gruesa***	**Average**
1928	45	36	65	183	261	522	718	583	588
1929	41	34	76	188	276	368	486	474	471
1930	32	21	62	169	266	294	316	278	269
1931	16	12	32	118	206	206	226	177	179
1932	16	12	24	78	151	118	156	109	125
1933	17	13	34	93	178	180	208	162	193

Source: calculated from Prebisch (1991, p. 261) obtained from *Banco Central del Uruguay* in the framework of the field study carried out in Uruguay for the region during the period November-December 2010. Note: original data expressed in paper pesos per kilogram, in order to obtain the figures in dollars, the US dollars/gold pesos exchange rates from Officer (2011) and the parity 1 gold peso = 2.27 paper pesos were applied; then, figures were rounded off and converted from kilograms to tonnes.

Furthermore, it is relevant to highlight that, as various researchers have affirmed, for example Rock (1991, p. 19-20), during the worst period of depression in Argentina, world prices fell sharply to their lowest levels in forty years and to 50% of those in 1929. Some products like wheat and maize lost by 1934 more than 60% of their 1929 value. As a consequence, Argentina, which was the first and third-largest exporter of these products respectively, felt the impact. Regarding the poor performance of commodity prices Kindleberger (2000, p. 274) argues that the downward trend in agricultural prices since 1925 (and mineral prices, too) can be explained by the European countries, which after the Great War increased their exports of what were their wartime supplies outside Europe. Then, attempts to hold up prices, for example, in coffee and linseed, accumulated stocks over the market. Latin America contributed to this oversupply

[402] While Table 36 shows that in 1933 agricultural prices were recovering in dollars, in paper pesos this situation is a little bit different. For that year, prices of linseed, cattle hides and wool also increased in paper pesos, but chilled beef had a contraction of 5% in relation to the previous year (in the Smithfield market, from 588 pesos per tonne to 556 pesos), the price of maize declined 12% (from 45 pesos per tonne to 40 pesos) and wheat had a significant contraction of 17.5% (from 64 pesos per tonne to 53) when world cereal prices continued to be depressed (Prebisch, 1991, p. 261).

which accounted for the failure of prices and production to recover quickly after the sharp drop in commodity prices.

Table 37 shows the exports in million US dollars of the main export products which represented around 80% of the total Argentine exports, as well as their share of the total trade. In addition, Table 38 details the exports in thousands of metric tons of those products that grouped had a share of 80% of the total, too. According to these figures the collapse is evident, especially in export values, and also the unfavourable ‘commodity lottery’ for Argentina. One can see contractions in values higher than 60%. For example, in the case of wheat, which had the highest share in exports in 1928-1929, while in 1929 Argentina exported 264 million dollars, in 1932 it exported 58 million, meaning 78% lower than that year. Moreover, this product was losing ground, decreasing its share in current dollars and having its place taken by maize with the exception of 1930, a year in which the meat was the largest export product. However, the contraction in volume of wheat exported was less (Table 38). After a bad harvest in 1930 and as a result of the actions taken by wheat importing and exporting countries at that time, when they attempted to keep prices unchanged and to close their economies, in 1932 3,442 thousands of tons were exported, that is to say 35% lower than 1928 and 48% than 1929. But in 1933 this situation changed and wheat exports in volume increased, continuing to grow by 1934. In addition, in 1933 contractions in maize and linseed exports in millions of dollars of 71% and 63.5% respectively relative to 1928 verified that the Argentine grain trade was hard hit by the crisis. However, again in volume the history was different. In 1931 the tonnage of maize exported was 53% higher than 1928. But in 1932 these figures declined very fast and in 1933 were below the 1928 level: contractions that were affected by the appearance of locusts in grain crops and the aforementioned complicated international scenario. The decline of export volumes of linseed was not as important as that in wheat and maize; even in 1932 exports were 4% higher than in 1928. But in 1933, the fall was 28% in relation to 1928.

On the other hand, in 1928 meat was the third largest export product with a market share of 12.7% and in this category chilled beef was the most important, representing half of the total share of the meat trade. However, by 1930-1931 this situation changed. The meat trade reached around 20% of total trade in current dollars (as first export product in 1930 and second largest in 1931) and the beef trade doubled its figure in comparison with 1928. Then, by 1932-1934 meat had a share of around 15% in total trade and the share of chilled beef was around 10% of total trade. Thus, chilled beef exports represented by that time more than 60% of the total meat exports. Regarding their evolution, chilled beef exports declined from 69 million dollars in 1928 to practically half of that in 1932. Furthermore, in that year preserved meat and chilled mutton exports had contractions of 80% and 57% respectively in relation to 1928 and in 1933 frozen beef exports fell 89.5%. In addition, during 1928-1934 frozen beef was the one that had a significant contraction in export volumes of almost 75%. In this respect, the reduction on beef imports (chilled and especially frozen beef) by the UK in the framework of the Ottawa Agreements in 1932 was a key factor that forced Argentina to negotiate with this country in 1933. Moreover, cattle hides (dried and salted) exports with a share of around 6% of total exports suffered a slump in 1932 reaching the low value of 13 million dollars, that is to say, around 80% lower than 1928 when Argentina exported 68 million dollars of cattle hides mostly destined for the US and Germany. Another product very negatively affected by the crisis was wool in the grease. In 1932, the exports of this sort of wool dropped 76% below the 1928 level.

Table 37 Argentina: Evolution of exports by main products

(current US dollars and percentage share)

Main export products	1928		1929		1930		1931		1932		1933		1934	
	Million US dollars	%	Million US dollars	%	Million US dollars	%	Million US dollars	%	Million US dollars	%	Million US dollars	%	Million US dollars	%
Wheat	242	23.8%	264	29.1%	77	14.9%	61	14.3%	58	17.6%	69	19.3%	99	20.5%
Maize	219	21.6%	160	17.6%	89	17.4%	113	26.4%	82	24.9%	63	17.6%	101	21.0%
Meat	129	12.7%	127	14.0%	109	21.3%	80	18.6%	50	15.0%	58	16.2%	67	14.0%
Beef (chilled)	69	6.7%	67	7.3%	59	11.5%	45	10.5%	32	9.8%	37	10.3%	43	8.8%
Beef (frozen)	19	1.9%	20	2.2%	15	2.9%	9	2.2%	3	0.9%	2	0.7%	3	0.5%
Meat, preserved	15	1.5%	16	1.8%	14	2.8%	9	2.2%	3	0.9%	5	1.4%	7	1.4%
Mutton (chilled)	14	1.4%	13	1.5%	12	2.3%	9	2.2%	6	1.8%	6	1.7%	6	1.3%
Meat, other	12	1.2%	11	1.2%	9	1.8%	7	1.6%	5	1.6%	8	2.1%	9	1.8%
Linseed	126	12.4%	114	12.6%	73	14.3%	60	14.0%	48	14.5%	46	12.8%	57	11.9%
Wool in the grease	72	7.1%	61	6.7%	34	6.7%	22	5.3%	17	5.1%	26	7.3%	35	7.3%
Cattle hides (dried and salted)	68	6.7%	40	4.4%	32	6.2%	20	4.7%	13	4.0%	20	5.7%	22	4.6%
Total trade:	**1,017**		**907**		**513**		**428**		**331**		**360**		**483**	

Source: calculated from "Trade Statistics of Sixty-Four Countries" and "International Trade Statistics" in Memorandum on International Trade and Balances of Payments (various years). League of Nations, Geneva. Notes: a) the figures for exports are *valores nominales básicos*; b) original data expressed in gold pesos during the period 1928-1931 and in paper pesos during the period 1932-1934, in order to obtain the figures in current million US dollars, the US dollars/gold pesos exchange rates from Officer (2011) and the parity 1 gold peso = 2.27 paper pesos were applied; and c) it is important to highlight that the values expressed in current million dollars are the closest possible to the transaction values taking into account the monetary and exchange rate instability for the period of analysis.

Table 38 Argentina: Evolution of export volume by main products

(thousands of metric tons)

Main export products	1928	1929	1930	1931	1932	1933	1934
Maize	6,372	5,048	4,670	9,767	7,055	5,019	5,471
Wheat	5,296	6,613	2,213	3,639	3,442	3,929	4,794
Linseed	1,944	1,617	1,170	1,880	2,028	1,392	1,374
Meat	707	688	639	629	574	561	560
Beef (chilled)	383	358	346	352	371	350	350
Beef (frozen)	125	122	99	84	37	32	32
Mutton (chilled)	78	81	80	83	71	62	49
Meat, preserved	67	69	62	56	45	56	63
Meat, other	54	58	52	54	50	61	66
Total trade:	**17,029**	**16,703**	**11,027**	**18,477**	**15,826**	**13,777**	**15,252**

Source: calculated from "Trade Statistics of Sixty-Four Countries" and "International Trade Statistics" in Memorandum on International Trade and Balances of Payments (various years). League of Nations, Geneva.

Table 39 shows the evolution of Argentine exports by main destination in million US dollars and share percentages. The UK's share was increasing until 1931. Then, between 1932 and 1933, because of the impact of the Ottawa Agreements this share decreased reaching around 36% instead of 39% in 1931. Argentina was at risk of losing the British outlet because, as mentioned, that country had granted preferences to the countries of its Empire and had imposed tariffs and quotas on countries outside it. In this regard, Argentina was forced to undertake negotiations with the UK in 1933. Thus, in 1934 the share was at a level similar to 1931 of almost 39%. With Germany, the situation was different. In 1928 the share of this country was around 14%, and then it was declining until 1931, to increase in the following year. But in 1933 this share was at its lowest point, practically half of 1928, the reason being that in that year Argentina started negotiations with this country. By contrast, with the Netherlands and Belgium the evolution was erratic, with a share of around 8-10%, increasing trade with them in 1932, a year in which the trade with the UK was lower. For the case of Italy the share was decreasing and during 1930-1931 became half of 1928; then in 1932 it increased but during 1933-1934 contracted, again reaching the low level of 1930-1931. France's share was increasing until 1932 (from around 6% in 1928 to 9% in 1932) and then in 1933 had a clear fall to a level similar to 1928 and in 1934 this share declined to about 5%. On the other hand, during the period 1928-1930 the US share was increasing from around 8% in 1928 to 10% by 1930. However, in 1931 this share declined and even worse in 1932 was almost half of 1928; in 1933 it increased only to decrease again in 1934 just when trade relations between Argentina and the UK were better. Spain, Sweden and Denmark had shares between 1% and 2% throughout the period. In addition, with regard to regional trade, the trade with Brazil was increasing until 1930; in 1931 it had a contraction from around 5% in 1930 to 3%, and in 1932 the fall was worst, but in the following year the trade between them had a fast recovery, more than doubling that figure and reaching a level superior to 1928. On the other hand, the trade with Chile and Uruguay remained around 1% until 1930. Then, according to these figures, it seems that from 1931 the contraction was more marked with Chile than with Uruguay, a country with profound historical ties with Argentina.

After analysing the severe slump in prices of the main Argentine export products influenced by the reactions of its main trading partners and by Argentina itself, it is not a difficult task to conclude that this country suffered an important terms of trade deterioration during the Great Depression. In this regard, Figure 13 shows the evolution of the terms of trade and trade openness. The terms of trade deteriorated very fast; in 1929 the corresponding index number was 93.2, showing that primary goods prices were lower than manufactured goods prices[403]. Then in 1931 this relation was around 38% lower than in 1928 and in 1933 it reached its lowest point, which meant a deterioration of 41.3%. But, in 1934 the terms of trade started to increase without reaching the 1928 level. Thus, in 1929-1933 import prices fell much less sharply than export prices. Rowe (1965, p. 88) argues, and rightly so, that from 1929 to 1932, the terms of trade moved violently and greatly in favour of the industrialised countries. From 1933 a

[403] For more detailed information about terms of trade methodology see the "Introduction" of this thesis.

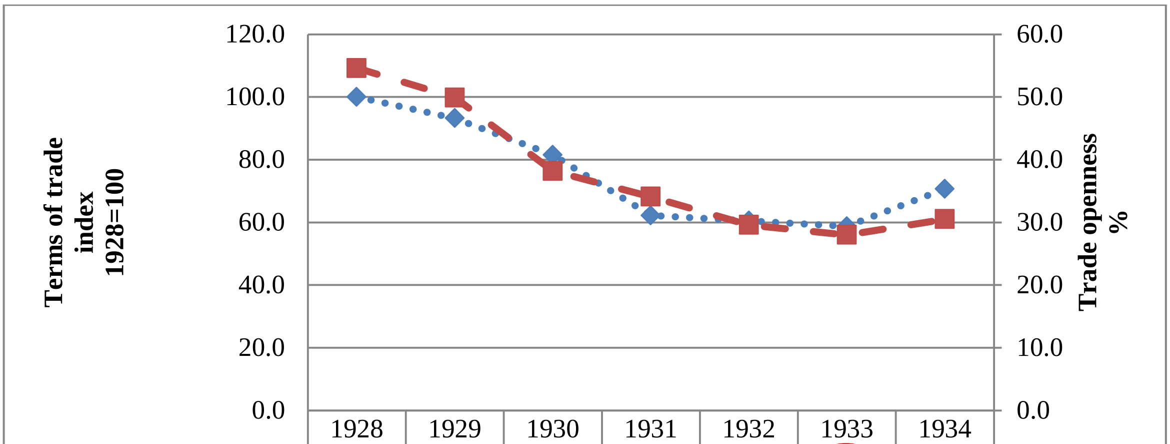
reversed relative movement began, and the terms of trade swung slowly back in favour of the primary producing countries, until early 1937.

Table 39 Argentina: Evolution of exports by main destination (current US dollars and percentage share)

Main countries	1928		1929		1930		1931		1932		1933		1934	
	Million US dollars	%	Million US dollars	%	Million US dollars	%	Million US dollars	%	Million US dollars	%	Million US dollars	%	Million US dollars	%
United Kingdom	292	28.7%	292	32.2%	187	36.5%	167	39.0%	120	36.1%	132	36.7%	186	38.5%
Germany	140	13.7%	91	10.0%	45	8.8%	35	8.3%	29	8.8%	28	7.7%	40	8.3%
Netherlands	113	11.1%	88	9.6%	48	9.3%	45	10.6%	41	12.5%	35	9.6%	55	11.4%
Belgium	93	9.2%	97	10.7%	47	9.2%	40	9.3%	36	11.0%	36	10.1%	47	9.8%
Italy	89	8.7%	52	5.7%	22	4.3%	21	4.8%	18	5.4%	14	3.9%	20	4.2%
United States	84	8.3%	89	9.8%	50	9.7%	26	6.0%	11	3.4%	28	7.8%	26	5.5%
France	60	5.9%	65	7.1%	34	6.7%	36	8.5%	31	9.2%	23	6.4%	26	5.4%
Brazil	39	3.8%	35	3.9%	24	4.6%	13	3.0%	5	1.6%	16	4.4%	21	4.3%
Spain	22	2.2%	23	2.6%	5	1.0%	5	1.2%	7	2.1%	3	0.8%	4	0.8%
Sweden	12	1.2%	9	1.0%	7	1.3%	7	1.7%	5	1.6%	6	1.6%	4	0.9%
Denmark	10	0.9%	7	0.7%	4	0.8%	8	1.8%	7	2.1%	4	1.1%	7	1.4%
Chile	7	0.7%	7	0.8%	5	1.0%	2	0.4%	2	0.5%	2	0.7%	2	0.5%
Uruguay	7	0.7%	6	0.6%	6	1.1%	3	0.8%	2	0.6%	4	1.2%	3	0.6%
All others	50	4.9%	46	5.1%	28	5.5%	20	4.6%	17	5.1%	29	8.1%	41	8.5%
Total:	**1,017**	**100.0%**	**907**	**100.0%**	**513**	**100.0%**	**428**	**100.0%**	**331**	**100.0%**	**360**	**100.0%**	**483**	**100.0%**

Source: calculated from "Trade Statistics of Sixty-Four Countries" and "International Trade Statistics" in Memorandum on International Trade and Balances of Payments (various years). League of Nations, Geneva. Notes: a) special trade, only merchandises; b) original data expressed in gold pesos during the period 1928-1931 and in paper pesos during the period 1932-1934, in order to obtain the figures in current million US dollars, the US dollars/gold pesos exchange rates from Officer (2011) and the parity 1 gold peso = 2.27 paper pesos were applied; c) it is important to highlight that the values expressed in current million dollars are the closest possible to the transaction values taking into account the monetary and exchange rate instability for the period of analysis; and d) for 1928 and 1929, the figure for UK includes Irish F. State.

Figure 13 Argentina: Terms of trade and trade openness



	1928	1929	1930	1931	1932	1933	1934
Terms of trade	100.0	93.2	81.5	62.2	60.5	58.7	70.7
Trade openness	54.6	49.9	38.2	34.1	29.6	28.0	30.5

Sources: Banco Central de la República Argentina (1952) for terms of trade and Cortés Conde (2009, p. 322) for trade openness. For terms of trade, the base year was recalculated to 1928.

As a result, we can conclude that the recovery of Argentine foreign trade is explained by several factors. Among them, the recovery of international agricultural prices that improved the terms of trade. However, as we will see in the next chapter, the devaluation of November 1933 and, in the framework of an important package of measures of that year, the exchange control implemented since October 1931, had a key role in the recovery. In relation to trade openness, it was directly correlated with the terms of trade. When the score of terms of trade was high, trade openness was high, too. For example, in 1928 the terms of trade index was 100 and the trade openness 54.6%, and the latter was also decreasing very fast: evidence that the Argentine economy was closing. Indeed, in 1933 trade openness was only 28%, almost half lower than 1928 and in 1934 this coefficient increased but keeping around 25% below the 1928 level.

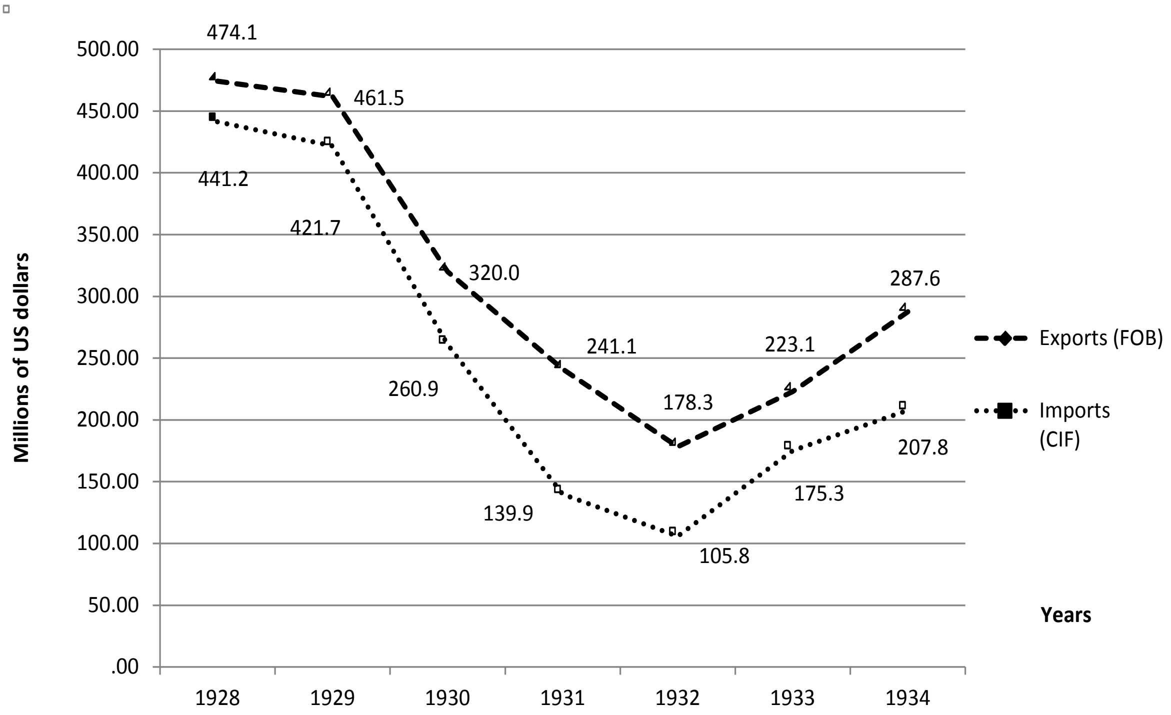
In the case of Brazil, as Figure 14 suggests, the Great Depression signalled a path of constant deterioration in trade from 1928 to 1932[404]. After exports and imports reached a peak of 474.1 million and 441.2 million dollars in 1928, respectively, foreign trade collapsed. By 1932 imports fell to 105.8 million dollars or 76% below the value of 1928, while the exports fell to 178.3 million dollars or 62% below. These figures and particularly the close relationship between imports and exports suggest that the reduced income from exports, especially agriculture, entailed the inability to import foreign products because of the lack of hard currency and diminished internal demand. These figures also mean that the balance of trade improved during 1928-1931, an outcome that can only be explained by the deeper collapse of imports than exports.

In Table 40 the information is presented in more detail on the basis of the League of Nations' figures for some key export products. As we have already mentioned, the Brazilian economy depended heavily on exports of coffee which averaged 68.5% of all the country's export receipts. Coffee receipts fell deeply from 339.2 to 175.8 million dollars during 1928-1932 (-65.4%), although in terms of quantum the decline was only 14% during the same period, a reflexion of the deep collapse of coffee prices[405]. Coffee also lost weight in the Brazilian export profile by reducing its share from 71.5% in 1928 to 61.1% in 1934. But other crops were also hard hit by the crisis. Tobacco, *maté*, cocoa, rubber, cotton and sugar also collapsed with strong declines in values exported that range from 55% (mate and cocoa) to 97% (cotton) during 1928-1932. Although coffee was of course the main driver in the Brazilian export downfall, all the other crops contributed to the scarcity of gold and hard currency during the Great Depression.

[404] It is important to highlight that the statistics used for this work are taken from the League of Nations International Trade Statistics from 1931 to 1934 and from the League of Nations International Trade and Balances of Payments from 1928 to 1930, originally in Gold British pounds, and converted to US dollars, according to the procedure explained in the Introduction of this thesis.

[405] Quantum figures are not presented in the table, but can be consulted in the same sources of the League of Nations.

Figure 14 Brazil: Exports (FOB), Imports (CIF)



Source: calculated from original figures in gold British pounds from League of Nations International Trade Statistics, various years, converted to dollars.

Table 40 Brazil: Export values in millions of current US dollars

Years	Coffee, raw	Hides and skins	Cotton, raw	Cocoa, raw	Maté (Brazilian tea)	Meat	Tobacco	Rubber	Wool	Others	Total
1928	339.2	32.9	4.3	17.8	13.7	9.7	8.3	7.0	3.2	37.8	474.1
1929	327.6	20.2	18.4	12.5	12.7	13.3	7.9	7.3	3.6	37.9	461.5
1930	200.4	15.8	9.3	9.9	10.4	18.6	8.2	3.7	5.0	38.6	320.0
1931	166.0	11.4	4.0	6.8	6.6	7.6	4.5	1.8	2.9	29.5	241.1
1932	127.7	6.8	0.1	8.1	6.2	4.2	2.8	0.8	0.4	21.2	178.3
1933	162.9	8.7	2.3	8.4	5.0	4.0	2.4	1.6	0.6	27.2	223.1
1934	175.8	11.1	38.1	10.9	6.0	3.7	4.3	2.8	1.1	33.8	287.6
Share 1928	71.5%	6.9%	0.9%	3.8%	2.9%	2.1%	1.8%	1.5%	0.7%	8.0%	100.0%
Share 1934	61.1%	3.9%	13.2%	3.8%	2.1%	1.3%	1.5%	1.0%	0.4%	11.7%	100.0%
Average Share 1928-1934	68.5%	4.7%	3.4%	3.5%	2.8%	2.8%	1.7%	1.0%	0.7%	10.9%	100.0%
% change 1928-1932	-62.4%	-79.5%	-97.2%	-54.7%	-54.8%	-57.2%	-65.8%	-89.3%	-86.7%	-43.8%	-62.4%

Source: calculated from original figures in gold British pounds from League of Nations International Trade Statistics, various years, converted to dollars. Values are in million dollars.

Regarding the key issue of coffee, Table 41, Figure 15 and Figure 16 show the magnitude of the problem that affected the Brazilian coffee industry. Most notably, the crisis of coffee is depicted in the deep fall of prices. Taking the figures provided by IBGE (2006) and displayed in Table

41, from the peak of 1928, prices fell 8.4% in 1929, 42.4% in 1930 and 29.2% in 1931[406]. Prices only recovered slightly in 1932, but remained two thirds below the levels reached before the Great Depression. The driving force behind this behaviour is the strong production of the period 1928-1930, shown in Figure 15. The other side of the coin is the collapse of export units of coffee depicted in Figure 16. The strong export quantum of coffee from 1928 through 1931 was encompassed by a step reduction of the value of the exports receipts, a feature that lasted the entire period 1928-1936, and is consistent with the world price contraction during the Great Depression and the supply management of the Brazilian authorities. This last outcome of course is the most indicative feature of the crisis in Brazil during the Great Depression as the foreign receipts depended heavily on the export of coffee, and were key for an economy that struggled to keep itself under the gold standard system first and to curtail the political instability.

Special mention needs to be made of cotton; a product that accounted for less than 1% of the total exports in 1928, but after rollercoaster behaviour ended the period with a 13.2% share, mostly at the expense of coffee. Other products such as hides and skins, cocoa, mate, meat, tobacco, rubber and wool did not surpass individually 4% of total exports in 1934, while rice, nuts and rubber wax were less than 1% and are not included in the corresponding table. As a matter of fact, all those mentioned products averaged 31.5% during 1928-1934, a figure that tells much about the strong concentration of Brazilian exports in coffee. From this data, it is possible to assert that although coffee was hard hit and a major determinant on the deep fall of Brazilian exports, many of the remaining export products fell even harder. Although not presented in tables, some products fell much more strongly in quantum during 1928-1932 than coffee, such as meat (-29.3%), hides and skins (-47.2), cotton (-94.0%) and wool (-60.9%), and in that way also contributed the Brazilian trade decline. This is a feature not so often mentioned in the literature that generally points out the role of coffee in the Brazilian collapse and skips mentioning the importance of the other crops' decline.

Table 41 Brazil: Price index of export coffee (1928=100)

	1928	1929	1930	1931	1932	1933	1934
Index	100.0	91.6	52.7	37.3	44.0	42.4	41.2
Var %	21.5	-8.4	-42.4	-29.2	17.9	-3.5	-2.8

Source: calculated from IBGE (2006).

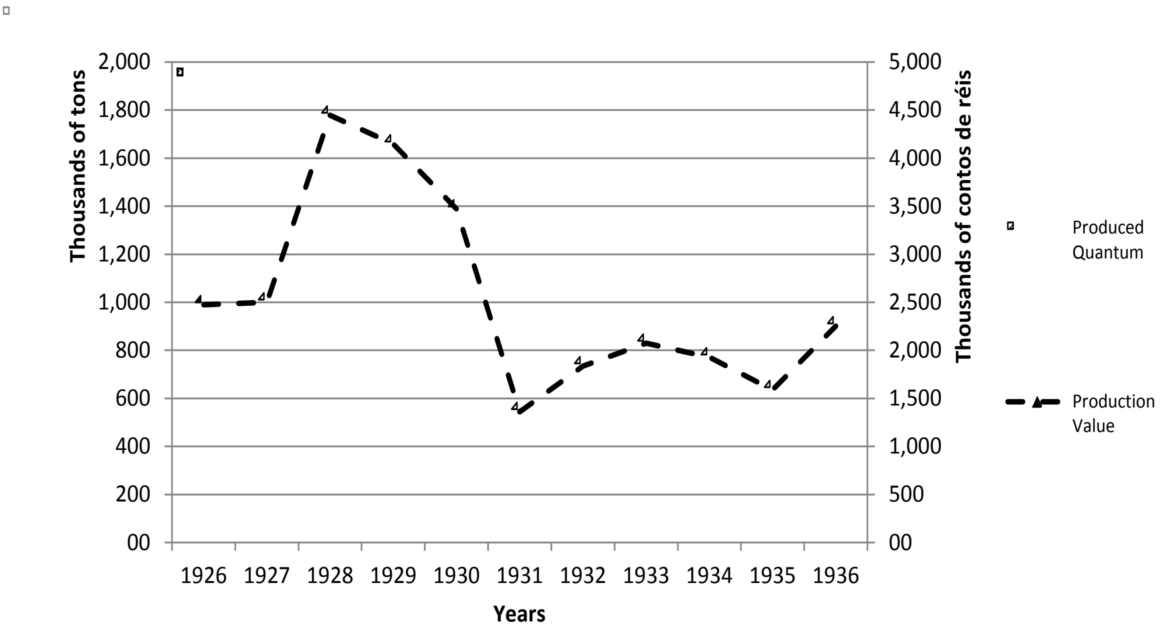
[406] In the following table we show alternative figures from Delfim Netto (2009, pp. 277-278), that show similar results, although a slightly bigger price contraction. According to these figures, prices fell almost 36% in 1930 and another 23% in 1931. Moreover, in the whole period 1929-1933, prices systematically fell year after year, contradicting the figures of IBGE that show a recovery in 1932.

Brazil: Coffee import price into the US (current cents of dollars per pound weight)

	1928	1929	1930	1931	1932	1933	1934
Price	21.3	20.4	13.1	10.1	9.1	7.9	8.8
Var %	15.1	-4.2	-35.8	-22.9	-9.9	-13.2	11.4

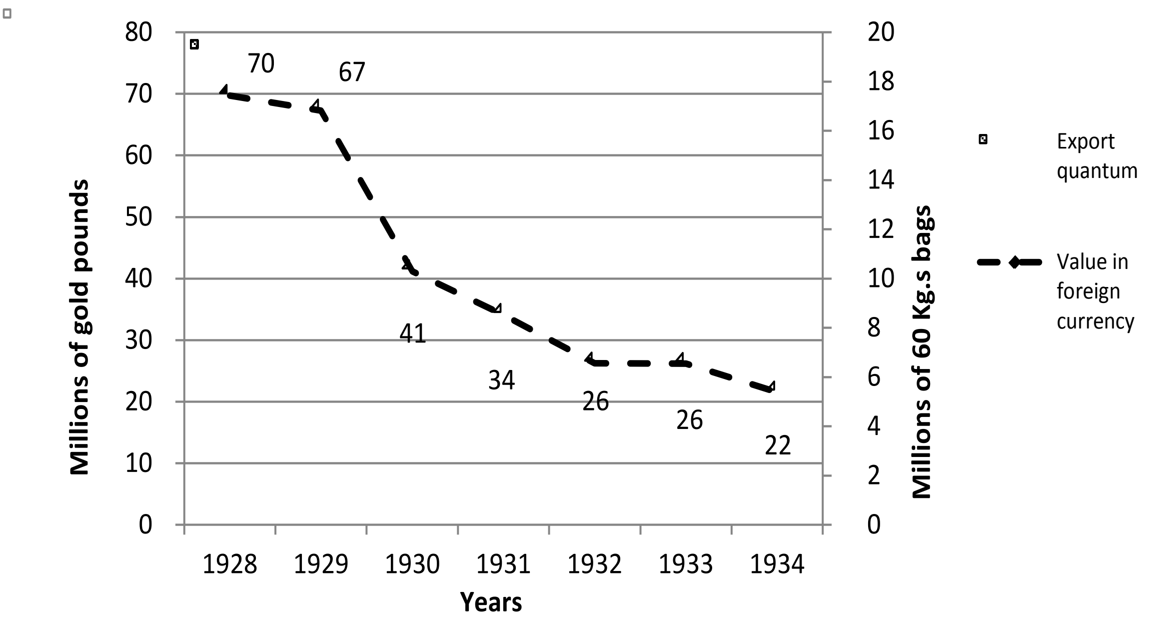
Source: prices in the US, from Delfim Netto (2009, pp. 277-278).

Figure 15 Brazil: Value and quantum of coffee production



Source: IBGE (1990).

Figure 16 Brazil: Coffee export quantum and value



Source: IBGE (1990).

Table 42 depicts the foreign trade of Brazil from figures of the League of Nations[407], which informs us on the potential vulnerability in terms of market destination at the time. As it becomes clear, except for Belgium, Germany, the UK and Uruguay, all other trade partners displayed in the table reduced their share in Brazilian exports. The US was the main Brazilian

[407] It is worth mentioning that these figures are almost identical to the ones available from another important source of information available, namely the IBGE (1990).

buyer and provider, a feature that is consistently strong during the whole period. The Brazilian downturn particularly affected the share of products coming from the US in Brazilian imports: while for example exports fell from 45.4% in 1928 to 39.2% in 1934, imports fell from 26.6% to 23.7% in the same period. It is interesting to note that for 1928 the deficit with the UK (78.7 million dollars) was compensated by the surplus with the US. And while the UK reduced slightly its share in imports, it showed the strongest share increase as a destination for Brazilian products, jumping from 3.4% in 1928 to 12.1% in 1934. Thus, bilateral trade almost balanced in 1934, from a strong deficit negative for Brazil in 1928. The second commercial partner, Germany, also augmented its share in exports and diminished in imports. Argentina was the only commercial partner with which Brazil kept a significant negative trade balance in 1928 and in 1934. Finally, Uruguay, the other main focus of our research, accounted for around 3 % of Brazilian exports and 1% of imports and in spite of its small size ranked among the ten main commercial partners.

Table 42 Brazil: Exports, imports and trade balance by major partners (current million dollars)

	Years	US	Germany	France	Neth.	Argentina	Italy	UK	Belgium	Uruguay	Others	Total
Exports	1928	215,5	53,1	43,5	27,3	28,1	23,5	16,3	13,0	12,3	41,5	474,1
	1929	194,8	40,4	51,3	22,7	29,3	21,5	30,1	12,9	14,2	44,3	461,5
	1930	129,1	29,2	29,4	16,2	21,8	13,9	26,6	10,1	16,2	27,4	320,0
	1931	105,2	22,3	22,3	13,3	14,3	9,5	17,3	7,1	9,1	20,8	241,1
	1932	81,7	15,9	15,9	7,2	10,7	6,6	12,5	4,6	6,5	16,7	178,3
	1933	104,2	18,1	20,4	10,2	11,6	7,2	16,7	6,3	7,3	21,2	223,1
	1934	112,6	37,7	20,3	12,2	13,6	9,0	34,8	9,8	8,6	29,0	287,6
	Share 1928	45,4%	11,2%	9,2%	5,8%	5,9%	5,0%	3,4%	2,7%	2,6%	8,7%	100,0%
	Share 1934	39,2%	13,1%	7,1%	4,2%	4,7%	3,1%	12,1%	3,4%	3,0%	10,1%	100,0%
	% change 1928-1932	-62,1%	-70,1%	-63,4%	-73,6%	-62,1%	-71,9%	-23,3%	-64,3%	-47,4%	-59,8%	-62,4%
Imports	Years	US	Germany	France	Neth.	Argentina	Italy	UK	Belgium	Uruguay	Others	Total
	1928	117,2	55,0	28,0	8,3	50,9	16,4	95,0	17,4	4,8	48,2	441,2
	1929	127,1	53,5	22,4	7,5	46,1	13,6	81,0	18,8	3,4	48,3	421,7
	1930	63,1	29,7	13,1	7,4	34,9	9,8	50,6	10,2	3,4	38,8	260,9
	1931	35,0	14,7	6,5	4,9	20,5	5,8	24,4	4,6	0,8	22,7	139,9
	1932	32,0	9,5	5,4	3,4	7,8	4,2	20,3	4,2	0,6	18,4	105,8
	1933	37,1	21,0	8,9	6,7	22,2	7,1	34,1	9,3	0,6	28,3	175,3
	1934	49,2	29,1	7,5	8,4	25,8	7,2	35,6	12,1	1,4	31,4	207,8
	Share 1928	26,6%	12,5%	6,3%	1,9%	11,5%	3,7%	21,5%	3,9%	1,1%	10,9%	100,0%
	Share 1934	23,7%	14,0%	3,6%	4,0%	12,4%	3,5%	17,1%	5,8%	0,7%	15,1%	100,0%
	% change 1928-1932	-72,7%	-82,7%	-80,8%	-59,0%	-84,6%	-74,1%	-78,6%	-76,0%	-86,7%	-61,9%	-76,0%
Trade Balance	1928	98,3	-1,9	15,5	19,0	-22,8	7,1	-78,7	-4,4	7,4	-6,7	32,9
	1934	63,4	8,6	12,7	3,7	-12,1	1,7	-0,8	-2,3	7,2	-2,4	79,7

Source: Source: calculated from League of Nations International Trade Statistics (various years). Original figures in British gold pounds, converted into dollars using League of Nations exchange rates.

If we compare exports in 1928 with 1932 as a measure of the Great Depression's shock, no commercial partner presented in the table showed improvement in its exports or imports to Brazil. Except for the UK, which only suffered a 23.3% contraction in its exports, the rest of the commercial partners collapsed in percentages ranging from 47% to 74%. The US fell 62.1% in exports during the same period, a figure that speaks about the hardship for the coffee economy of Brazil. However, imports fell even more (-72.7%), so that the balance of trade with the US improved for the Brazilian side in that period. But for the whole period 1928-1934, although the trade contracted severely, the Brazilian trade balance improved and more than doubled (from 32.9 to 79.7 million dollars), and that improvement was explained to an important extent by the change in the trade flows with the UK.

In Uruguay, the foreign trade collapse measured in US dollars can be traced in Table 43 for country destinations and Table 44 for principal articles[408]. In 1929 exports diminished by 11.9 million dollars (-11.5%), especially because of the deep fall in wool receipts (-10.8%) and secondly because other important export products with a lesser share in total exports, such as ox-hides and wheat, that had a contraction of 28.7% and 34.3%, respectively, for that year. In the meanwhile, imports decreased less strongly (-4.7%) and consequently the trade surplus of 1928 became a small deficit in 1929. Then, in 1930 the panorama was mixed with the meat exports increasing by 14.4% and wool exports hit by plummeting prices (-18.6%). In that year the exports to the UK increased strongly (39.9%), compensating for falls in other destinations, including the US which had a contraction of 39.6% and several European countries (e.g. Germany, Belgium, and the Netherlands). As a consequence, the trade balance became positive again by 8.3 million dollars.

Nevertheless, the most evident impact of the Great Depression came in 1931, when every export item and every export destination fell sharply, and the economy faced a trade deficit of 4.5 million dollars. The overall contraction in exports was around 58% and in imports 47.5%, with the hardest hit articles with a relevant share in total exports being raw wool (-58.8%) and meat and its by-products (-59.7%). Among the most important trading partners, exports to the UK, Germany, France, Argentina and Italy show contractions between 50% and 60%, the US a slump of 75.2%, and although less important for Uruguayan trade, exports to Brazil declined 88%. When it is considered that almost 100% of chilled beef had as its destination the UK (like in the case of Argentina), and frozen beef also included France, Italy and Germany, it is easy to understand that the trade barriers applied by those nations explain a good deal of the fall in the premium Uruguayan beef. Chilled beef suffered a contraction of 51.8% and frozen beef 66.4%. Although with less severity, the contraction in export receipts was extended through 1932, a year in which export values reached their lowest point. Then, in 1933 the export values recovered and the trade balance improved to a slightly positive level, even under the pressure of the appreciation of the Uruguayan peso, pushed by the US departure from the gold standard in that year. In 1934 there was another contraction of exports and imports, but that was most likely influenced by the depreciation of the peso.

[408] Series calculated from original figures in pesos and converted to US dollars, by using the exchange rates from Maubrigades (2003) and Vaz (1984). The reasoning behind the conversion of all figures to US dollars is that by that time it was the main currency for foreign transactions and consequently it is the most suitable for comparing with other Latin American countries.

Table 43 Uruguay: Exports and imports, by countries (million dollars and percentage change with regard to previous year)

	1928		1929				1930				1931				1932				1933				1934			
	Exp.	Imp.	Exp.	Var %	Imp.	Var %	Exp.	Var %	Imp.	Var %	Exp.	Var %	Imp.	Var %	Exp.	Var %	Imp.	Var %	Exp.	Var %	Imp.	Var %	Exp.	Var %	Imp.	Var %
Total	**103.0**	**96.0**	**91.1**	**-11.5**	**91.5**	**-4.7**	**87.0**	**-4.5**	**78.7**	**-13.9**	**36.8**	**-57.7**	**41.3**	**-47.5**	**27.6**	**-24.9**	**26.3**	**-36.3**	**39.7**	**43.7**	**38.0**	**44.3**	**28.9**	**-27.2**	**26.0**	**-31.6**
United Kingdom	23.3	14.9	21.0	-9.8	15.2	1.5	29.4	39.9	13.6	-10.5	13.0	-55.7	7.9	-42.1	7.7	-40.9	5.0	-36.8	13.2	71.1	7.3	46.2	7.4	-44.1	4.7	-35.8
Germany	15.0	12.0	13.2	-11.8	8.9	-26.1	10.4	-21.6	7.7	-13.3	5.3	-49.1	4.5	-41.4	4.3	-18.5	2.5	-44.0	5.9	36.2	3.3	29.5	4.7	-19.3	2.2	-31.3
France	10.8	5.7	10.9	1.4	3.6	-37.2	10.5	-3.8	2.9	-17.6	4.3	-59.5	1.4	-53.7	3.9	-7.8	0.9	-35.5	3.9	-0.6	1.0	19.2	1.9	-51.3	0.5	-52.0
Argentina	16.9	8.2	11.4	-32.5	8.3	0.9	11.0	-3.7	7.7	-6.5	4.8	-56.4	5.3	-31.8	2.4	-49.1	4.6	-13.1	2.4	-2.7	6.1	33.9	2.1	-11.3	2.4	-61.2
United States	10.7	29.1	10.8	0.9	27.6	-5.0	6.6	-39.6	20.2	-26.7	1.6	-75.2	7.9	-60.7	1.1	-30.5	2.5	-68.3	3.3	192.3	3.3	29.9	3.0	-8.8	3.9	18.3
Italy	6.7	4.1	6.2	-7.7	4.1	0.7	6.7	9.1	3.3	-20.2	2.6	-61.9	1.5	-53.9	3.0	15.4	1.1	-27.8	3.3	9.9	1.9	77.0	2.2	-32.6	1.4	-29.0
Belgium	6.3	4.7	6.4	2.9	5.0	5.9	4.8	-25.1	3.9	-21.8	1.7	-65.4	2.3	-41.2	1.7	3.2	1.1	-51.8	2.5	42.4	1.4	23.6	2.1	-14.0	1.1	-18.1
Brazil	4.8	4.8	2.7	-43.7	6.5	35.0	2.7	0.9	6.1	-5.8	0.3	-88.0	3.9	-36.9	0.3	-0.7	2.7	-30.0	0.7	121.8	4.4	61.0	1.9	162.7	1.9	-55.6
Netherlands	1.4	1.4	1.8	24.3	1.8	25.8	1.2	-33.5	1.9	10.4	1.2	-2.2	1.1	-43.6	0.8	-29.7	0.5	-56.7	1.3	65.5	0.7	42.9	0.9	-32.9	0.7	3.3
U.S.S.R.	1.4	0.2	2.6	91.2	0.9	472.9	0.9	-65.9	1.0	11.1	0.4	-52.6	0.8	-25.5	0.4	-3.4	1.7	114.7	0.1	-71.7	2.6	54.3	0.3	187.8	1.6	-36.9
Spain	0.7	3.6	0.3	-61.2	2.9	-19.0	0.4	23.8	3.2	9.9	0.2	-49.5	1.7	-47.7	0.3	56.4	1.0	-37.7	0.6	130.4	1.0	-0.1	0.3	-49.8	0.4	-58.8
Japan	0.0	1.0	0.1	247.9	1.0	1.6	0.2	182.0	0.7	-27.9	0.1	-43.1	0.2	-72.5	0.0	-63.1	0.2	0.7	0.3	858.8	0.5	120.4	0.2	-27.0	1.0	124.4
Other Countries	4.9	6.4	3.6	-26.3	5.8	-9.2	2.3	-36.4	6.4	9.9	1.4	-39.4	3.0	-53.6	1.6	12.7	2.6	-13.0	2.2	5.5	4.6	12.2	1.8	6.2	4.2	16.0

Source: calculated from International Trade Statistics, League of Nations (various years). Notes: a) special trade, merchandise and bullion (figures for specie not published) in order of importance according to average share in 1928-1934 and b) original figures in Uruguayan pesos, converted to dollars by applying exchange rates from Maubrigades (2003) and Vaz (1984).

Table 44 Uruguay: Exports by principal articles (million dollars, thousands of metric tons and percentage change with regard to previous year)

Years	1928		1929				1930				1931				1932				1933				1934			
Principal articles	Val	WTG	Val	Var %	WTG	Var %	Val	Var %	WTG	Var %	Val	Var %	WTG	Var %	Val	Var %	WTG	Var %	Val	Var %	WTG	Var %	Val	Var %	WTG	Var %
Total	**103.0**		**91.1**	**-11.5**			**87.0**	**-4.5**			**36.4**	**-58.1**			**27.6**	**-24.2**			**39.7**	**43.7**			**28.9**	**-27.2**		
Wool, raw	31.5	53.6	28.1	-10.8	51.1	-4.7	22.8	-18.6	75.3	47.4	9.4	-58.8	65.6	-12.9	8.8	-5.9	43.1	-34.3	15.0	69.4	52.1	20.9	7.5	-50.1	24.0	-53.9
Meat and by-products	28.5	147.9	30.6	7.4	158.1	6.9	35.0	14.4	203.8	28.9	14.1	-59.7	150.8	-26.0	9.1	-35.4	102.0	-32.4	11.1	21.5	106.5	4.4	9.2	-16.9	103.0	-3.3
Beef & mutton, canned	5.4	26.5	6.4	18.2	32.6	23.0	5.9	-7.1	34.4	5.5	2.7	-54.8	28.9	-16.0	1.9	-28.9	20.2	-30.1	3.3	71.8	27.2	34.7	4.0	20.8	32.1	18.0
Beef, frozen	6.5	40.3	6.4	-1.1	39.6	-1.7	10.3	60.6	67.2	69.7	3.5	-66.4	42.3	-37.1	2.8	-17.7	38.9	-8.0	1.9	-31.6	29.3	-24.7	1.3	-35.2	22.9	-21.8
Beef, chilled	5.5	33.7	6.2	12.7	37.1	10.1	6.9	12.3	44.6	20.2	3.3	-51.8	39.6	-11.2	2.2	-34.9	26.6	-32.8	2.9	35.2	29.4	10.5	1.8	-39.4	27.9	-5.1
Mutton, frozen	2.7	14.1	4.6	70.7	22.2	57.4	5.0	9.3	28.3	27.5	1.9	-62.6	18.4	-35.0	0.6	-66.6	6.2	-66.3	1.1	81.5	9.7	56.5	0.7	-38.7	8.1	-16.5
Tallow and beef fat	3.2	17.3	2.6	-17.4	15.5	-10.4	3.3	27.2	20.3	31.0	1.2	-64.0	15.9	-21.7	0.5	-56.0	6.5	-59.1	0.6	21.9	6.7	3.1	0.4	-35.8	6.9	3.0
Meat extract	1.6	0.6	2.1	33.7	0.9	50.0	2.0	-7.1	0.9	0.0	1.0	-47.1	0.9	0.0	0.7	-34.8	0.7	-22.2	0.5	-25.6	0.7	0.0	0.7	28.8	0.8	14.3
Meat pieces, frozen	1.1	5.2	1.0	-10.9	5.0	-3.8	0.8	-13.7	4.9	-2.0	0.3	-64.7	3.3	-32.7	0.3	0.0	2.6	-21.2	0.5	71.2	2.9	11.5	0.3	-46.0	2.9	0.0
Jerked beef (*tasajo*)	2.6	10.2	1.3	-49.4	5.2	-49.0	0.7	-48.6	3.2	-38.5	0.2	-74.1	1.5	-53.1	0.0	-78.0	0.3	-80.0	0.1	129.5	0.6	100.0	0.1	63.7	1.4	133.3
Ox-hides	11.7	24.2	8.4	-28.7	22.0	-9.1	7.6	-8.6	27.1	23.2	3.6	-53.2	23.4	-13.7	2.6	-28.3	18.0	-23.1	3.7	43.6	20.8	15.6	2.9	-21.8	19.4	-6.7
Linseed	3.8	60.4	3.6	-6.3	55.9	-7.5	5.6	57.5	80.6	44.2	3.9	-30.9	133.0	65.0	1.9	-51.5	78.4	-41.1	2.0	4.4	60.5	-22.8	1.9	-1.3	70.9	17.2
Sheep-skins, raw	2.4	6.1	2.9	22.1	7.7	26.2	1.8	-37.3	7.0	-9.1	1.1	-38.5	9.7	38.6	0.8	-26.1	7.3	-24.7	1.3	56.9	7.3	0.0	0.6	-55.8	3.2	-56.2
Wheat	6.2	136.9	4.1	-34.3	97.4	-28.9	1.6	-61.5	42.4	-56.5	0.0	-100.0	0.0	-100.0	0.0		0.0		0.0		0.0		1.7		73.6	
Sand (*arena*)	2.2	2,171.0	2.3	3.9	2,350.0	8.2	2.4	2.8	2,298.0	-2.2	1.2	-49.1	1,994.0	-13.2	0.9	-24.3	1,481.0	-25.7	0.8	-11.5	1,043.0	-29.6	0.5	-41.4	878.0	-15.8
Cattle, living	5.0	136.0	2.1	-59.1	75.0	-44.9	1.2	-39.8	45.0	-40.0	0.1	-91.5	8.0	-82.2	0.2	137.2	17.0	112.5	0.3	38.7	19.0	11.8	1.0	183.6	71.0	273.7
Others	11.6		9.2	-21.1			8.9	-2.9			3.0	-65.9			3.2	6.4			5.5	71.5			3.7	-32.5		

Source: calculated from International Trade Statistics, League of Nations (various years). Notes: a) special trade, merchandise and bullion (figures for specie not published) in order of importance according to average share in 1928-1934, b) original figures in Uruguayan pesos, converted to dollars by applying exchange rates from Maubrigades (2003) and Vaz (1984), c) cattle living expressed in thousands of heads and d) the difference in total export value for 1931 between countries and articles comes from the League of Nations.

ii. The fiscal bottleneck

The governments in ABU were strongly dependent on revenues coming from foreign trade taxation, so that the vulnerability regarding trade was magnified through fiscal accounts. In Argentina, the importance of foreign trade in the fiscal structure is evident in Table 45 from the fact that 55.5% of the government revenues came from customs and port taxes by 1928[409]. And the perceived fiscal vulnerability corresponds with the actual figures. The collapse of foreign trade caused a significant fall in government revenues in the categories of 'customs and port taxes' and 'import duties'. While in 1928 customs and port taxes represented 432 million pesos, in 1932, the worst year for foreign trade in terms of dollars, this value was 34% lower than in 1928. On the other hand, in 1932 import duties had a contraction of 27.6% in relation to 1928. However, in 1933 this situation was reversed in comparison with 1932, as customs and ports taxes and import duties increased 6.3% and 7.5%, respectively, although without reaching the levels of 1928.

Table 45 Argentina: Government revenues (million pesos)

	1928	1929	1930	1931	1932	1933	% 1932/1928	% 1933/1932
Customs and port taxes	432	426	352	313	285	303	-34.0	6,3
- Import duties	330	338	281	255	239	257	-27.6	7.5
Other sources of income	347	370	352	442	489	543	40.9	11.0
Total*	**779**	**796**	**704**	**755**	**774**	**846**	**-0.6**	**9.3**
Share of customs and port taxes in total revenues	55.5	53.5	50.0	41.5	36.8	35.8		

Source: Prebisch (1991, p. 207). Note: * in each period the effective revenues during that period were computed without taking into account the correspondence with the financial year.

Table 46 presents a brief summary of the budget accounts for the financial years between 1928 and 1934, which clearly shows the imbalances. During the whole period expenditures of the central government were higher than revenues and policymakers had to overcome this important variable at the time to design the necessary economic policies to get Argentina out of the crisis. By the financial year of 1929 when Yrigoyen had just assumed his second term, the budget deficit had increased by around 30% in relation to the previous year. According to figures from della Paolera & Taylor (1999, p. 571) by that time the consolidated government deficit reached 2.3% of GDP. Later, as Table 46 describes, at the beginning of 1930 this deficit almost doubled, and therefore reached a value that represented around 4% of GDP for the average year! This situation constituted one of the key problems of Yrigoyen's government which prompted his rapid overthrow. Uriburu then accomplished a reduction of the fiscal deficit of almost 50% in comparison with the financial year of 1930. Finally, during Justo's government, that is to say

[409] According to Rock (1991, p. 20) the scenario was so unfavourable during the Great Depression for Argentina that import duties that had provided 54% of revenues in 1930 represented 39% by 1934.

after 1932, the deficit was decreasing erratically to 120-170 million, reaching levels similar to or lower than 1928. In this regard, it is important to add that in 1932 the government expenditure increased because of the monetization of the Patriotic Loan. In addition, by 1934 the expenditure increased as a result of the economic measures implemented during 1933-1934, which constituted the modification of the system of exchange control and the creation of new institutions in order to reactivate the economy, among others.

Table 46 Argentina: A brief summary of the budget accounts (million pesos)

Financial year	Receipts, excluding proceeds of loans	Expenditure	Balance
1928	739	919	-180
1929	748	988	-240
1930	665	1,095	-429
1931	671	886	-215
1932	808	936	-128
1933	755	886	-131
1934	809	980	-171

Source: For receipts and expenditure between 1930 and 1934 Statistical Yearbook of the League of Nations (various years), from official budgetary documents. Economic Intelligence Service. Geneva. For the years 1928 and 1929 Mitchell (1998, p. 672 and p. 691). Notes: a) not including public works, 150 million paper pesos (to be covered by internal debt bonds); b) the budget includes expenditure on public works and armament material, covered from loans issued, amounting in 1930 to 207.2 million, in 1931 to 102.5 million and in 1932 to 61.9 million pesos; c) gross figures, except for railways; and d) closed accounts show actual receipts and commitments, expenditure coverable by proceeds of loans (1932: 97.1 million, 1933: 107.3 million and 1934: 75.5 million). The closed accounts for 1932 include receipts of 36.8 million representing commitments (*imputaciones*) cancelled, and expenditure of 41.6 million, representing settlements of accounts of previous years. As from 1932, the receipts also comprise arrears actually collected during the additional period I-III.

In Brazil, Table 47 shows the series regarding the public finances published by the IBGE in the *Anuário Estatístico do Brasil* 1939-1940[410]. The table shows that the surplus of previous years at the end of the Luís administration became a strong deficit by 1930. This deficit was reduced in 1931, but grew again strongly in 1932. It can be said that the fiscal imbalance of 1930 was a direct consequence of the effects of the Great Depression, but not entirely, as some part of the increased expense was the result of the desperate attempts of the Luís administration to suppress the revolution of October that put Getulio Vargas in office. Similarly, the deficit surge of 1932 does not have as much to do with the economic crisis, but with the extra expenses forced by the *Revolução Constitucionalista* in *São Paulo*.

The vulnerability of the government revenue is clearly described in Figure 17. During 1928-1934 the taxes on imports averaged 42% of total government revenue. Furthermore by 1928 that figure amounted to 47%. Not surprisingly, by 1930 import tax collection had been cut by one-third, as foreign trade collapsed. But, the fiscal crisis was not limited to the import tax. The other taxes were also hard hit, especially the industrialized products tax, which was the second in importance in 1929 (22% of the total revenue) and contracted 18% in the next year. The rest of the revenue sources, namely the income tax, industrial revenue and other taxes also

[410] According to Franco (1985, p. 402), these figures constitute the only available empirical base for the time.

contracted heavily in 1930 (18%, 12% and 21%, respectively), so that the overall government revenue contracted by 24%.

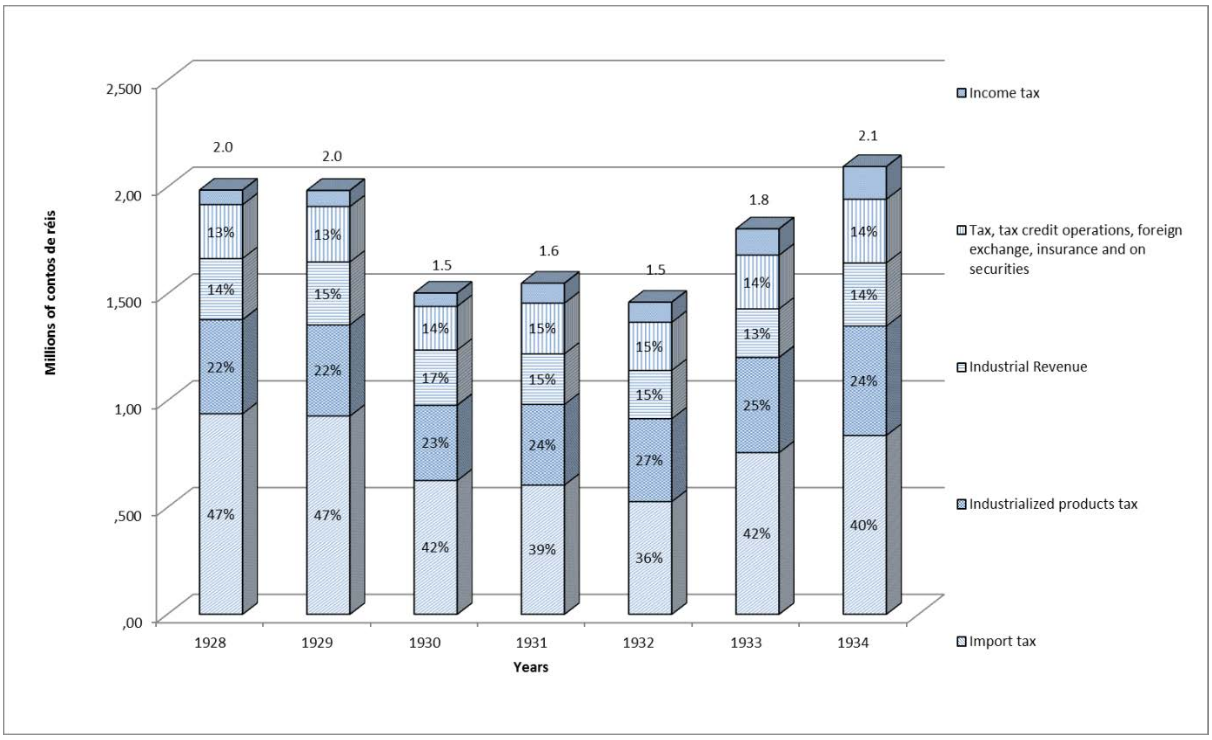
Furthermore, as explained by Abreu (2008, pp. 294-295), the fiscal balance was strongly affected by the exchange position. The Brazilian authorities tried to avoid as much as possible the existing undervaluation of the currency because it entailed three main problems. The first is that since the government was heavily dependent on the import taxes (many of them specific), the undervalued currency reduced the country's imports and ergo the government income. The second is that the expenditure increased since it needed more milréis to obtain the hard currency needed to pay the foreign debt. Finally, it also precipitated the sudden increase of coffee exports, which in turn reduced the international price of the product. For these reasons, the ideal situation for the government and for the coffee producers was an exchange rate neither undervalued nor overvalued. The relative overvaluation of the currency required further measures in order to contain the increase of imports and that explains the introduction of a system of import licensing.

Table 47 Brazil: Federal income and expenditure

Year	Revenue	Expenditure	Surplus (+) or Deficit (-)
1928	2,217	2,018	198
1929	2,400	2,225	175
1930	1,678	2,511	-833
1931	1,753	2,047	-294
1932	1,751	2,860	-1,109
1933	2,078	2,392	-313
1934	2,520	3,050	-531

Source: calculated from IBGE (2006). Note: figures in thousands of contos de réis (1:000$000).

Figure 17 Brazil: Main taxes (tax share in total revenue and total revenue)



Source: IBGE (2006).

Turning to Uruguay, the hardships of the depression were also increased by the reduction of government revenue, heavily dependent on export and import taxes. The public finance neutrality of the previous decades had allowed for an increasing government interventionism in the economy which conditioned the design of the economic policy. The strong correlation between the tax revenue and the performance of international trade (customs revenues) explains to a large extent the performance of the public finances.

The importance of foreign trade in fiscal terms becomes clear from the fact that during the period imports, exports and related activities provided 31%-32% of the government's revenues[411]. Thus, the collapse in international trade during the period of analysis affected negatively the fiscal balance. Table 48 reproduces the evolution of the fiscal balance calculated by Azar et al. (2009). On the one hand, it is possible to infer some inflexibility of the central government expenditure in spite of the measures taken to reduce it, only reaching a slight reduction in 1933. On the other hand, the revenues suffered strong setbacks in 1930 and 1933, and recovered in 1934. As a consequence, since 1930, the fiscal balance turned negative and deteriorated steadily until 1933, reaching the bottom line in that year[412].

Table 48 Uruguay: Fiscal balance (million current pesos)

	Central government resources	**Central government spending**	**Fiscal balance**
	(1)	**(2)**	**(3) = (1) - (2)**
1928	60.0	54.6	5.3
1929	58.9	58.2	0.7
1930	55.8	59.2	-3.4
1931	57.9	62.2	-4.3
1932	57.5	62.0	-4.5
1933	54.3	61.0	-6.6
1934	61.8	61.3	0.5

Source: Azar et al. (2009).

During 1930 the economic situation improved for meat exports and the trade balance became positive again, although that was not enough to compensate for the drain on the balance of payments. The peso continued its depreciation, and the actions taken by the BROU could not prevent it[413]. Thus, that year Uruguay assumed with the US banks a loan known as the 'second Hallgarten' of 17 million dollars[414]. Indeed, in Table 49 it is possible to observe that the share of the gross public debt increased year by year during the whole period, but in 1931 it almost doubled from 36.2% of the GDP to 62.4%, a figure that illustrates the strain caused by the conjunction of increasing domestic and foreign debt and diminishing GDP.

[411] These figures were taken from Nahum (2007, p. 145).
[412] It is important to clarify that, in general terms, these data do not entirely coincide with the information provided by Acevedo Álvarez (1934), with the most important difference probably being the fact that Azar et al. (2009) include in the resources the contribution of the public companies.
[413] See Acevedo Álvarez (1934, pp. 75-77).
[414] See Nahum (2008, p. 121).

Table 49 Uruguay: Gross public debt as percentage of GDP

Year	Gross public debt %	Foreign debt share %	Domestic debt share %
1928	30.9	61.9	38.1
1929	32.3	60.8	39.2
1930	36.2	63.7	36.3
1931	62.4	74.8	25.2
1932	68.7	70.5	29.5
1933	69.6	58.3	41.7
1934	55.9	48.3	51.7

Source: Azar et al. (2009).

iii. The economic contraction

The previous analysis of the contraction of foreign trade has profound implications over a range of internal macroeconomic variables that also tell about the way in which the transmission of the crisis through trade operates, from abroad to internal economic activity. Thus, foreign trade difficulties translate into economic contraction, although the magnitude of that translation depends on the overall role or weight of the foreign trade in the economy, as well as other indicators of vulnerability such as the fiscal dependence on foreign trade taxes, the availability of foreign reserves and loans.

In Argentina, the economic situation was getting worse during the period 1930-1933, with companies closing, the unemployment rate increasing and the massive immigration of previous years turning into emigration (from the rural sector to the urban centres or to other countries). In this respect, Picture 3 shows how the citizens felt that the economy lacked direction (‘*sin rumbo*’) and that they carried the weight of the politics.

The economic data is consistent with this picture. Table 50 shows the evolution of the total GDP and the GDP by sectors in Argentina during the period 1928-1934. Although in 1929 the total GDP increased 5% in relation to the previous year, in 1930 it declined 5% reaching the level of 1928. Then, in 1931 GDP plummeted around 7% and even worse in 1932, when it reached a level 10% lower than in 1928. Thus, GDP fell 15% between 1929 and 1932. It started to increase only after 1933 and already in 1934 GDP was 2% higher than 1928. On the other hand, GDP by sectors shows that by 1932 construction was the sector most negatively affected, followed by trade and transport, the latter linked with the trade sector. In that year construction fell 55% relative to 1928, trade decreased 11% and transport 12%. In 1932 the other sectors also suffered; industry had a fall of 9% and agricultural and livestock sectors had a contraction of 6% and 5% respectively. In this regard, it is important to highlight that expansion in the rural sector was slowing since the late twenties, suffering in 1930 –according to these figures- a fall of 23% in its GDP before increasing in 1931 and having another, but smaller, contraction in 1932[415]. Particularly in 1933 this sector continued to be depressed because of low prices and harvest

[415] In particular, during the period 1929-1932 grain output declined by 20% (Rock, 1991, p. 18).

failures, but thanks to the increase of international agricultural prices and the measures taken by the government to promote the agriculture, in 1934, its economic situation improved. By contrast, the only sector that had a good performance was the government that with its intervention programme in 1930 reached an increase of its output of 16%, 20% in 1932 and 31% in 1934 in comparison with 1928.

Picture 3 '*Sin rumbo*' ('Without direction')

Source*: Caras y Caretas*. "The humour in a context of crisis" (thirties).

Thus, this information shows that in the first place Argentina went through a depression greater than a simple dislocation. This is so because, following the definition of depression used by Marseille (2009)[416], the country suffered a significant fall of around 10% in its GDP during the period 1931-1933 in relation to 1928. The fall is even worse if we compare with the year 1929: in 1932 the GDP was 15% lower. Actually, there were three consecutive contractions during 1930-1932. Secondly, when we analyse the GDP by sectors, it is verifiable that by 1932 the trade sector was one of the most hit sectors by the global crisis pushing down the global GDP. In this regard, as we will see, it is not a coincidence that in 1933 Justo's government took the decision to make rapid changes in its cabinet, replacing Alberto Hueyo with Federico Pinedo as Minister of Finance, who promoted the main package of economic measures applied for the period. Thirdly, it is important to note that when by 1934 international prices started on the path

[416] Marseille (2009, p. 53) argues that a country is going through a recession when its GDP decreases two consecutive months and it is a depression –making reference to a psychological pathology- when the GDP decreases around 10% or the contraction lasts during three consecutive years.

of recovery, the Argentine economy also began its recovery as shown by the GDP growth. Thus, it is possible to confirm the dependence of the Argentine economy on the 'commodity lottery'.

Table 50 Argentina: Total GDP and sectoral GDP, Index (1928=100)

Year	Total GDP	Industry	Agriculture	Livestock	Transport	Trade	Government	Construction
1929	105	98	104	98	102	100	107	115
1930	100	95	77	101	93	91	116	109
1931	93	91	104	91	94	95	113	67
1932	90	91	94	95	88	89	120	45
1933	94	101	91	98	84	93	110	50
1934	102	112	99	101	87	99	131	76

Argentina: Variation rates in relation to previous year

Year	Total GDP	Industry	Agriculture	Livestock	Transport	Trade	Government	Construction
1929	5.0	-2.0	4.0	-2.0	2.0	0.0	7.0	15.0
1930	-4.8	-3.1	-26.0	3.1	-8.8	-9.0	8.4	-5.2
1931	-7.0	-4.2	35.1	-9.9	1.1	4.4	-2.6	-38.5
1932	-3.2	0.0	-9.6	4.4	-6.4	-6.3	6.2	-32.8
1933	4.4	11.0	-3.2	3.2	-4.5	4.5	-8.3	11.1
1934	8.5	10.9	8.8	3.1	3.6	6.5	19.1	52.0

Source: total GDP calculated from Maddison (2010) and sectoral GDP calculated from Cortés Conde (2009, p. 309)[417]. Notes: a) original figures for total GDP from Maddison (2010) are in million 1990 International Geary-Khamis dollars; and b) original figures for sectoral GDP from Cortés Conde (2009, p. 309) are index numbers from figures in million 1914 pesos, 1900=100.

With regard to agriculture production levels in Argentina, Table 51 describes the number of animals slaughtered, the quintals of grain production and the metric tons of wool produced during the period 1928-1934. In this table one can see that in 1929, whilst the production of sheep and pigs had increased, as well as wool, the production of grain products declined with the exception of maize. For example, in that year the country produced 53.4% less wheat than 1928 and 36% less linseed. This situation is not suprising because this sort of production depends on the weather conditions; as mentioned, Argentina used to suffer droughts every 3 or 5 years.

Then, in 1930 the quintals of wheat practically increased by 40% in relation to 1929 but without reaching the level of 1928. On the other hand, the production of maize continued increasing, reaching a value of 106,600 thousands of quintals, 75% higher than 1928. And the production of linseed reached a level similar to 1928 but higher than 1929. Furthermore, the number of sheep slaughtered in 1930 increased as well as the tonnage of wool produced; but the number of cattle, calves and pigs slaughtered decreased slightly. These increases in grain production depressed

[417] For more detailed information about Maddison's or Cortés Conde's methodology see the "Introduction" of this thesis.

prices even more because Argentina was a country with important influence on international prices in products such as maize, linseed and wheat. By contrast, in 1931 the production of wheat and maize decreased again due to harvest failures, as well as the number of cattle and calves slaughtered, but the production of linseed, wool and the number of pigs slaughtered continued increasing. In 1932, the worst year for Argentine foreign trade in terms of dollars, the production of wheat increased and continued increasing until 1933. The production of pigs and wool also increased, but the production of the other products declined. Thus, it is possible to conclude that the growth in production levels of cattle, sheep and grains was erratic with significant falls and increases affecting the prices. However, the number of pigs slaughtered was clearly increasing during 1930-1934. The tonnage of wool was also increasing during the period 1928-1932, starting to decrease in 1933.

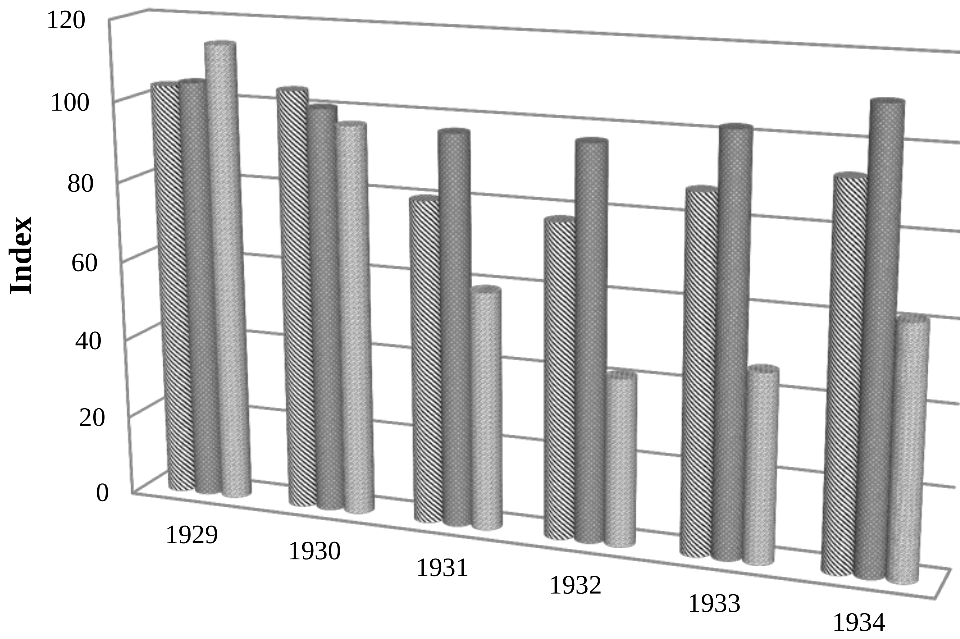
Table 51 Argentina: Production levels

Year	**Number of animals slaughtered (thousands)**			**Thousands of quintals**			**Thousands of metric tons**
	Cattle and calves	**Sheep**	**Pigs**	**Wheat**	**Maize**	**Linseed**	**Wool**
1928	6,267	5,914	815	94,997	61,071	19,909	157.4
1929	6,137	6,557	934	44,246	71,280	12,702	160.1
1930	5,966	7,349	910	63,218	106,600	19,900	163.7
1931	5,383	6,873	986	59,792	76,034	22,624	171.4
1932	5,345	6,767	1,003	65,560	68,015	15,750	176.0
1933	5,702	7,028	1,242	77,870	65,260	15,900	174.6
1934	6,002	6,425	1,383	65,500	114,800	20,250	167.8

Source: compiled from Statistical Yearbook of the League of Nations (various years). Economic Intelligence Service. Geneva. Notes: a) ‘cattle’ and ‘calves’ were given separately, the line of demarcation between these two groups was not always drawn along identical lines; b) the sheep include also lambs, and ‘goats’ include kids; c) animals slaughtered for the chilling, curing and packing industries and private slaughter-houses; and d) the production of wool was estimated on a ‘greasy’ basis as far as possible, the figures relate to sheep’s wool only - i.e. mohair, camel hair and similar fibres were excluded.

It is worth noting that for Argentina there are other series related to the GDP that are unavailable for Brazil and Uruguay. Figure 18 presents the evolution of consumption and investment. During the period 1928-1934 both of them were declining. Between 1929 and 1930 private consumption remained stable, 4% higher than in 1928. Then, it had a sharp fall of 20% in 1931 in comparison with 1928, and in 1932 the contraction was 22%. This situation improved after 1933 as this sort of consumption increased, but remaining lower than in 1928. Actually, in 1934 it was 7% lower. In addition, in 1930 public consumption decreased after having an increase of 5% in 1929. In 1931 it decreased again and in 1932 remained at the level of 1931, 3% lower than in 1928.

Figure 18 Argentina: Evolution of consumption and investment (1928=100)



	1929	1930	1931	1932	1933	1934
Private consumption	104	104	80	78	87	93
Public consumption	105	100	97	97	102	110
Investment	114	97	59	42	46	62

Source: calculated from della Paolera and Taylor (1999, p. 571). Note: original figures in million paper pesos at 1913 prices.

However, rapidly in 1933 it increased to a level 2% higher than in 1928 and in 1934 it was 10% higher than that year. This situation is not suprising due to the series of relevant expansionary economic policies implemented since 1933. By contrast, the shock for investment was worse than for consumption. Whilst in 1929 investment had increased 14% in relation to the previous year, in 1930 decreased 3%, in 1931 41% and in 1932 58%! During 1933-1934 it started a recovery but reaching levels 54% and 38% lower than 1928, respectively. This fall in investments was also shown by the decline of the value of industrial production. According to figures taken from Thorp (2000, p. 289), while during the period 1929-1930 this value remained 4-5% higher than 1928, in 1931 it contracted 7% in relation to that year. And after a fall of 13% in 1932, it began to increase after 1933, and even more rapidly in 1934, when it reached a level 12% higher than 1928.

The magnitude of a deflation can also give an idea of the economic contraction. Regarding the cost of living only in Buenos Aires and using figures from Cortés Conde (2009, p. 351), Table 52 shows that in 1930, amid a military revolution which overthrew Yrigoyen, it increased 2.1% in relation to the previous year. However, in a context of world deflation, in 1931 it declined 11.3%. Even worse, in 1932, the cost of living reached a level 19.5% lower than 1929! But, in 1933 the tide changed as international prices started to recover, the peso devalued and the government implemented expansionary measures. Thus, the cost of living increased, but without reaching the 1929 level. In 1934 it decreased again, keeping a value 17.6% lower than 1929.

Table 52 Argentina: Cost of living (1929=100)

Year	Cost of living index
1930	102.1
1931	88.7
1932	80.5
1933	91.9
1934	82.4

Source: Cortés Conde (2009, p. 351) from *"Costo del Nivel de Vida en la Capital Federal"*, *Dirección Nacional de Estadísticas y Censos*, Argentine Census Bureau, March 1968. Note: only Buenos Aires.

In relation to the unemployment rate, Rock (1991, p. 19) argues that the visible unemployment remained remarkably low, at perhaps 5 to 6%, but in a context of growing disputes and working lost days in the industrial sector[418]. In 1933 the British commercial attaché in Buenos Aires even calculated unemployment at a mere 2.8%. A year later his successor stated that in comparison with the rest of the world, Argentina may be said to be free of any serious unemployment problem. However, official statistics may have seriously underestimated real unemployment. They failed to take account of women workers, who made up perhaps one-fifth of the total, and they defined unemployment, quite misleadingly, as a percentage of the total population as opposed to the total labour force.

In Brazil, the available statistics, although basic and mostly unreliable, suggest that the effects of the Great Depression were mild if compared with the experience elsewhere. Table 53 shows that the most contractive effects occurred during 1930-1931, being the first to be hit the industry and commerce. During 1930 all sectors contracted except agriculture, although the latter contracted strongly in 1931. The government sector expanded during the worst years of the crisis, which gives an indication of the expansionary policy applied. These figures mainly coincide with other research such as that by Abreu (1990, p. 78), although they must be taken with care given the lack of primary reliable information for the period.

Table 53 Brazil: Sectoral indices of real product (1928=100)

SECTORS	1929		1930		1931		1932		1933		1934	
	Index	Var %	Index	Var %	Index	Var %	Index	Var %	Index	Var %	Index	Var %
TOTAL	101.1	1.1	98.9	- 2.1	95.7	- 3.3	99.8	4.3	108.7	8.9	118.7	9.2
Agriculture	100.3	0.3	101.4	1.2	95.0	- 6.3	100.8	6.0	112.9	12.0	119.9	6.2
Industry	97.8	- 2.2	91.3	- 6.7	92.3	1.2	93.6	1.4	104.6	11.7	116.2	11.1
Transport and comunications	103.7	3.7	88.9	- 14.3	93.2	4.9	85.3	- 8.5	92.4	8.3	96.1	4.0
Commerce	99.1	- 0.9	90.6	- 8.6	86.0	- 5.0	87.2	1.4	100.4	15.2	109.7	9.2
Government	112.6	12.6	128.6	14.2	127.9	- 0.6	149.8	17.2	134.4	- 10.3	157.4	17.2

Source: calculated from Haddad (1978, p. 8).

[418] See League of Nations (1933c, p. 51).

Regarding industry, and in line with the previous table, in Table 54 it is possible to see that the index of industrial production fell 2.4% in 1929 and 7.1% in 1930. From then on, the industry recovered at an anaemic annual rate of 1.4% in 1931-1932 and at more than 11% yearly between 1933 and 1934[419]. In that table it is also possible to verify those activities that were hardest hit. In general terms, all the sectors but foods and skins fell in 1930, being footwear, chemistry, paper, hats, steelworks and furniture the hardest hit. And taking the annual average during the first three years after the crisis (1929-1932), only some of the most protected sectors managed to grow: textile, paper, cement and steelworks. Although they fell in comparison modestly in 1930, they recovered strongly afterwards.

Table 54 Brazil: Index of annual industrial production according to industrial sector 1928-1934 (1928=100)

SECTORS	1929		1930		1931		1932		1933		1934		Var % Average 1929-1932	Var % Average 1930-1932
	Index	Var %	Index	Var %	Index	Var %	Index	Var %	Index	Var %	Index	Var %		
TOTAL	97.6	**- 2.4**	90.7	**- 7.1**	92.0	**1.4**	93.3	**1.4**	104.4	**11.9**	116.2	**11.3**	**- 1.7**	**- 1.4**
Textile	80.0	- 20.0	76.9	- 3.8	96.5	25.5	99.8	3.4	111.6	11.8	125.7	12.7	**1.3**	**8.3**
Footwear	116.1	16.1	85.1	- 26.7	87.4	2.7	76.5	- 12.4	80.4	5.1	87.4	8.6	**- 5.1**	**- 12.1**
Tobacco	104.1	4.1	93.9	- 9.8	96.8	3.1	94.5	- 2.5	98.0	3.8	149.5	52.6	**- 1.3**	**- 3.0**
Foods	104.5	4.5	113.0	8.1	105.2	- 6.9	104.0	- 1.2	118.5	14.0	125.3	5.7	**1.1**	**0.0**
Drinks	103.5	3.5	86.3	- 16.6	75.2	- 12.9	77.5	3.0	80.5	3.9	82.8	2.8	**- 5.7**	**- 8.8**
Chemistry	111.9	11.9	79.0	- 29.4	78.3	- 0.9	91.7	17.1	90.0	- 1.8	101.7	13.0	**- 0.3**	**- 4.4**
Hats	87.6	- 12.4	46.9	- 46.5	46.9	0.0	42.5	- 9.4	52.2	22.8	55.8	6.9	**- 17.1**	**- 18.6**
Skins	97.2	- 2.8	111.1	14.2	108.3	- 2.5	100.0	- 7.7	122.1	22.1	127.6	4.5	**0.3**	**1.4**
Paper	132.3	32.3	96.0	- 27.5	124.2	29.4	112.1	- 9.7	176.2	57.2	228.3	29.5	**6.1**	**- 2.6**
Furniture	85.6	- 14.4	63.0	- 26.4	71.6	13.6	71.6	0.0	74.3	3.8	91.4	23.0	**- 6.8**	**- 4.3**
Cements	109.5	9.5	99.2	- 9.4	189.7	91.2	169.8	- 10.5	257.1	51.4	368.3	43.2	**20.2**	**23.8**
Siderurgical	122.1	22.1	106.1	- 13.1	88.7	- 16.4	127.2	43.4	189.7	49.1	223.0	17.6	**9.0**	**4.6**
Editorial/graph.	114.1	14.1	105.6	- 7.4	70.4	- 33.3	76.1	8.0	94.4	24.1	108.5	14.9	**- 4.7**	**- 10.9**

Source: calculated from IBGE 1990. The order displayed takes into account the Industrial Census of 1912.
Note: original figures reproduced by IBGE from consumption tax records.

One symptom of the magnitude of the Great Depression in Brazil was the financial strains on main industrial companies. Many firms, financially exposed after the surge of credit during 1927, started to feel the impact of the credit crunch in 1928. The hardest hit was the State of São Paulo, not only because of the difficult times for the coffee industry, but also because of the agonies of the textile industry, which had grown importantly during the twenties, but faced fierce competition from abroad. This industry is also a good example of the experience of the Brazilian industry in general during the Great Depression, because it was the major industrial activity, accounting for up to 30% of the industrial output and also held the biggest share in industrial employment. Eleven important companies (P.G. Meireles, Morais Barros & Cia and others) asked for a moratorium on their debt payment of about 55 mil contos[420]. The moratorium

[419] According to the Industrial Census of 1912, the main activities in terms of personnel employed were textile (73 thousand), footwear (20), tobacco (15), foods (14), drinks (10), chemistry (8) and hats (5) (see IBGE 1990, Table 7.3). Table 54 takes into account this order.

[420] *Conto de réis* was an expression used in Brazil to indicate one million *réis*. The *Real* was the monetary unit of Brazil while *conto* is an expression adopted to indicate a million of réis (the plural of Real). The *conto de réis* corresponded to a thousand times the importance of a thousand-réis, which was the divisional unit. As a

was reluctantly granted because of the grave consequences of the possible failure of companies and the fear that the reduction of the value of stocks would jeopardize further the ability of industry and commerce to pay debts[421]. According to Stein (1979), 23 of 57 textile factories had suspended production from 1927 to 1930. And Haber (1992, pp. 351-362) affirms that by 1929, with reserve funds exhausted and revenues severely depressed, most companies stopped paying dividends. Recalling Table 54, the textile industry fell significantly in 1929-1930, and recovered also strongly afterwards. However, there is evidence that the contraction was stronger than those IBGE's figures suggest. According to Stein (1979), from 1927 to 1930 the quantum of production had fallen 20%. Furthermore, the *Centro Industrial Fiação e Tecelagem de Algodão* (CIFTA) output series confirm a dramatic decline revealed by the firm-level financial statistics: production declined by 9.4% in 1928, 12.1% in 1929 and 23.8% in 1930. In 1931 and 1932 the industry slowly began to stabilize, though its level of output was significantly below that from 1925 to 1927.

Regarding the evolution of prices, there was also deflation as in the case of Argentina. According to Salgado Guimarães et al. (1982, p. 56), the monetary contractive policy probably induced a deflation of about 40%. It is hard, however, to find reliable statistics about the consumer prices at the time. One possibility is the cost of living in Rio de Janeiro reproduced from IBGE (1990) shown in Table 55. According to this source, the cost of living fell around 9% in 1930 and 3.7% in 1931, with the total deflation in the period 1928-1933 being around 13.4%. Although these figures have to be taken with caution as discussed in our Introduction, they are consistent with the intuitive outcome, which is the probable deflation as a consequence of the fall in demand and the contraction of the circulating medium during the first two years of the crisis.

Table 55 Brazil: Cost of living at Rio de Janeiro (1928=100)

	1928	**1929**	**1930**	**1931**	**1932**	**1933**	**1934**
Index	100.0	99.3	90.3	87.0	87.4	86.6	93.3
Var %	-1.5	-0.7	-9.0	-3.7	0.4	-0.9	7.7

Source: calculated from IBGE (1990).

In Uruguay, the impact of the depression was important because the collapse of exports prompted a chain effect in the economy, harming imports and reducing economic activity. In the following tables it is possible to track these effects. Table 56 shows that during 1928-1934, the annual average GDP growth rate was -0.6%. However, between 1931 and 1933 the average contraction was around 12%, a number consistent with an economy in depression. However, this number hides an unequal growth distribution for the period: while cattle farming GDP contracted by 1.6%, industrial GDP grew 0.5%. The most negative effects were better perceived

consequence, a *conto* was depicted as Rs. 1:000$000. This currency was substituted by the *Cruzeiro* in 1942 at a rate of 1 *Cruzeiro* per thousand-réis.

[421] See document from an unknown author dated November 1929, in Salgado Guimarães et al. (1982, pp. 56-57).

by 1931, so it is not a mere coincidence that since that year the government started to exert strong intervention and regulation in economic activity. For the cattle farming sector the worst year was 1931 with a contraction in its GDP of 33.3%, although in 1932 this sector also shows a strong contraction (-17.5%). On the other hand, for industry 1931 and 1933 were difficult years with falls in GDP of 13.6% and 14.6% respectively in relation to the previous year. Regarding the onset of the recovery, the cattle farming sector started to present signs of improvement in 1933, a year before industry did.

Table 56 Uruguay: GDP index (total, industry and cattle farming, 1928=100)

Indices	1929		1930		1931		1932		1933		1934		Av.%
	Index	Var %	Index	Var %	Index	Var %	Index	Var %	Index	Var %	Index	Var %	1928 -1934
GDP cattle farming	106.4	6.4	133.2	25.2	88.9	-33.3	73.3	-17.5	80.9	10.4	80.2	-1.0	-1.6
GDP industry	103.6	3.6	112.4	8.5	97.1	-13.6	90.6	-6.7	77.4	-14.6	97.4	25.8	0.5
GDP total	**100.8**	**0.8**	**114.6**	**13.6**	**94.8**	**-17.3**	**88.0**	**-7.2**	**77.0**	**-12.5**	**91.6**	**19.1**	**-0.6**

Source: calculated from Bértola (1998, p. 61) and the base year recalculated to 1928, except total GDP (million 1990 International Geary-Khamis dollars) calculated from Maddison (2010).

The data about the cost of living for Uruguay is lacking for the period. However, the figures presented from Argentina and Uruguay suggest that the situation of the region was not different from other regions in the world. Indeed, as we have seen, deflation predominated in many countries after 1929, a phenomenon that was fuelled by the initial allegiance of governments to the mechanics of the gold standard, as well as because of the depression itself.

iv. Conclusion

In Table 57, we summarize through percentage changes the information regarding exports of ABU presented in Table 39, Table 42 and Table 43. Recalling Chapter IV, according to our calculations using the Herfindahl-Hirschmann index (HHI), Brazil shows the most concentrated foreign trade structure in terms of country and product destinations among the three countries. Thus, those figures suggest that Brazil was a priori the most vulnerable to a trade shock of the three. This is indeed an intuitively correct outcome, taking into account its outstanding concentration in coffee exports. However, the actual figures show that although the most dramatic fall for Brazil was in 1930, that contraction[422] was more than 10 percentage points below the Argentine shrinkage. And although during 1931-1932 the contraction of Brazilian exports was moderately bigger than in Argentina, they outperformed those of Argentina during the period 1933-1934. This is explained by the fact that the increase of the export quantum surpassed the fall of prices, so that coffee export values actually grew 37.7% during that period. Besides, cotton exports were also significant in 1934. In any case, the Brazilian fall (-5%) was not as strong as the HHI suggested, as compared with Argentina (-8.4%) and especially Uruguay (-13.7) during 1929-1934. In Argentina exports also grew as soon as 1933, and the recovery continued in 1934.

[422] Nevertheless, it is important to take into account that these dollar figures of the Brazilian trade contraction might be overvalued, since the Brazilian exports were expressed originally in British pounds that were devalued against major currencies due to the British departure from the gold standard.

The case of Uruguay is different. Although it was a priori the second most concentrated in terms of products according to the HHI, it proved more vulnerable to the trade channel than the HHI suggested. Indeed, the bulk of the negative effects of the Great Depression came one year later than in Argentina and Brazil, but they were devastating. The contraction of exports in 1930 was significantly lower than the other two, but in 1931, the situation reversed, and the contraction of Uruguayan exports was twice bigger that in Brazil and more than three times that in Argentina. After a partial recovery in 1933, there is another strong contraction of the Uruguayan foreign trade in 1934 due to the significant fall of meat (-16.9%) and wool (-50.1%) exports.

Uruguay was not only unlucky in the ‘lottery ticket’ of commodities, but also especially affected by the trade policies of the UK. For example, the fall in Uruguayan meat exports (-16.9%) contrasts with the increase of Argentina’s exports (+15.5%). While Uruguayan exports to the UK fell 44.1% in 1934, Argentine exports to that country grew 40.9%. Probably, the poor performance of Uruguayan meat exports to the UK in comparison with Argentina can be blamed on the fact that those exports did not benefit from the Roca-Runciman Treaty signed in 1933 between Argentina and the UK. As we analyse in detail in Chapter XII, British policies were especially detrimental because the Uruguayan government lacked the capability to persuade British counterparts to engage swift negotiations as Argentina was able to do. In fact, when the cold averages of the inter-annual variation rates during 1929-1934 are taken into account, the strongest fall of foreign trade was in Uruguay.

Table 57 ABU: Exports – variation rates (annual and average)

	1929	**1930**	**1931**	**1932**	**1933**	**1934**	**Average variation rate 1929-1934**
Argentina	-10.8	-43.4	-16.6	-22.7	8.8	34.2	**-8.4**
Brazil	-2.7	-30.7	-24.7	-26.0	25.1	28.9	**-5.0**
Uruguay	-11.6	-4.5	-57.7	-25.0	43.8	-27.2	**-13.7**

Source: Table 39, Table 42 and Table 43.

If we compare the international prices of the main export products of ABU presented in Table 58, it is possible to give coherence to the aforementioned evolution of exports of each of these countries. In general, most of the agricultural prices relevant for Argentina are also relevant for Uruguay and to a lesser extent to Brazil. In this regard, the average inter-annual variation rate of cattle hides (-18.7%), wool (-17.2%), coffee (-17.2%), maize (-15.7%), wheat (-14.9%) and chilled beef (-10.4%) are among the most outstanding (-18.7%, -17.2% and -10.4%, respectively) for the period 1929-1933, significantly hitting all the three countries.

However, the evolution of important staples hides some key differences. In spite of the annual swings, if we take the average of the annual variation rates during 1929-1934, Uruguay shows the biggest fall of exports and the strongest swings, too. Exports were more concentrated in beef and wool, so that the drop of those staples was translated completely through the trade channel. In the case of Argentina, the export basket was more diversified. Thus, this country could balance up to some extent the overall negative performance of the foreign sector.

By contrast, the case of Brazil is interesting because of coffee. This product accounted for almost 70% of the Brazilian exports, and coffee prices had also a consistent fall (-17.2% inter-annual average during 1929-1933). However, as we showed before, that contraction was up to some extent compensated for by more cotton exports at the end of the period. Although it was a priori the most vulnerable to the swings of coffee prices, it did not fall so much as Argentina in 1930, and recovered steadily during 1933-1934.

In the case of Argentina, the falls of wheat (-14.9%) and maize (-15.7%) prices were also strongly detrimental. Those international prices fell very severely during 1929-1931. However, they stabilized in 1932 and recovered in 1933, giving Argentina some relief in face of the fall of beef and cattle hide prices. In this respect, the Imperial preferences applied by the UK were especially felt during 1931-1933, and hit evenly Argentina and Uruguay and to a lesser extent Brazil.

Table 58 International prices of main products exported by ABU

Year	Wheat		Maize		Linseed		Chilled beef (Ranches)		Cattle hides (Dried)		Wool (Cruza gruesa)		Coffee	
	Price	Var %	Price	Var %	Price	Var %	Price	Var %	Price	Var %	Price	Var %	Price	Var %
1929	41	-8.9	34	-5.6	76	16.9	188	2.7	486	-32.3	474	-18.7	20.4	-4.2
1930	32	-22.0	21	-38.2	62	-18.4	169	-10.1	316	-35.0	278	-41.4	13.1	-35.8
1931	16	-50.0	12	-42.9	32	-48.4	118	-30.2	226	-28.5	177	-36.3	10.1	-22.9
1932	16	0.0	12	0.0	24	-25.0	78	-33.9	156	-31.0	109	-38.4	9.1	-9.9
1933	17	6.3	13	8.3	34	41.7	93	19.2	208	33.3	162	48.6	7.9	-13.2
Average Var %		**-14.9**		**-15.7**		**-6.6**		**-10.4**		**-18.7**		**-17.2**		**-17.2**

Source: Except coffee, calculated from Prebisch (1991, p. 261) obtained from Banco Central del Uruguay in the framework of the field study carried out in Uruguay for the region during the period November-December 2010. Note: original data expressed in paper pesos per kilogram, in order to obtain the figures in dollars, the US dollars/gold pesos exchange rates from Officer (2011) and the parity 1 gold peso = 2.27 paper pesos were applied; then, figures were rounded off and converted from kilograms to tonnes. Coffee import prices into the US (current cents of dollars per pound weight), from Delfim Netto (2009, pp. 277-278)

For these countries, the vulnerabilities through trade entailed vulnerabilities in the fiscal position. In order to facilitate the comparison among ABU, in Table 59 we show the percentage of import and other foreign trade taxes in 1928 and the percentage of fiscal deficit over the government revenues during 1930-1931. The first calculation gives an idea of the fiscal vulnerability just before the Great Depression arrived. The second, not having a harmonized deflator to contrast with, gives an idea of the evolution and weight of the fiscal deficit.

The tables show that all the three governments were strongly dependent on the income from foreign trade. In Table 59 and Table 60 it is possible to see that the most vulnerable of the three from the fiscal point of view was Argentina, as its income came almost 56% from taxes linked to foreign trade. Its deficit was also comparatively high, especially in 1930-1931. This outcome, added to the political decision of the Argentina government to keep paying the foreign debt, explains why the fiscal cuts of Argentina were so sharp. In Table 61 it is possible to verify that by comparing the years 1930 and 1932 with the base fiscal revenue figure of 1928, on both accounts the Brazilian government was the hardest hit of all, and Uruguay less affected.

However, it is important to keep in mind that the figure of 1932 for Brazil is biased because of the *Revolução Constitucionalista* that was not directly linked to the Great Depression. Counterintuitively, the case of Uruguay is interesting because, at least in the figures presented, this country shows the soundest structure, either in terms of share of import taxes or fiscal deficit. Nevertheless, the strong fiscal cuts and tax rises are consistent with the high overall dependence of the Uruguayan economy onforeign trade. In the case of Brazil, the deterioration of 1932 is a consequence of the costs associated to suppress the revolution of São Paulo.

Table 59 ABU: Percentage of import and other foreign trade taxes and revenues in 1928

Argentina	**Brazil**	**Uruguay**
55.5%	47.0%	32.0%

Source: calculated from Table 45, Figure 17 and Nahum (2007, p. 145).

Table 60 ABU: Percentage of fiscal deficit over the government revenues

Year	**Argentina**	**Brazil**	**Uruguay**
1930	64.5%	49.6%	6.1%
1931	32.0%	16.8%	7.4%
1932	15.8%	63.3%	7.8%

Source: calculated from Table 46, Table 47 and Table 48.

Table 61 ABU: Percentage change of fiscal revenues

	Argentina	**Brazil**	**Uruguay**
1928 - 1930	-0.6%	-21%	4.1%
1928 - 1932	-9.6%	-24.3%	-7.0%

Source: calculated from Table 46, Table 47 and Table 48.

Beyond the fiscal implications of the trade contraction, our analysis confirms that economic activity fell in ABU strongly as a consequence of the transmission of the crisis from the North through trade. Also recalling our analysis in Chapter IV, particularly the GDP numbers presented in Table 9, the GDP contraction lasted three years for Argentina (1930-1932) and Uruguay (1931-1933), and two years for Brazil (1930-1931). The case of Uruguay is notable because the economic contraction started later and lasted longer. While the economy of Argentina contracted almost 7% in 1931 and Brazil 6% in 1930, Uruguay slumped by more than double those figures (-17.3%) in 1931. And worse still, it contracted again in 1932 (-7.2) and in 1933 (-12.5%). Thus, according to these figures, while Brazil had a strong recession and Argentina reached a depression, Uruguay was the hardest hit. By 1934, the latter was still far away from reaching the pre-crisis level, while Argentina was able to do so and Brazil clearly did since 1933.

In Table 62 and Table 63 we present the sectoral behaviour. The slump of total GDP can be explained in the three cases by the collapse of key agricultural sectors. Again, the case of Uruguay is outstanding. Although in the three countries the landing activities were severely hit, the contraction in 1931 of the Uruguayan GDP cattle farming index (-33.3%) simply does not have a match with the other two cases. However, industrial activity also contributed to the slump and the recovery. Similarly to agriculture, the industrial contraction in Uruguay was late, but lasted longer, during 1931-1933. By contrast, the Brazilian fall of industrial activity was only verified at the beginning of the crisis, during 1929-1930. And in Argentina, it also contracted in 1931. As a matter of fact, in both major countries some industrial sectors grew during 1931-1934, compensating in this way for the contraction of other sectors.

Table 62 ABU: Industry GDP Index - Annual Variation rates (%)

	1929	**1930**	**1931**	**1932**	**1933**	**1934**
Argentina	-2.0	-3.1	-4.2	0.0	11.0	10.9
Brazil	-2.2	-6.7	1.2	1.4	11.7	11.1
Uruguay	3.6	8.5	-13.6	-6.7	-14.6	25.8

Source: Table 50, Table 53 and Table 56.

Table 63 ABU: Landing activities GDP Index - Annual Variation rates (%)

	1929	**1930**	**1931**	**1932**	**1933**	**1934**
Argentina – Agriculture	4.0	-26	35.1	-9.6	-3.2	8.8
Argentina - Cattle farming	-2.0	3.1	-9.9	4.4	3.2	3.1
Brazil	0.3	1.2	-6.3	6.0	12	6.2
Uruguay	6.4	25.2	-33.3	-17.5	10.4	-1.0

Source: Table 50, Table 53 and Table 56.

From this assessment, it is possible to conclude that even though the degree of trade concentration, along with a better fiscal profile, a priori told us that Uruguay was not among the most vulnerable countries of the three, the actual figures of trade and economic contraction tell us that the perceived vulnerability gave the wrong impression. This outcome needs to be explained otherwise, by recurring to explanations in terms of patterns of dependence and structural links to the world system.

Similarly, as we analyse in more detail in Chapter XII, the statistical evidence in the Brazilian case about trade vulnerability did not translate fully into trade contraction. One possible answer to this is that the main destination of its coffee, the US, did not use all its leverage as much as it could to turn Brazilian policies around. By contrast, the other two neighbours were highly dependent on the British market, and the UK government was more committed to exerting its leverage during commercial negotiations.

Now that we have shown the magnitude of the economic contraction associated to the vulnerabilities of ABU, we turn to the fate of the gold standard in these countries and policies applied by each of the governments to face the downturn.

X. Building a casket for the gold standard

At least fifty countries joined the gold standard during the twenties. Among them, the US returned to this regime in 1919, Germany in 1924, the UK in 1925 and France in 1928. In relation to South American countries, Colombia returned in 1923, Chile in 1926 and Argentina and Brazil in 1927[423].

This general trend had an explanation on a state of mind or mainstream thinking among decision makes worldwide. Clavin (2000, pp. 98-99) explains that in spite of the falling crisis, during 1929-1930 politicians across the political spectrum in Europe continued to argue that the membership of the gold standard guaranteed stability and prosperity because it constrained governments not to pursue unsound spending policies to encourage employment and consumption that would jeopardize the credibility of the exchange rate. Moreover, James (1992, p. 596) suggests that budget deficits threatened a likely departure from gold, not just because there may have been a fear of the repetition of inflation and hyper-inflation that had ravaged Europe in the immediate post-war period, but because of the increased public deficits that could not be accommodated easily by financial markets, resulting in an increased market volatility. And in addition to orthodox governments, central banks' unwillingness to lower discount rates to prevent gold from flowing away to the US or France and banks' reluctance to reduce interest rates to encourage domestic investment aggravated the downturn further.

But this outcome was probably justified by the state of knowledge at the time and the historic context. As Temin (1989, p. 86) remarks, the Keynesian analysis was in the early stages of development. It took Keynes half a decade to complete it and more time for people to understand it[424]. Thus, that type of model was not available during the late twenties to face any strong downturn. Furthermore, he concludes that the gold standard was a 'Midas touch' that

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[423] See Wolf & Yousef (2006, pp. 34-36) and Kemmerer, D. (1954). Also the League of Nations yearbooks provide information, see Table 64.

[424] See also Skidelsky (2010). In this regard, John Maynard Keynes, published in 'The Times' on March 1933, a few months before the key London World Economic Conference, an article in which he presented the bases for a broad expansive policy, based on financing of internal deficits and on international economic cooperation. He affirmed that the only possible and effective way of achieving the recovery of the world economy, the increase of commodity prices and the relief of the highly indebted countries, was the expansion of world demand by a coordinated action. That would be achieved by means of a substantial and simultaneous relief of taxes and increase of the expenses financed by credits. His views were mostly disregarded by delegates at that Conference, and even by British officials such as Neville Chamberlain.

paralyzed the world economy, and the single best predictor of how severe the depression was in different countries according to how long they stayed on gold. The relatively short-lived experiment of the restoration of the gold standard by the mid-twenties is an indicator of that assertion. In Table 64, reproduced from the League of Nation's Yearbook (1933-1934, p. 219) we show the domino effect on the suspension of the gold standard system, which lost most of its adherents between 1929 and 1932, including all Latin American countries.

Table 64 Dates of principal measures affecting exchange rates

Country	Official suspension of gold standard	Official foreign exchange control	Depreciation in relation to gold	Country	Official suspension of gold standard	Official foreign exchange control	Depreciation in relation to gold
Argentina	16/XII/29	13/X/31	XI/29	**India**	21/IX/31	—	IX/31
Australia	17/XII/29	—	III/30	**Irish State**	26/IX/31	—	IX/31
Austria	5/IV/33	9/X/31	IX/31	**Italy**	—	26/V/34	III/34
Belgium	30/III/35	18/III/35	III/35	**Japan**	13/XII/31	l/VII/32	XII/31
Bolivia	25/IX/31	3/X/31	III/30	**Mexico**	25/VII/31	—	VIII/31
Brazil	22/XI/30	18/V/31	XII/29	**Norway**	28/IX/31	—	IX/31
Canada	19/X/31	—	IX/31	**Netherlands**	26/IX/36	—	IX/36
Chile	20/IV/32	30/VII/31	IV/32	**New Zealand**	21/IX/31	—	IV/30
China	—	9/IX/34	—	**Paraguay**	—	VIII/32	XI/29
Colombia	25/IX/31	25/IX/31	I/32	**Peru**	14/V/32	—	V/32
Costa Rica	—	16/I/1932	I/32	**Philippines**	—	—	IV/33
Cuba	21/XI/33	2/VI/34	IV/33	**Portugal**	31/XII/31	21/X/22	X/31
Czechoslovakia	—	II/X/31	II/34	**Romania**	—	18/V/32	VII/35
Denmark	29/IX/31	18/XI/31	IX/31	**Salvador**	9/X/31	VIII/33	X/31
Ecuador	8/II/32	2/V/32	VI/32	**Spain**	—	18/V/31	1920
Egypt	21/IX/31	—	IX/31	**Sweden**	29/IX/31	—	IX/31
Finland	12/X/31	—	X/31	**Turkey**	—	26/II/30	1915
France	—	—	IX/36	**South Africa**	28/XII/32	—	I/33
Germany	—	13/VII/31	—	**UK**	21/IX/31	—	21/IX/31
Greece	26/IV/32	28/IX/31	IV/32	**US**	20/IV/33	6/III/33	19/IV/33
Guatemala	—	—	IV/33	**Uruguay**	XII/29	7/IX/31	IV/29
Honduras	—	27/III/34	IV/33	**Venezuela**	—	12/XII/36	IX/30
Hungary	—	17/VII/31	—	**Yugoslavia**	—	7/X/31	VII/32

Source: League of Nations (1937, p. 218). Argentina, Brazil and Uruguay corrected according to respective chapters in this thesis.

Although Bernanke & Carey (2000, p. 276) states that there is an 'emerging view' among scholars that the proximate cause of the Great Depression was the shortcomings of the interwar gold standard that explains the deflationary process of 1929-32, that consensus fades when the responsible countries, institutions and policies are considered. Some examples are given. The classic debate regarding its origin was that the Great Depression started exclusively in the US, as Friedman & Schwartz (2008) assert, or that it was the consequence of European mistakes, as President Hoover of the US insisted[425]. Friedman and Schwartz (2008) largely dismiss factors

[425] See Hoover (1952, pp. 2-5).

external to the United States and argue that no international deflation would have occurred if exchange rates had been allowed to float. Few found causes of the depression outside the US and Europe, apart from Latham (1981, p. 185), who ascribes a portion of its origin to Asian overproduction of rice (along with world surpluses of wheat). Smiley (2002, p. 57) states that the Great Depression did not start in the US, because by 1927 there were signs of economic contraction in Southeast Asia and Germany. Other authors, as Fremling (1985) conclude that it was not only the US that played an important role in the international transmission to other countries, but also the other developed countries. Eichengreen (2004, pp. 4-5), while stressing the role of US monetary policy in the depression, also is aware that at least France and Germany were independent sources of monetary deflation in the second half of the twenties. Indeed, the Poincaré stabilization raised French real interest rates in the second half of 1926, and in Germany, the President of the Reichsbank, Hjalmar Schacht, became convinced of the dangers of a speculative bubble in the spring of 1927, leading the German Central Bank to tighten credit.

Eichengreen (1990, p. 108) blames the interwar gold standard's unsatisfactory performance on the conduct of the authorities in France and other surplus countries who sterilized inflows of gold. Eichengreen (1992) also emphasises the role of international cooperation (or its absence) among central bankers. And Irwin (2010) concludes that France was somewhat more to blame than the United States for the worldwide deflation of 1929-33, because it increased its share of total world gold reserves from 7% to 27% between 1927 and 1932 and effectively sterilized most of this accumulation. Temin (1989) highlights the role of the United States and Germany in inducing deflation, but overlooks the role of the Bank of France. Temin (1976, p. 173; 1989) points out that the origin of the European crisis was the result of prior reductions in lending that weakened the European economies, and the weak position of Germany due to domestic rather than foreign influences. Temin & Eichengreen (1992) link the gold standard to deflationary policies adopted by various central banks, while either neglecting or denying any general reserve constraint. In any case, the commitment to the gold standard was so strong that it endured evident signs of economic distress in key countries, each of whom contributed in their own right to the full extent of the worldwide contraction and eventual recovery.

The literature identifies other possible structural sources of distress during the twenties than the gold standard. Temin (1976, p. 173; 1989) mentions various problems left by the First World War, including new political borders disrupting economic integration, war reparations and overcapacity in some sectors such as agriculture and heavy industry. Eichengreen (1992b, pp. 214-221) identifies three sources of instability arising from the changes in the economic structure during the First World War and the twenties. Firstly, one issue was the change in the composition of production. For example, the decline of the staple trades (iron and steel, coal, textiles and shipbuilding) and the rise of new industries in the UK (chemicals, electrical engineering, motor vehicles), increased the vulnerability to cyclical instability. Also the growing importance of credit instalments of the consumer durables debt in households' expenses can be linked to a heightened cyclical sensitivity. When income turned down, as in 1929, a small increase in the risk of job loss could act as a deterrent to households entering into new instalment contracts or an incentive to reduce other forms of spending so as not to miss a payment and risk repossession. Secondly, the labour market was affected by collective bargaining that restricted the downward flexibility of wages, while the generous unemployment benefits raised the natural rate of unemployment. Finally, the pattern of international settlements was affected by the deterioration in the competitive position of European exports, the payment of principal and interest on Germany's war debts that passed on from Western Europe to the US, the transformation of the US from a net foreign debtor to a net foreign creditor and the corresponding fact that New York surpassed London as the leading international financial centre. And linked to this last argument, Kindleberger (1973) adds the inexperience and insularity of the new potential hegemon, the US, and the ineffective cooperation among central banks that left no one able to take responsibility for the system as a whole. These trends increased the dependence of the global commercial and financial system on continued lending by the US, so that any interruption of lending would force severe dislocations to the borrowers.

In this chapter we address the fall of the gold standard ideology during the twenties and its rapid collapse during 1929-1933. In doing this, we discuss briefly the role of the US, the UK, France and Germany and contrast the evolution of the system in those countries with the fast departure from ABU. The underlying idea is to verify how vulnerable ABU were to the inaction that many governments suffered from in spite of the evident deflationary forces. We also focus on the kind of monetary and exchange rate policies that replaced the gold standard orthodoxy.

i. The role of the core countries

The US monetary policy has been blamed for the severity of the Great Depression. As explained by Clavin (2000, pp. 96-97), the Federal Reserve disregarded international considerations, the rules of the gold standard and the principles underpinning central banking cooperation. Ahamed (2009) remembers that the Central Bank cooperation until 1928 rested on the precarious footing of the personal sympathies and similar views among the Governor of the Bank of England, Montagu Norman, the President of the Reichsbank of Germany, Hjalmar Schacht and Benjamin Strong, Governor of the Federal Reserve Bank of New York, who shared the same fear of inflation and the same common vision that the solution was to return to the gold standard. James (2001, p. 35-37) adds that when Strong passed away in October 1928, his successor, George Harrison, could not gather the same loyalty from his European colleagues. In this regard, the classic book written by Friedman & Schwartz (2008, p. 232) gives a major causal role to the US monetary policy for the Great Depression worldwide and argues that one contributing factor to this outcome was Strong's death, a man who left a power vacuum at the Federal Reserve and was replaced by a team less open to intervention[426]. The Federal Reserve contributed to the contraction because it wanted to increase its gold reserves[427]. For that purpose it increased the discount rate to 5% in July 1928, and to 6% in September and October 1929, the highest since 1921. After the crash the discount rate was reduced to 4.5% and then, in a series of steps, to

[426] However, Temin (1989, p. 35) completely disregards this argument on the grounds that Strong was a believer in the gold standard, and nothing would have changed if he was alive.
[427] Ibid., p. 289.

1.5% by April 1931, but it was too late[428]. Although the New York Federal Reserve Bank purchased securities to provide cash, this was quickly withdrawn and no further open market operations were conducted[429]. When the depression deepened, the Federal Reserve Board failed to pump money into the banking system after October 1930 to offset 'hoarding' by the banks and the public[430]. When Britain was forced off the gold standard and investors feared that the US would devalue as well, the Federal Reserve again deliberately contracted the money supply and raised interest rates in September 1931[431].

The monetary view of Friedman & Schwartz is contended in literature by many authors, with the classic debate being with Temin (1976, p. 169), who stresses an autonomous decline in expenditure and observes money supply adjusting passively to the falling demand. Furthermore, Temin holds that there is no evidence of any effective deflationary pressure between the stock-market crash in October 1929 and the British abandonment of the gold standard in September 1931. If that were the case, the deflationary monetary pressure should have been visible in the financial markets, but actually short-term interest rates declined steadily during September 1929-October 1931. Following Skidelsky (2009, p. 68), the Keynesian version is that private investment and consumption fell because of the collapse of the construction industry and the Wall Street crash. While construction declined because the supply of housing exceeded demand after 1925, consumption fell in response to the stock market crash. The depression was severe because the fall in private spending was not offset by an increase in public spending. And Fremling (1985) rules out the possibility that the US could have prevented or mitigated the worldwide depression through appropriate monetary policies. In spite of this debate, the fact is that as a consequence of the high interest rates, capital exports began to fall steeply from the US, reducing in this way a key source of growth for the rest of the world during the twenties. As capital was mobile and exchange rates were fixed, higher interest rates in the US meant higher interest rates in the rest of the world as a result of interest arbitrage. Consequently, the restrictive turn in monetary policy in the US during 1928-1929 provoked an even more restrictive turn in monetary policy elsewhere, especially in Latin America and Europe. As a consequence, Canada, Germany, Argentina, Australia, Brazil and Poland contracted before the US. The one factor that insulated US economic activity from the effects of higher Federal Reserve discount rates, namely the reversal of US capital exports, further explains why other countries began to contract before the US. In addition, the contraction of the American demand, the release of the accumulated stocks and the fall of the American price levels, especially in agricultural products, led the way to the decline of world prices. The fall in US trade during the Great Depression had a big impact because of its significant share in worldwide trade and capital flows. The withdrawal of American capital and the effect on international trade of the diminished purchasing power of the US and the primary producing countries (as the case of

[428] US Discount Rates, Federal Reserve Bank of New York from www.nber.org, page visited in October 2012. Other authors such as Almunia et al. (2009, pp. 12-13) point out that during the Great Depression a liquidity trap emerged, so that diminishing interest rates did not stimulate the economy any more.
[429] See Smiley (2002, p. 64).
[430] See Skidelsky (2010, p. 68).
[431] See Romer (2003).

Latin American countries), combined with the fall in world prices, in turn, contributed to a path of depressions of the European industrial countries which further decreased the demand for goods produced elsewhere and depressed wholesale prices and world trade. Many countries resorted to isolationist policies, which added to the initial cumulative depressions and contractive monetary policies, resulting in an unprecedented decline in world economic activity[432]. A view from the South is given by Raúl Prebisch, who points out that the depression was aggravated because there was a basic blockade in the global economic system: the US had replaced the UK as the main creditor, but its high tariffs did not allow debtor countries to pay their debts to that country with exports. As a consequence, the rest of the world sent to the US gold that was not recycled in the international financial system[433].

Turning to France, this country is remembered for two outstanding facts. On the one hand, the depression was delayed in France. The franc was undervalued as it had returned to the gold standard on a very low parity in 1928 and held large gold reserves that provided a comfortable position. Thus, its industrial production did not recede until 1931, when the contraction of world trade, a rigid deflationary internal policy and the successive depreciations of the pound and the dollar combined to depress the French economy. In 1931 agricultural producer prices were falling rapidly, hurting the key agricultural sector and turning the farmers into the main victims of the crisis. The devaluation of the pound sterling in September 1931 had economic repercussions throughout the world as the gold prices of raw materials began to drop once again, after a significant lull. Then, in 1933, the devaluation of the dollar and other currencies also placed the franc and other currencies in an exposed position. For the first time since the war, French prices were higher by about 20% than English prices and those of other countries, so that foreign trade was damaged[434]. Eventually those forces finally affected France, which was among the last of the more developed countries in feeling the effects of the world slump. On the other hand, the French monetary policy has been pointed to as a reinforcing factor in the deflationary forces. Indeed, France became a destination for the world's gold, along with the US. Clavin (2000, p. 97) affirms that the monetary policy did matter, because it enabled a rapid accumulation of gold without a compensating loosening monetary policy. Eichengreen (1990, pp. 108-109) adds that among the various channels through which France influenced gold inflows, the absence of open market operations was the key, and this occurred because the Bank of France was precluded from conducting open market purchases by its statutes. According to Johnson (1997, p. 186), these legal constraints reflected memories of the inflation associated with the 1924-26 collapse of the franc as well as the political clout of rentiers, small farmers, and even industrial workers. However, there are other views. For example, Johnson (1997, p. 178) considers that whereas the post-stabilization capital inflows to Germany and Britain were induced by high interest rates, the subsequent flow to France was spontaneous, a result of an

[432] Many researchers have analysed the sequence of events that led to the transmission of the crisis from the US to the world. For example, Arndt (1944), Bernanke & James (2000), Eichengreen (1992), Eichengreen & Portes (1987), Eichengreen & Temin (2000), Eichengreen (1992b), Eichengreen (2004), Kindleberger (1973), Smiley (2002) and Rothermund (1996).
[433] See González & Pollock (1991, p. 462).
[434] See Sauvy (1969, pp. 22-24) and Rothermund (1996, p. 70).

attractive investment climate consequent upon low taxes and an undervalued currency. And Rothermund (1996, p. 70) affirms that the inflow of gold into France was paralleled by a 40% increase in the circulation of banknotes between 1928 and 1931. While the United States, Great Britain and Germany were in the grip of deflation, France enjoyed a stimulating inflationary trend.

In any case, the US and France had a key role in the gold standard's asymmetry between surplus and deficit countries because they were prone to accumulate gold indefinitely without the incentive to expand domestic supplies and inflate[435]. Thus, both countries received a massive influx of gold and accumulated around 60% of the available gold worldwide[436]. And this trend entailed a high risk, not only because the sterilized gold inflows in the US and France meant a deflationary shock for the rest of the world, but also because other countries were forced to use the available foreign exchange as reserve. Whenever the commitment of the reserve core countries (the US, the UK and France) to convert their currency into a fixed parity of gold was put to the question, the rest of the world would be negatively affected by a vicious circle of deflationary policies as many countries would sell their foreign exchange into gold to protect themselves from a the massive outflow of gold and to remain in the gold standard[437].

Germany's slide into depression began as early as 1928, and many historians believe that the causes of the decline were mostly domestic. A key weakness was the dependence of Chancellor Hermann Müller's government on foreign loans to finance its expenditures. The decline in foreign investment meant that state, regional and municipal budget deficits began to grow at an alarming rate. By 1929 key local governments, including Berlin and Cologne, were facing bankruptcy. In this context, a run on the Deutsche mark and a drain on gold in June and July of 1931 unfolded[438]. The run on deposits took the form of withdrawals across exchanges and the rapid depletion of the Central Bank's international reserves[439]. The reserve ratio of German banks fell sharply as depositors withdrew money from banks. The reduction was concentrated almost entirely in the six great Berlin banks, who sold short-term bills to the Reichsbank to replenish their reserves[440].

The origin of this crisis is a matter of debate. On May 11th 1931 it became public that the Bank Vienna Credit Anstalt failed to publish its annual accounts, and that the Austrian government was forced to guarantee the deposits of the ailing bank, placing the convertibility promise in doubt[441]. This failure initiated a banking panic that spread to the neighbouring German financial

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435 Bernanke (2008) and Temin (1993), among others, agree on the significance of this characteristic of the gold standard in the downturn.
436 See Temin (1989, p. 20).
437 See Irwin (2012, pp. 7-8).
438 Many authors have addressed the experience of Germany during the Great Depression and its role in European depression. Among them Ferguson & Temin (2001), Temin (2008, 1989), Clavin (2000), Kindleberger (1973), James (1992) and Hardach (1976).
439 See James (1992, p. 601).
440 See Temin (1989, p. 94).
441 See Wolf & Yousef (2006, p. 10). International politics also played a role. It is widely maintained that the Austrian Credit Anstalt closed its doors as a consequence of French withdrawals of credits as a punishment for

system, as well as to Hungary, Czechoslovakia, Romania and Poland[442]. However, James (1992, p. 595) argues that the extent of German financial involvement in Austria was very limited, and it would be impossible to argue that the Austrian developments directly weakened German institutions. He asserts that the German weaknesses and difficulties in the sphere of public finance and the structural weakness and unsoundness of the local banks played a significant role in the crisis because it led to a general loss of confidence in financial markets[443]. Following Ferguson & Temin (2001), in the first half of 1931 the expectations were that Germany's chronic budget deficits would be monetized. These expectations led to a currency crisis and deposit withdrawals on May and June of that year. Another contributing factor pointed out by James (1984, p. 71) is the enactment by the government on June 5th of an Emergency Decree which imposed new privations, including higher consumption taxes and civil service wages and social benefit reductions that dragged down demand. For this reason contemporaries refer to the German Premier Brüning as the 'Hunger Chancellor'. Furthermore, authors such as Temin (2008, pp. 14-15) and Clavin (2000, pp. 124-125), among others, link the crisis of confidence to the government's *Tributaufruf* statement on June 6th 1931 indicating that Germany was using the 'last power of reserves (...) to tell the world: the limits of privations we have imposed upon our people have been reached'. The statement raised questions about Germany's ability to pay off its overseas debts and drastically undermined creditor confidence. In addition, the monetary authorities hesitated to undertake expansionary policy to counteract the economic slowdown or to devalue, in spite of the deteriorating economic situation[444].

There were two strong elements preventing the Germans from devaluing. On the one hand, any devaluation would have devastating balance sheet effects on the public finances because the reparations agreement fixed its obligation in dollars of constant gold content. But probably more influential was the perception that the memories of hyperinflation could unleash collective hysteria in case of abandonment of the gold standard. Hence to limit losses of gold and foreign exchange reserves, Germany imposed controls that affected capital movements as well as trade finance[445]. And this decision not only deepened the economic downturn, but also proved to have a profound impact on the future of Germany and Europe, as the political turmoil deteriorated. After the elections of September 1930, the strong electoral performance of the Nazi and Communist parties deprived the Brüning regime of any hope of parliamentary support. As Clavin (2000, p. 94) recalls, despite domestic causes of the downturn after 1930, in the eyes of the German public, internationalism and reparations were responsible for the crisis. The

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the proposed Austrian-German customs union, which France objected on the grounds that it was contrary to the Treaty of Versailles. See Kindleberger (1973, pp. 149-150).

[442] See for example James (2001, pp. 51-63) and Kindleberger (1973, pp. 152-153). With this background, Bernanke & James (2000, p. 96) concludes that the European financial crisis was at least partially independent of American developments.

[443] See James (1984, p. 71). However, Temin (2008, p. 16) disagrees with James. In his view, the German crisis was a simple currency crisis, caused by government policies incompatible with the fixed exchange rate, and not by any actions of German banks.

[444] See Romer (2003, p. 5).

[445] See Eichengreen & Irwin (1995, p. 10).

deteriorating economy only fuelled the increasing support of political extremists, notably Adolf Hitler, that eventually led to the collapse of the Weimar Republic.

The contagion in continental Europe reached the UK two months later, although in this case there were also internal conditions that made it vulnerable. During the twenties, British economic progress was not commensurate with that of other advanced industrial countries. The UK returned to the gold standard at the old parity in 1925, but it was unable to generate the pre-war income from foreign investments, so that it was increasingly hard to cover the cost of imports when demand was high. Thus, the Bank of England's interest rate had to be raised to attract short-term capital and retain its gold reserves, subordinating in this way the domestic market to the maintenance of the gold standard. Meanwhile, the social situation deteriorated as unemployment and civil strife prompted strikes as early as 1926. Thus, the UK was already in a weak position when the German banking crisis of 1930 spread and added to the worldwide downturn after 1929. In July 1931, a flight from sterling began, in what Temin (1993, p. 93) describes as a financial panic that did not know national boundaries. Financial pressure spread to Britain as trade credits extended to Germany by British merchant banks were frozen. The British depositors lost faith in their banks and currency. Previous increases in interest rates could not prevent gold losses, and the rising unemployment made the Bank of England reluctant to raise interest rates further. As a consequence, the need for intervention by a lender of last resort became an unavoidable decision[446]. The British government did not defend the pound through budgetary retrenchment either[447]. Finally, on September 19th 1931, the UK abandoned the gold standard and allowed sterling to depreciate, in a move that had worldwide repercussions.

In order to understand the difficult choices that the policymakers worldwide had to deal with after the British departure from gold, we have to return to the role of the gold standard. Recalling Temin (1993, pp. 89-90), the Great Depression was transmitted internationally by a gold standard ideology, a mentality which decreed that external balance was the priority and that the speculation beneath the booming stock market in New York was dangerous. Following the reasoning of Irwin (2012, pp. 43-46) illustrated in Figure 19, in the first place the countries under the gold standard faced a difficult trilemma of economic policies in maintaining the gold standard parity, independent monetary policy and open trade. And taking the words of Krugman (1999, p. 61): "the iron law of international finance is that countries can achieve at most two of the three". In turn, for the countries that remained under the gold standard, there was another difficult choice between abandoning the convertibility by imposing exchange controls, as most Latin American countries and Germany did, or maintaining the convertibility but imposing trade controls as the gold bloc did.

Every country had to make a 'golden' choice after Britain's abandonment of gold between abandoning the gold parity, as the sterling bloc did in 1931, or not. As gold began to flow back

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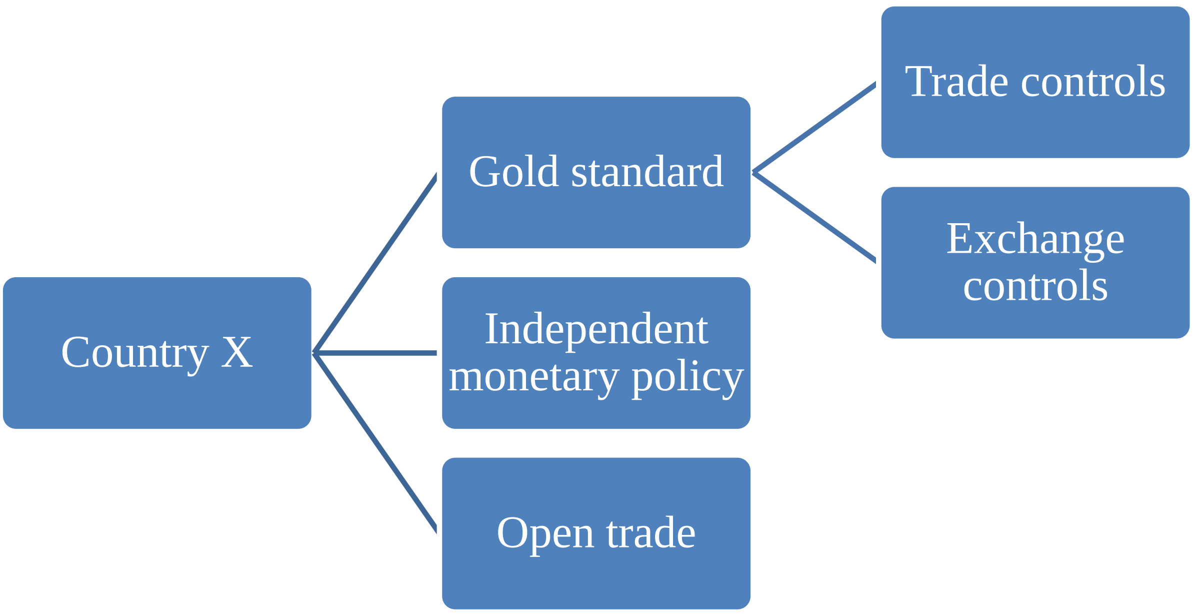
[446] See Eichengreen & Irwin (1995, p. 10).
[447] See Obstfeld & Taylor (2004, p. 137).

to the UK, many countries were forced to impose exchange controls or to devalue to curtail the outflow of the precious metal. Within days, countries such as Denmark, Finland, Japan, Norway and Sweden allowed their currencies to depreciate relative to gold. It was the beginning of a worldwide war of competitive devaluations. According to Eichengreen (1992b, p. 233), currency depreciation in the thirties was 'beggar thy neighbour' because shifting demand towards the products of domestic industry satisfied their growing demands for money and credit by importing gold and capital from abroad. Their reserve gains were reserve losses for countries still on gold. During September - October 1931 exchange controls were imposed by several countries such as Argentina, Austria, Bolivia, Colombia, Czechoslovakia, Greece, Iceland, Uruguay and Yugoslavia[448]. Although Germany did not devalue, the free purchase and sale of currency that was the hallmark of the gold standard was no longer allowed. The government continued to speak of Germany as being on the gold standard because the mark was maintained at parity, even though currency controls violated the fundamental activity of the gold standard and made the maintenance of parity a purely administrative matter[449]. The US became the outstanding international short-term debtor left on the gold standard. It faced the threat of a withdrawal of deposits and the dollar was vulnerable to attack in a similar way to in continental Europe[450].

Figure 19 Trilemma of economic policies and the gold standard parity

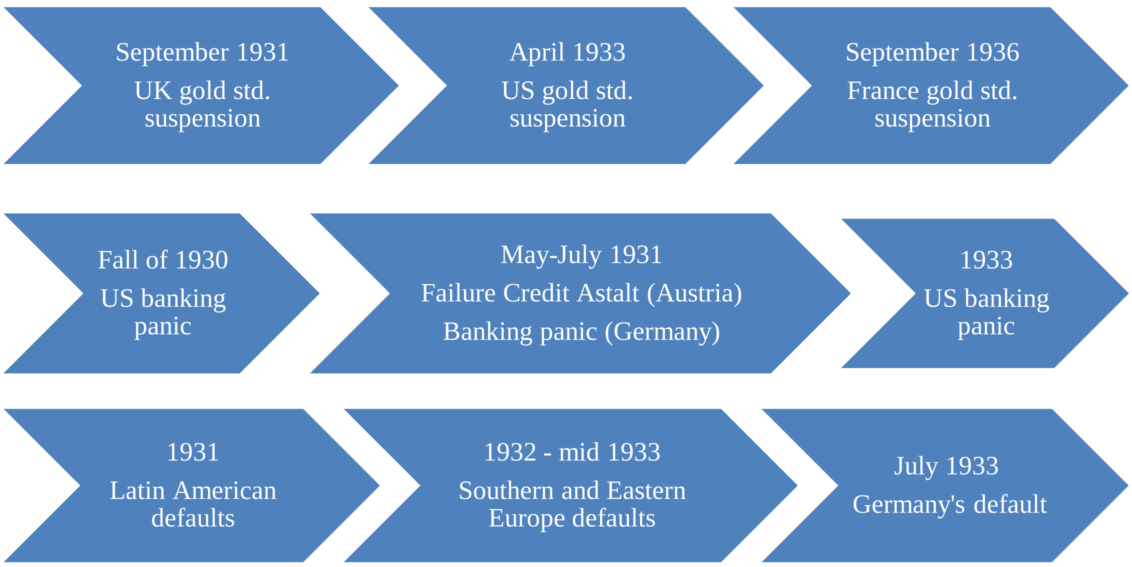


[448] See Gordon (1941, pp. 54-55). The British depreciation was almost universally viewed as a policy failure. Regarding this, Kindleberger (1973) affirms that Britain's devaluation was bad for the rest of the world, whether it helped Britain itself or not. Temin (1989, p. 74) considers that it was a limited policy success because it improved the trade balance and provided a stimulus to domestic production.
[449] See Eichengreen & Temin (2000, p. 203).
[450] See James (1992, p. 603).

It was in the end politics that broke the gold resilience. The electorate voted in November 1932 for a candidate that did not sound at all like a gold standard fanatic. Roosevelt fulfilled his mandate by abandoning gold shortly after taking office in March 1933 and then reaffirmed this decision at the London World Economic Conference in July[451]. For the French, there was a strong association of national pride with the maintenance of the gold standard. They claimed that sound money and fiscal austerity was necessary to keep economic stability[452]. Officials even blamed the depression on the failure of other countries to embrace the gold standard mentality. The Federal Reserve Board and the Bank of England, it was alleged, had succumbed to the lure of managed money. Having refused to obey the rules of the gold standard, they had committed ‘abuses of credit’. Not surprisingly, only after the election of 1936 that brought to power the Popular Front, France ruled out deflation[453]. Given the choices made by different countries, it is possible to affirm that international exchange patterns during the thirties were consistent with four currency blocs: the sterling area; a group of inconvertible currencies tied to the German Reichsmark; a group that never joined or left the gold standard at various points, including Spain (never on the gold standard), Argentina and Australia (formally delinked from gold in December 1929), Canada (October 1931), Japan (December 1931) and the United States (April 1933); and a residual gold bloc, of which Belgium, France, the Netherlands and Switzerland were the last remaining on the gold standard[454].

In Figure 20 we summarize a sequence of outstanding landmarks of the Great Depression, including the parallel processes of the suspension of the gold standard, the banking crises and the defaults of the foreign debts that allowed countries to deal with imbalances and eventually led to the recovery.

Figure 20 Gold standard, banking panics and debt defaults



[451] See Eichengreen & Temin (2000, p. 205).
[452] See Bernanke & James (2000, pp. 16-17).
[453] See Eichengreen & Temin (2000, pp. 195-196).
[454] See Eichengreen & Irwin (1995), Griffiths (1987), and Arndt (1944), among others.

The world economy could only recover when the contraction policies of the gold standard were abandoned. Moreover, as concluded by Choudhri & Kochin (1980) and Eichengreen & Sachs (1985), among others, the sequence of abandonment determined the timing of recovery. Those countries that operated on fixed exchange rates suffered a severe contraction in both output and prices; those which were not in the gold standard and maintained a flexible exchange rate system such as Spain, virtually escaped the Great Depression; and those that allowed their exchange rate to float in the middle of the depression, also enjoyed greater independence in relation to the fixed exchange rate countries. Many countries were also forced to default on their foreign debt, due to the drought of foreign loans and the collapse of tax revenues from foreign trade. The defaults unfolded in three stages: the first in 1931 by mostly Latin American countries, a second stage from 1932 to the middle of 1933 throughout Southern and Eastern Europe, and the third coincided with the Monetary and Economic Conference of 1933, with Germany's default notorious[455]. The previously-analysed banking panics in many countries were also a natural outcome of the Great Depression that contributed to the demise of the gold standard.

ii. Argentina, Brazil and Uruguay, leading the flight

As we have seen, each country had to face the difficult trilemma of economic policies in maintaining the gold standard parity, independent monetary policy and open trade. In this section we see how ABU chose their way out of the gold standard.

Devaluation, depletion of foreign reserves and exchange control

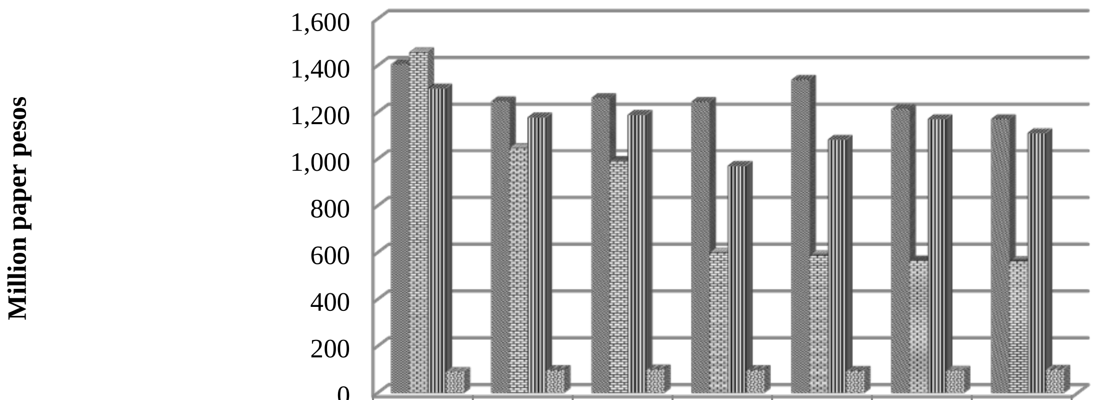
As mentioned before, during the period 1928-1929 Argentina was suffering from the outflows of capitals -fundamentally due to an US tighter monetary policy- and therefore, because of the fact that Argentina was in the gold standard since 1927, an important exodus of gold occurred. According to figures taken from the League of Nations' yearbook (1935), as Figure 21 details, whilst in 1928 the gold stock (in Conversion Office and banks) was the equivalent of 1,457 million paper pesos, in 1930 it was around 30% lower. And during the period 1931-1934 that figure was around 60% lower. This scenario is not a surprise because the government proceeded to close the *Caja de Conversión* (Currency Board) in December 1929, with the subsequent suspension of the gold standard and also stopped defending the value of the peso by means of intervening in the foreign exchange market. However, gold reserves continued to fall in part because the government withdrew gold to pay its foreign debt. These measures were taken during the second half of 1929, just after the collapse of the Wall Street Stock Exchange. When the crisis started to bite, exports decreased, imports did not decrease, capital outflows continued and government expenditures increased. As a consequence, the Argentine peso started to depreciate, prompting a potentially severe exchange rate crisis. And probably if the government had not decided on the closure of the Currency Board, the depreciation of the peso would have been much worse. Along with this situation, it is also possible to appreciate the money supply

[455] See Eichengreen & Portes (1990, p. 74).

contraction through the decrease in the note circulation, but this fall was mild in comparison with international standards because of, as we will see, the active polices implemented by the government. The notes in circulation (state notes) by the public and banks, were 11% lower in 1929 than in 1928 and 17% lower by 1934. Also, deposits in current accounts decreased around 25% from 1928 to their lowest point in 1931, starting to increase in 1932 and to decline again in 1934. As Figure 21 shows, bank savings deposits remained quite stable in the period of analysis at around 95 to 100 million pesos reaching their lowest point in 1932.

With regard to changes in interest rates, in this context they increased due to gold outflows and the depreciation of the peso. For example, according to della Paolera & Taylor (1999, p. 570) during 1928-1932 the bank's discount rates increased from 6.3% to 7.1%. And according to figures from the League of Nations (1936b, p. 260) for the same period, the yields on government bonds increased from 6.08% to 7.15%. However, from their peak in 1932, interest rates started to decline. For example, in 1933 the bank's discount rate was 6.1%.

Figure 21 Argentina: The money supply



	1928	1929	1930	1931	1932	1933	1934
Note circulation	1,406	1,247	1,261	1,245	1,339	1,214	1,171
Gold stock	1,457	1,048	991	600	589	566	564
Deposits in commercial banks	1,302	1,178	1,189	971	1,083	1,171	1,111
Saving bank deposits	90	97	100	97	94	95	99

Source: compiled from Statistical yearbook of the League of Nations 1934/35 (1935) from official budgetary documents. Economic Intelligence Service. Geneva. Notes: a) note circulation by public and banks; b) gold stock in Conversion Office and banks; c) deposits in commercial banks make reference to the deposits in the most important domestic banks, including the *Banco de la Nación*, and Argentine branches of foreign banks representing in all about 95% of total deposits in 1925; current accounts exclude inter-bank deposits; and d) P.O. (post office) savings only.

After taking information from the League of Nations' yearbook (1934, p. 201) the peso depreciated in relation to gold in November 1929 when the value of the paper peso reached 98.6% of its gold parity (2.27 paper pesos = 1 gold peso)[456]. In addition, as Table 65 shows, in December 1930, one year after the closure of the Currency Board, the peso had depreciated around 16% against the pound sterling and the dollar relative to 1928. However, in 1931 the world suffered a significant banking crisis originating in Europe, and when in September of that year the UK suspended the gold standard and the sterling depreciated (as well as the currencies

[456] See League of Nations (1934b, p. 201).

of the members of the British Empire as the main competitors of Argentina), the depreciation of the peso was higher, 35% and 46.5% respectively, using the same base year. Thus, part of the frozen funds of the Currency Board was used by the government to intervene in the foreign exchange market to avoid the growing depreciation of the peso**.** In this scenario, Argentina took a transcendental measure whose effects lasted for the next fifty years[457]: the imposition of exchange control in October 1931. It did so a few months after Uruguay and almost two years after the Brazilian temporary exchange control of January 1930 that lasted until the end of the First Republic in October that year.

Table 65 Argentina: Peso quotations in pounds and US dollars

Year	**Pesos per pound**			**Pesos per dollar**		
1928	11.500			2.358		
1929	11.600			2.391		
1930	13.300			2.738		
1931	15.500			3.455		
1932	13.700			3.886		
1933	13.400			3.233		
1934	**Average ask**	**Average bid**	**Free market**	**Average ask**	**Average bid**	**Free market**
	15.500	17.600	19.900	3.075	3.494	3.953

Source: Balboa (1972, p. 159-160) [458].

At first, the exchange control was an improvised system and although nobody knew how long this policy could last, it proved at least temporarily successful. Since by mid-1932 the balance of payments deficit had been eliminated and the frozen pesos partly financed the government or eased the credit shortage in the financial system. But then, in November 1933, just after the suspension of the gold standard and devaluation in the US, Minister Pinedo reformed the system in order to comply with the Roca-Runciman Treaty and searching for a rapid recovery for the Argentine economy. The reform not only was aimed at ensuring funds for the British remittances and to divert trade to the UK[459], but also at guaranteeing prices to producers, among others.

[457] Argentina implemented exchange control during 1931-1981 applying over time several modifications. For more detailed information about the Argentine exchange rate policy see Fundación de Investigaciones Económicas Latinoamericanas (1989).

[458] Until the imposition of the exchange control the quotations are from the Buenos Aires market; later and until 1933 averages are obtained from official quotations. Since 1934 the quotations of the free market established in December 1933 and the average buying (ask) and selling (bid) rates from the official market are added. During the periods that multiple buying and selling rates existed, a weighted average was taken according to the foreign currency amount that was negotiated at each rate. It is important to note that to calculate this average the exchange rate negotiated in the transaction and not the daily exchange rate was taken into account (Balboa, 1972, p. 172).

[459] As a result of this treaty, British gains were achieved at the expense of US exporters (as well as Japanese and Italian exporters) rather than Argentine manufacturers. One can note the latter in the fast rate of growth of

The exchange control allowed the government to take advantage of the differences between buying and selling rates in the official market so that it could manipulate foreign trade and fiscal revenues at the same time. An important consequence of the reform of the system of exchange control in 1933 was that the discriminatory allocation of scarce foreign currency combined with high tariffs prompted an increase in transaction costs for importers. Hence, following the line of reasoning of Rock (1991, p. 26), many US exporters decided to set up operations in Buenos Aires, so that a welcome effect of these policies was the attraction of foreign direct investment (fundamentally from the US), which encouraged import substituting activities[460]. Certainly, the US investment was making rapid headway in Latin American countries, and in the case of Argentina the main investments were in chemicals, pharmaceutical industries[461] and textiles.

In 1932, according to Table 65 and as a response to the implementation of the exchange control, the peso started to appreciate against the pound but without reaching the level of 1928. Nevertheless, it continued depreciating against the dollar until 1933. Given that the US was the main supplier of Argentina, this situation meant high costs for the economy. Then, in 1933, when the US devalued in April of that year, in average terms, the peso appreciated against the dollar and the pound and in November the government decided to devalue. As Rock (1991, p. 20) argues, this devaluation was an effort to promote exports and help farmers. In December 1933 as a product of the introduced modifications to the exchange control system a free market was established. Table 65 shows the quotations in the free and official markets for 1934 due to the introduction of a dual exchange rate system.

The devaluation boosted grain exports and during following years triggered inflation[462]. Certainly, this devaluation maintained purchasing power because of its positive effect on export and import competing activities and by reversing the falling trend in domestic price levels during the period 1930-1933, a situation that had transferred income away from entrepreneurs with net debtor positions[463]. And, since the devaluation generated unexpected profits for exporters, the government appropriated a portion of it, Minister Pinedo declaring as much in a congressional debate. However, the original bounty did not last long, because once the exchange was established, domestic prices continued to increase to the point that the income vanished and the exchange differential (and later export taxes) came to amount to a tax burden for the export sector[464].

In 1934, when signals of recovery started to appear, one can appreciate that in the free market the peso depreciated 48.5% against the pound relative to the previous year and 73% relative to 1928. This depreciation was much higher than in the official market. In the free market the

import-substituting industries, e.g. cotton textiles. More than 50% of Argentine imports from the UK were made up of textiles and carbon coke.

460 See Díaz Alejandro (1970, p. 265).

461 See Villanueva (1975, pp. 71-72).

462 See Rock (1991, p. 25). The cost of living in Buenos Aires rose by about 25% from mid-1934 to mid-1936.

463 For example, in comparison with the US, by 1934 the Argentine devaluation meant that domestic wholesale prices were a bit above their 1929 level whilst in the US the wholesale price index for all commodities in 1934 was more than 21% below its 1929 level (Díaz Alejandro, 1970, p. 96).

464 See Cortés Conde (2009, p. 97).

depreciation of the peso against the dollar was less than against the pound, reaching 22% relative to 1933 but 67% in comparison with 1928. It was higher than the official market, too.

In Brazil, the underlying problem hanging over the economy was the exhaustion of the gold reserves, which forced extraordinary measures. From October 1929, the combined effect of a stronger fall in export receipts than in imports and the outflow of capital due to internal political instability and an external deteriorating economic situation forced the authorities to take drastic actions. Blaming the sudden drain of gold on the excess of imports and on the desire of the foreign banks to create obstacles, the government increased tariffs, contracted debt with the *Banco do Brasil* and prohibited the foreign banks to overdraw from their headquarters. The prohibition on foreign banks forced their local branches to operate only with their own local capital and deposits, without the support of their headquarters abroad. Hence, credit extended by those international banks inside Brazil contracted and the already high interest rates soared[465]. In January 1930, the Ministry of Finance introduced temporarily an exchange control and the *Caixa de Estabilização* allowed the outflow of gold, which continued to run away from the country until March 1930, hence contracting the monetary base and fostering the deflationary pressures in the economy[466]. Table 66 illustrates the striking collapse of the country's gold reserves, which fell from 150 million dollars in 1929 to 11 million in 1930 and went depleted during 1931-1933. This trend tends to confirm the thesis of Franco (1985, p. 403), who asserts that the depreciation of the currency and the exchange control was more a consequence of the drain on the foreign reserves than a conscious innovative policy.

Table 66 Brazil: Central monetary gold reserves (million US dollars)

	1928	**1929**	**1930**	**1931**	**1932**	**1933**	**1934**
Brazil	149	150	11	-	-	-	4

Source: League of Nations Statistical Yearbook 1935.

In any case, Brazil was the first of our three country cases to establish exchange control, a feature that can be linked to the commitment of the Luís administration to the gold standard rationale and the fact that this country was the weakest in terms of gold reserves. It also needed to secure economic stability to win the elections of 1930 and to ensure the transmission of the executive power to President-elect Júlio Prestes. However, under the pressure of vanishing gold in spite of the exchange control, one of the last measures taken by President Luís was to abandon the gold standard in practice in October 1930, a year after Argentina did so. This measure became official with the closing of the *Caixa de Estabilização* on November 22nd 1930 by the new revolutionary government[467]. A few days later, with the foreign reserves almost depleted, the *Banco do Brasil* retired itself from the exchange market on December 7th 1930 in order to save what was left of them and convertibility was suspended.

[465] See Salgado Guimarães et al. (1982, p. 56).
[466] See Fritsch (1988, p. 156).
[467] See Smith (1934). However, according to the League of Nations (1933c, p. 265), for Brazil "the gold standard has not been legally established since the war".

The immediate consequence was the devaluation of the Brazilian currency, in a trend that became the main adjustment variable of the Brazilian economy to face its external imbalances[468]. During 1930 and 1931 the Brazilian currency in terms of milréis per US dollar was devalued by 10.2% in 1930 and 52.4% in 1931, as can be seen in Table 67. The behaviour in relation to the British pound is similar, except for the strong revaluation of the milréis after the UK abandonment of the gold standard, followed by a similar move of the US dollar in 1933. The matter was also a political issue, used by the provisional administration. Indeed, Vargas blamed the decline of the exchange quotations on the Luís administration, because it allegedly exhausted the national credit, contracting loans which totalled £43,673,500 and $142,780,000 and squandered the reserves in remittances abroad of more than £33,000,000, thus weakening still more the country's economy. Furthermore, Luís was blamed for leaving uncovered exchange estimated at not less than £14,000,000, of which £11,000,000 went through the Exchange Department of the *Banco do Brasil*[469]. It is important to point out that the devaluation of the Brazilian currency was a trend shared with Argentina and Uruguay.

Table 67 Brazil: Exchange rate milréis per US dollar and British pound (1928-1934)

	1928	**1929**	**1930**	**1931**	**1932**	**1933**	**1934**
Milréis / dollar	8.35	8.47	9.33	14.23	14.04	12.56	11.87
Var %	-1.1	1.4	10.2	52.4	-1.3	-10.6	-5.5
Milréis / pound	40.67	41.16	45.36	64.59	49.28	53.25	59.81
Var %	-0.9	1.2	10.2	42.4	-23.7	8.0	12.3

Source: calculated from Lawrence H. Officer (2011).

Another important alteration to the Brazilian exchange occurred after the US abandonment of the gold standard in 1933. The country depended upon its sales of coffee to the US for the greater part of the exchange required for all its foreign commitments, and the amount of dollars it was obtaining for a given quantity of coffee was worth about two thirds in other currencies what it was worth previously. This juncture added to the fact that the price of coffee in dollars had fallen in the previous few months[470]. The Financial Times reported that the London market was taken by surprise by the news of November 14th, 1933, that the *Banco do Brazil* had pegged its official sight rate on London at 60 milréis to the pound sterling, a value slightly above the average rate recorded in previous months. This linking of the milréis to sterling was significant because the US was the principal market for coffee which still constituted over 70% of the total of Brazilian exports. With the sharp depreciation in the dollar, the *Banco do Brasil* adjusted this rate so as not to let the milréis follow the dollar plunge[471].

[468] See Abreu (1986, p. 52).

[469] Extracted from the speech of Mr. Getulio Vargas, Provisional President of the United States of Brazil, delivered on October 3rd 1931, in the first anniversary of the Revolution of 1930. Attached to note from the British Embassy, Mr. J. Garnett Lomax, to Sir Otto Niemeyer, dated 18th November, 1931, in FO 371-15064, p. 408.

[470] See note dated September 8th 1933, from the British Embassy to Foreign Office, signature not legible, in BT 11/157.

[471] See The Financial Times, November 15th 1933, in CRT 203/33, part of BT 11/157.

In Uruguay, the combination of international economic and politic turmoil, as well as the continuous fall in the international terms of trade contributed strongly to the persistent fall in the value of the peso, which accordingly forced the authorities to increasingly intervene in the economy. Exporters and cattle farmers were affected not only because of the fall in commodity prices, but also because of the overvalued official exchange rate applied to the proceeds from their exports in order to stop the depreciation of the Uruguayan currency.

Indeed, according to the data provided by Maubrigades (2003), Vaz (1984) and Nahum (2007) reproduced in Table 68, in 1930 the peso depreciated around 14% with respect to the dollar and the pound sterling. But in 1931 the authorities faced a serious exchange rate crisis, as the peso depreciated 85.3% against the dollar and 44.1% against the pound, with the difference possibly a result of the British abandonment of the gold standard that year. In 1933 there was a significant appreciation of the peso against the dollar due to the US devaluation. Then, by 1934, most of the Uruguayan main trading partners or competitors had depreciated or devalued their currencies, including Argentina, the US, the UK and the whole British Empire, among others. The Uruguayan response could not possibly be other than to devalue, so that the peso lost ground in relation to the dollar around 44%. As a matter of fact, the depreciation of the national currency was a policy shared one way or another with Argentina and Brazil, although the fall of the Uruguayan peso was the most significant.

However, by mid-1931, the continuous fall of export prices which affected roughly one-fourth of meat and one-fifth of wool export receipts, along with an increase by one-fifth in import expenses and the foreign debt obligations, determined the biggest foreign imbalance since 1920. The consequence was a deep fall in the value of the peso of 65% during July-August 1931 and the last resort was the export of BROU's gold for a value of 5 million pesos[472]. Eduardo Acevedo described the events as 'panic' because of the people's fear of having to buy foreign exchange at higher exchange rates. In other words, there was a run on the currency, and the government had to stop it.

Table 68 Uruguay: Peso quotations in US dollars and pounds

	$/USD	**Var %**	**$/£**	**Var %**
1928	0.979		4.740	
1929	1.020	4.2	4.940	4.2
1930	1.160	13.7	5.670	14.8
1931	2.150	85.3	8.170	44.1
1932	2.110	-1.9	7.360	-9.9
1933	1.680	-20.4	6.980	-5.2
1934	2.413	43.6	6.370	-8.7

Source: average exchange rate dollar (ask and bid) from Maubrigades (2003) and Vaz (1984) and for pound sterling from Nahum (2007). Note: legal parity 4.70 gold pesos = 1 £ and 0.96 gold pesos = 1 USD.

[472] See Acevedo Álvarez (1934, pp. 83-97).

Regarding the terms of trade, in Table 69 we present a series that must be taken with care, because it is subject to several limitations already described in the "Introduction" of the thesis. The resulting series suggests that the country's competitiveness fell during the first years of the Great Depression. In spite of the accentuating depreciation path of the peso, Uruguay was hit by an abrupt fall in the country's terms of trade from 1929 to 1931. Not surprisingly, the worst year was 1931, when the British abandoned the gold standard and the terms of trade index fell 39%.

Table 69 Uruguay: Evolution of the terms of trade

	1929	**1930**	**1931**	**1932**	**1933**	**1934**
International terms of trade (1928=100)	96.2	81.1	61.0	68.2	86.4	106.1

Source: calculated from Bértola (1990, p. 140); base year was recalculated to 1928.

In relation to gold reserves, Uruguay managed during the twenties to overcome the scarcity of gold with new international debt issues, so that the international balance of payments remained relatively stable. Even, by mid-1928 the international financial situation had not significantly affected Uruguay and the country held significant gold reserves of 72 million dollars, equivalent of 9 months of imports[473]. However, the Great Depression provoked a scarcity of foreign currency that made it difficult to keep previous levels of income and consumption[474]. As mentioned, the trade surplus was reduced significantly during 1929 and in 1931 there was a trade deficit. After the remainder of the Hallgarten loan was gone, the peso started to depreciate during 1929. Thus, in this scenario, the government took advantage of the law of October 18th 1918 that allowed the BROU to dispose of the gold reserves in excess of 55 million pesos, and as it held gold reserves worth almost 70 million pesos, it used the difference to cover the 1929 foreign balance of payments deficit that amounted to 23 million pesos[475]. Although it is a distinctive characteristic of Uruguay that it did not run completely out of reserves, the downward trend of the Uruguayan gold reserves can be observed in Table 70, especially during the period 1928-1932. As we will analyse in detail, Uruguay nevertheless chose to apply an exchange control that was functional in September 1931.

Table 70 Uruguay: Central monetary gold reserves (millions of US dollars)

	1928	**1929**	**1930**	**1931**	**1932**	**1933**	**1934**
Gold reserves	72	68	61	53	48	50	48

Source: League of Nations Statistical Yearbook 1935, p. 240.

Now, comparing the performance of the three countries, Table 71 illustrates the demise of the gold standard through the fall of gold reserves. It is possible to appreciate that even though in the three countries there was a noticeable reduction in the central monetary reserves during 1930-1931, only in the case of Brazil were they depleted. This can be attributed to the stronger

[473] Figures calculated from the League of Nations Yearbook (1935, p. 240).
[474] See Damonte & Saráchaga (1971, p. 115).
[475] See Acevedo Álvarez (1934, pp. 48-72).

allegiance of the Luís administration to the gold standard and the need of the Brazilian government to avoid a collapse before the failed Prestes' administration's inauguration.

Table 71 ABU: Central monetary gold reserves (million US dollars)

	1928	1929	1930	1931	1932	1933	1934
Argentina	473	405	411	252	248	238	238
Brazil	149	150	11	-	-	-	4
Uruguay	72	68	61	53	48	50	48

Source: League of Nations Statistical Yearbook 1935, p. 240.

On the contrary, for Argentina and Uruguay, the availability of a generous stock of gold was a matter of national pride and security more than a proof of their allegiance to the gold standard ideology. They were indeed constrained by the fact that their main trading partners and lenders were in principle committed to such a system, but for Argentina and Uruguay, a fast departure from the gold standard was not a taboo, it was just a necessary measure in light of the circumstances. For these countries, losing all foreign reserves was simply not an option to follow a declining ideology imposed from the core.

In this regard, it is relevant to point out the number of import months covered by the gold reserves as another indicator of the relative vulnerability of each country. As Table 72 shows, while Uruguayan reserves covered in 1928 roughly 9 months of imports, the Brazilian ones only 4 months. This suggests that from this point of view that Brazil was the most vulnerable and Uruguay the least.

Table 72 ABU: Gold reserves, average monthly imports and number of months in 1928 (million US dollars and number of months)

	Central monetary gold reserves (a)	Average monthly imports (b)	Number of months (a)/(b)
Argentina	473	67	7
Brazil	149	37	4
Uruguay	72	8	9

Source: Calculated from the League of Nations Statistical Yearbook 1935, p. 240, Figure 12, Table 42 and Table 43.

The fall of the gold standard can be also traced through the devaluation of the national currencies. All three countries witnessed a strong devaluation of their national currencies during 1930-1931, especially against the US dollar. However, the case of Uruguay is again interesting because in spite of the fact that it held significant foreign gold reserves, the reluctance of Uruguayan authorities to burn them is consistent with the strong path of currency devaluation. The Uruguayan peso suffered the stronger devaluations. Indeed, in Table 73, we see that especially in 1931, the devaluation of the Uruguayan peso triples the devaluation of the Argentine peso, and is more than 30% higher than the Brazilian milréis devaluation. And even though the Brazilian authorities ran out of foreign currency in 1930-1931, as a matter of fact, the Brazilian milréis actually revalued in 1932, in a similar way as in Uruguay. However, it is worth noting that, by contrast, while the Argentine devaluation of 1931 was the lowest of the three countries, in 1932 Argentina was the only of the three that devalued. Further, the instability of the Uruguayan peso continued strongly in 1934 and to a lesser extent in Argentina, influenced by the devaluation of November 1933 in the latter. Something similar could be said with regard to the exchange rates with the British pound, although the devaluations of the Brazilian and Uruguayan currencies are similar in 1931 (see Table 74). The appreciation of the currencies in 1933 against the US dollar is more a consequence of the departure from the gold standard of the US, rather than a sign of strength of ABU currencies. All in all, if the average annual devaluation during 1929-1934 is taken into account, it is quite clear that the Uruguayan peso fell on average much more than its neighbours, especially against the dollar. It is not the same case with regard to the British pound, but the devaluation against the dollar is more relevant because foreign trade was handled mainly in US dollars.

Table 73 ABU: Exchange rate variation - Local currency per US dollar

	1929	1930	1931	1932	1933	1934	Average 1929-1934
Argentina	1.4	14.5	26.2	12.5	-16.8	8.1	7.6
Brazil	1.4	10.2	52.4	-1.3	-10.6	-5.5	7.8
Uruguay	4.2	13.7	85.3	-1.9	-20.4	43.6	20.8

Sources: for Argentina, from Balboa (1972, pp. 159-160); for Brazil, calculated from Lawrence H. Officer (2011); and for Uruguay, from Maubrigades (2003) and Vaz (1984).

Table 74 ABU: Exchange rate variation - Local currency per British pound

	1929	1930	1931	1932	1933	1934	Average 1929-1934
Argentina	0.9	14.7	16.5	-11.6	-2.2	31.3	8.3
Brazil	1.2	10.2	42.4	-23.7	8	12.3	8.4
Uruguay	4.2	14.8	44.1	-9.9	-5.2	-8.7	6.6

Sources: for Argentina, Balboa (1972, pp. 159-160); for Brazil, calculated from Lawrence H. Officer (2011); and for Uruguay, average exchange sterling from Nahum (2007).

The closure of the Currency Board and exchange control in Argentina

By 1929 Argentina was under a currency board regime. Thus, due to the more attractive US interest rate, there was a significant gold flight in 1928 that created 'monetary tension'. This tension added to the impact of the Wall Street Stock Exchange crash in October 1929 and the slump in Argentine exports. In the middle of 1929 banks were losing reserves -aggravated by the bank's loans expansion-, the interest rates increased due to the constant and accelerated gold outflows and the peso was depreciating. As a consequence, the first measure of the Yrigoyen administration was to close the Currency Board in December 1929[476]. It was a decision that had been under debate for some months and preceded the closure of the Brazilian *Caixa de Estabilização* the following year. Since then, issues were nonconvertible and individuals could not withdraw gold[477]. The closure of the Currency Board avoided a greater loss of reserves and

[476] Of the 36 countries which suspended the gold standard between April 1929 and April 1933, Argentina was the second country to do so after Uruguay (Alhadeff, 1986, p. 103), although there are several debates to the present day about the adoption of the gold standard by the latter.
[477] See Campos (2005, pp. 538-547).

prevented a serious credit contraction. According to Cortés Conde (2009, p. 78), with less currency[478], the banks increased their reserves without renewing credit to customers, because the initial contraction of the monetary base was increased by the banking multiplier.

In this context and always with the ghost of the 1890 financial crisis in the minds of the authorities, they did their utmost to fulfil their financial obligations abroad in spite of the multiple suggestions to default. Part of the funds that were frozen at the Currency Board was used by the government to pay foreign debt, and part was spent on intervening in the foreign exchange market, in an attempt to avoid the growing depreciation of the peso. According to della Paolera & Taylor (1999, p. 576) for these transactions the Conversion Office continued to exchange gold pesos for paper pesos at new par 2.27. In this regard, Raúl Prebisch, the second man under the Minister of Finance during the provisional government, argued that the large quantities of gold exported for the debt service between 1930 and 1931 were meant to safeguard the value of the peso. The government believed that gold exports were necessary when the Conversion Office was closed to maintain confidence in the peso and prevent it from plummeting. In the event Argentina lost about half of its gold reserves in the space of two years[479].

After the closure of the Currency Board, Argentina began a close dependence of the money supply on the balance of payments. However, the fall in international prices, which was not compensated by a depreciation of the peso, only added more distress to the economy, especially in the agricultural sector, and these difficulties spread to other sectors. The great indebtedness of that sector to the banks threatened its solvency and that situation became more difficult due to the fact that the government itself was indebted to the same banks[480]. Thus, in this scenario, Argentina began an independent monetary policy, because as della Paolera & Taylor (1999, p. 573) argue, the government was conscious that even in the economies of the core, the power of fiscal policy was not able to insulate the economy from the recession. But, it lacked sophisticated policy tools, so that institutional innovation was not only necessary, but it was also a priority for the country's recovery. In this regard, authorities started to think of the possibility of having a Central Bank. For that reason, various projects were prepared with that purpose and the creation of the *Banco Central de la República Argentina* (BCRA)[481]. The project to create the BCRA and other institutions to give support to an independent monetary policy was built on the advice of the British expert Otto Niemeyer, who took as a model the banking reform in

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[478] The fall in money supply was around 17% between 1928 and 1934. See also Figure 21.
[479] See Alhadeff (1986, p. 104) and Figure 21.
[480] See Cortés Conde (2009, p. 80).
[481] Projects to create a Central Bank and to sanction the first legislation for the regulation of banking activity in Argentina were put forward before Pinedo took office in 1933. In January 1931, the provisional government declared itself openly in favour of creating a Central Bank, and a project was put forward under Minister Perez. A few months later, Minister Uriburu presented a new banking scheme based on the revaluation of Argentina's gold holdings. Minister Hueyo abandoned this idea, and prepared instead a law regulating banking activity and rediscount operations. In 1932 the government asked Sir Otto Niemeyer for advice, and early in 1933 he submitted his plans for a Central Bank and a banking law. Economic recovery, however, became apparent only towards 1934. It was after that date that the financial reforms were eventually made into law (Alhadeff, 1986, p. 112).

India. The efforts were successful as they ended with the creation of the BCRA in 1935, whose main objective was to control and regulate the money supply fluctuations as well as to clean up the financial system[482]. It was also created the *Instituto Movilizador de Inversiones Bancarias* (IMIB - Institute for Mobilizing Bank Investments), designed to buy the nonperforming loans from the private banks in exchange for bonds. This innovation would be called nowadays as a 'bad bank', in charge of receiving and selling the toxic assets[483].

In the meantime, in order to face the crisis Uriburu's government decided to assign a new role to the Conversion Office. In 1931, it deviated from its previous money-creation rule and started to rediscount commercial papers from the *Banco de la Nación Argentina* (BNA, Bank of the Argentine Nation), applying the controversial 1914 Law. Then, rediscounts based on government debt, which meant deposits as a portion of the bonds from the Patriotic Loan authorized in 1932, were allowed. This expansionary attempt prevented a severe monetary contraction and permitted the financing of the government. In fact, by that time, the big bet for Argentina was an imminent change of monetary regime. In relation to this, della Paolera & Taylor (1999, p. 568) argue that that was crucial to Argentina's recovery between 1931 and 1933 in that it helped to avoid a devastating collapse of prices and potentially of output. After that, Cortés Conde (2009, p. 83) argues that in 1933 and 1934 the government pursued a more contractive policy. Rediscounts at the Currency Board dropped slightly and according to the calculations from Figure 21, the currency dropped by 9.3% in 1933 in relation to the previous year and by 3.5% in 1934.

In relation to the sort of policy applied by the authorities, della Paolera & Taylor (1999) affirm that the Argentine government, instead of following the US and other countries terribly affected by the global crisis, chose to destroy deflationary expectations. With this purpose by 1933 the *ex-ante* extremely high real interest rates[484] were lowered. Thus, following the work of Temin (1989)[485] cited by della Paolera & Taylor (1999, p. 568), if we consider that the recovery of the Great Depression came through two channels: via the 'Keynes effect' and via the 'Mundell effect' and that Argentina was still tied to its intellectual and economic history with a fear of inflation, it is possible to think that there was no 'Keynes effect' in this area because the government did not inject money to stimulate aggregate demand directly. According to these authors, the channel through which the change in monetary regime based on institutional change

[482] The Central Bank, with funds from the revaluation, restocked the exhausted reserves of the banks, paid off government loans, and assumed its rediscounts to the banking system cancelled against the submission of credits that went to the IMIB (Cortés Conde, 2009, p. 103).
[483] See Cortés Conde (2010, p. 15). To this purpose, the government used 390 million pesos, more than 50% the amount coming from the revaluation (Ibid, p. 19).
[484] In this regard, Díaz Alejandro (1970, p. 98) states that the authorities were unable to stop the rise in interest rates during the worst years of the depression, creating an important obstacle to handling the economy.
[485] Temin (1989) argues that recovery from the Depression came through two channels. First, a direct injection of liquidity could lower interest rates and stimulate aggregate demand, something he terms the 'Keynes effect'. Second, a decisive change in monetary regime could convince agents to discard their pessimistic expectations of deflation, with favourable implications for economic activity via lower ex ante real interest rates, improved balance sheets and asset quality, and so on, all of which Temin terms the 'Mundell effect'. See also Eichengreen, 1992.

had real effects was via the destruction of deflationary expectations, which means the 'Mundell effect'.

With regard to the exchange rate policy, Argentina took a big step, intervening for the first time in the foreign market in March 1931[486] and then in October of the same year in an attempt to prevent a further depreciation of the peso. These interventions marked a clear departure from the recent past, as for many years Argentina had kept its official exchange rates fixed in sterling, although the country was not generally regarded as a member of the sterling bloc[487]. On October 10th 1931, following the example of numerous other countries and one month later than the suspension of the gold standard in the UK and the depreciation of the sterling, Argentina imposed by decree a system of *control de cambios* (exchange control). And it gave the management of the system to the newly created *Comisión de Control de Cambios* (Exchange Control Commission). All transactions in foreign currency had to be conducted through authorized banks in the Federal Capital, at a rate to be determined daily by the Exchange Control Commission. Furthermore, a January 25, 1932 decree, which revised the previous decree of October 10th 1931, required exporters to present a document showing previous permission in which all currency exchanges by the banks were detailed[488]. According to Prebisch (1991b, pp. 13-14), by this mechanism the government centralized the currency exchange in order to face the crisis and ensure the availability of funds to service the foreign debt. However, the first phase of implementation was completely improvised and under the pressure of circumstances.

The exchange control constituted a powerful instrument of economic policy and proved at least to be temporarily successful. Firstly, the government achieved control of the value of the peso and by mid-1932 the balance of payments deficit had been eliminated. One of the chief objectives of the *de facto* government of 1930-1931 had been reached. The strong depreciation of the peso by around 35-45% against the pound and the dollar in 1931 in relation to 1928[489] was used as an instrument to reduce the trade deficit. Secondly, the government did not hesitate to set priorities for the use of the currencies not only affecting different sectors but also the two great trading partners: the US and the UK. These priorities on the powerful official market included, as aforementioned, in the first place servicing the debt, followed by covering the costs

[486] In March 1931 it was reported in the City of London that the Argentine government had as its purpose a slight appreciation of the peso to allow trade, both exporters and importers, to arrange its finances without any fear of the disorganizing influence which a violent monetary readjustment would cause. A certain number of authors have insisted on the overvaluation of the Argentine peso between 1931 and 1933. But, it is difficult to know what exactly the natural equilibrium rate was. However, it is possible to conclude that a key objective of the Exchange Control Commission was to prevent any additional fall in the value of the peso (Alhadeff, 1986, p. 104). In this regard, according to a report of the British Foreign Office and the Board of Trade in "Exchange restrictions. Proposals regarding allocation of foreign exchange to UK requirements" in BT 11/215, the depreciation of the peso was more directly the action of the government and the peso was overvalued and the government had allowed it to get nearer to its true value.
[487] See League of Nations (1944, p. 47).
[488] See Cortés Conde (2009, p. 86).
[489] See Table 65 of the previous chapter.

of the ‘necessary’ imports[490], and finally providing the funds for public service companies such as railways[491]. But the results were not so satisfactory and there were various issues of concern. One of them was the so-called ‘frozen pesos’, which really helped to finance the government and strengthen the financial system. Railway companies, insurance and banks, among others, particularly British ones, were faced with the dilemma that their profits in pesos could not be converted into pounds to be remitted abroad. The total accumulated funds that remained frozen reached a significant volume. The holders of those unwanted pesos deposited a part of them in banks and another part in public bonds, lowering the interest rate. Furthermore, the Minister of Finance Alberto Hueyo feared for a possible depreciation of the peso if those frozen pesos were suddenly converted to pounds[492], a situation that could create more indebtedness for Argentina. In this regard, disagreements started between Vice-President Julio Roca, who was in favour of granting the solution to this problem to the UK, and Hueyo; resulting in the resignation of the latter two months after the signature of the Roca-Runciman Treaty[493].

Federico Pinedo took over in August 1933 as Minister of Finance and did not wait to implement an important series of innovative ideas. The devaluation of the US dollar in April had encouraged the devaluation of the peso in Argentina and strong decisions were needed. Thus, in November of that year the government reformed the system introduced in 1931 in a more planned and ambitious move than in earlier stages of the exchange control. By that time, the government was motivated by the idea of a gradual closing of the economy as part of a tough fight against the crisis. This change in the system, considering the shortcomings[494] of the old Exchange Control Commission, encouraged the formation of a new commission, so-called the *Oficina de Control de Cambios* (Exchange Control Office), which operated under the Treasury.

On the one hand, the new system established by law that, in order to cancel obligations abroad and prevent the accumulation of debts due to remittances, each and every import had to have permission from this commission. Furthermore, the government started to force exporters to sell to it the foreign exchange from their transactions, which it afterwards resold in open auction[495]. On the other hand, the government directly affected Argentine foreign trade, incorporating a dual exchange rate system, which meant that the peso had two recognised rates: the official rate and the free rate, but considering the existence of selling and buying rates we are in a scenario of multiple exchange rates.

The official market, regulated by the government, controlled the exchange of the traditional agricultural exports, which meant that the official rates were applied to most of the transactions that were carried out in the country. In this respect, it is important to clarify that the buying rates

[490] They were considered indispensable imports: raw materials for national industries, fuel, and so on (Cortés Conde, 2009, p. 86).
[491] See Prebisch (1991, p. 165) and Cortés Conde (2009, p. 86).
[492] See Cortés Conde (2009, p. 87).
[493] See Diario Hoy (February 13th 2005, p. 4).
[494] For example, although a decree of March 1933 allowed more transactions in the official market, the new norms could not be applied because of the lack of personnel at the commission (Cortés Conde, 2009, p. 86). See also “Memorandum on organization and operation of the Exchange Control Commission in Argentina” in “Exchange restrictions. Proposals regarding allocation of foreign exchange to UK requirements” in BT 11/215.
[495] See Rock (1991, p. 20).

were applied to traditional exports and selling rates to financial transfers and some imports declared essential[496]. In this regard, as one can see in Table 65, the buying rates applied to traditional exports were lower than the selling rates offered to importers[497]. Thus, there is no doubt that these rates were disadvantageous for importers. This feature, along with the lack of funds to face obligations and the imposition of import duties, encouraged the creation of a ‘black market’ in order to obtain foreign exchange for imports.

Then, in December 1933 the government authorized the existence of a free market. In the free market, the smaller amount of remaining foreign exchange was bought and sold freely. There, capital was channelled, as well as non-traditional exports such as industrial goods and imports of consumer and capital goods that companies needed. Although in the free market *laissez-faire* seemed to prevail, it is evident that the authorities used the free market as a sort of safety valve, controlling the spread between the official and free rates in various ways for the achievement of their priorities[498]. With reference to this situation, Cortés Conde (2009, pp. 96-97) argues that the government intervened in this supposedly free market with the pretext of preventing serious volatility and not to modify market trends. Without doubt, this is not a very credible argument! In this regard, the League of Nations (1944, p. 164) concludes that in Argentina the system was devised so as to insulate commercial transactions, the bulk of which were settled through the official market, from any disturbing fluctuations caused by capital transfers on the free market.

In addition, the year 1933 was a year marked by the pressure exerted by farmers on the government, which was reaching its zenith. In this regard, in an attempt to promote exports and help farmers, the government encouraged the devaluation of the peso in the framework of the ‘National Economic Action Plan’ of November of that year. Furthermore, in relation to ‘exchange differential’, ‘margin of exchange’ or what nowadays is called ‘spread’, obtained by calculating the differences between buying and selling rates in the official market, the government offered to use that differential to buy wheat from producers at a fixed price, then above the world market price[499]. In fact, the government implemented a mechanism of ‘support prices’ for grains through the *Junta Reguladora de Granos* (JRG, National Grain Board), which was established by the end of 1933 because their international prices had plummeted. Then, because the prices improved by 1934, the margin was primarily used to make payments on foreign debt.

[496] See Cortés Conde (2009, p. 96).

[497] In the official market, the devaluation was not great although a differential of 20% was established between the buying and selling rates (Romero, 2002, p. 66). In this regard, according to the Royal Institute of International Affairs (1937, p. 271) “it has been asserted that the rate for non-government transactions represents an artificial depreciation of the peso; but no real evidence has been adduced in support of such a conclusion and therefore the complaints continually made by British-owned railways companies that they are making enormous exchange losses are difficult to understand”. For more detailed information about the exchange losses of the British railway companies, see García Heras (1990, pp. 488-490).

[498] For more detailed information see Díaz Alejandro (1970, p. 102).

[499] The government also argued that this exchange differential would be utilized to pay the increased cost of service on the debt generated by the depreciation of the peso (for which the additional 10% tax was insufficient) (Cortés Conde, 2009, p. 97).

Finally, another important event in 1933, which brought out into the open the issues derived from the exchange control in Argentina, was the signature of the Roca-Runciman Treaty between Argentina and the UK. Certainly, the large amount of frozen pesos was a permanent obstacle in the bilateral negotiations between them. Thus, under this treaty Argentina bound itself to grant most-favoured-nation treatment to the UK in allotting foreign exchange for imports. In fact, the Argentine controls from 1933 were designed in order to secure systematically preferential allotment to the UK.

As Table 75 shows, practically all imports from countries with which Argentina had an export surplus were allotted foreign exchange at the official selling rate. Not only had the UK as the chief Argentine partner benefited from this arrangement, but also countries such as the Netherlands, Belgium and France. On the contrary, exchange for imports from other countries, fundamentally the US, had to be obtained largely through the free market at appreciably higher rates[500]. In this regard, international reports indicated that the UK had the ability to persuade Argentina to operate its exchange allocation in such a way as to increase its purchases of British goods! According to Chalmers (1953, p. 131), by 1934 the common characteristic in bilateral negotiations was the pressure exerted by each country for Argentina to provide exchange at the favourable official rate, without considering the volume of purchases of Argentine products by each of those countries. In this way, those claims took as a model the Anglo-Argentine treaty of the previous year. As in that case, the insistence of counterparts upon preferential exchange treatment being extended to traders and creditors in those European countries was based upon the fact that these countries normally had a need for imports of the main Argentine products more than Argentina did for their export commodities. The availability of foreign exchange in the free market, although at somewhat higher rates, tempered the restrictive effect of these agreements upon the possibility of sales in Argentina by producers in countries whose balance of trade was not favourable to Argentina.

The allotment of foreign exchange was also possible because of the so-called Roca-Runciman Loan. The UK granted a loan to Argentina to unfreeze the pesos. The treaty stipulated that the equivalent of 12 million pesos in pounds sterling remained available for remittances from Argentina to the UK during 1933, in order to make payments in cash up to a sum that would be determined by the UK government and that of Argentina, with regard in each case to balances in pesos that, until May 1st, 1933, were waiting to be exchanged to pounds sterling and remitted to the UK. It held that the Argentine government would issue bonds in pounds sterling in exchange for balances in pesos that may have remained on May 1st 1933, awaiting exchange in pounds sterling to be sent to the UK, after the 12 million paper pesos had been used up. These bonds were supposed to be issued at the same time, redeemable within five years, and were to accrue 4% interest annually. The conversion rate and other conditions of the bonds were to be negotiated by the Argentine government and a commission of the representatives of the holders of the bonds in question[501].

[500] See League of Nations (1944, p. 174).
[501] See Cortés Conde (2009, pp. 89-90).

After a description of how exchange control was working by that time, it is possible to conclude that with the early departure from the gold standard and the enactment of the exchange control, the Argentine government not only avoided a severe exchange rate crisis but also that it had a powerful weapon in commercial terms. The control of foreign exchange and the tariff policy gave Argentina discretionary powers with regard to imports. This country could regulate the amount of foreign exchange used to make payments on the foreign debt with the UK, as well as the amount used to buy British products or to remit the profits of British companies with operations in Argentina. In a context characterized by a scarcity of foreign exchange and strong demands from the US trade interests; this issue became extremely important for the UK.

Table 75 Argentina: Trade balances by main export destination (million US dollars)

Main countries	1928	1929	1930	1931	1932	1933	1934
United Kingdom	133	147	65	94	73	65	88
Netherlands	102	74	39	41	39	31	50
Belgium	51	58	20	26	28	26	28
Germany	46	-3	-27	-5	9	-1	8
Italy	17	-20	-35	-11	-5	-17	-9
Denmark	8	6	3	7	7	4	7
Brazil	8	4	-2	-8	-8	-3	-1
Sweden	6	3	1	5	3	2	0
France	3	14	-3	13	18	8	8
Chile	3	3	2	1	1	0	-1
Spain	-1	3	-16	-9	-2	-6	-5
Uruguay	-2	-2	0	1	0	3	2
United States	-103	-127	-87	-29	-18	-6	-22
All others	-61	-74	-65	-44	-29	-33	-42
Total:	**210**	**87**	**-104**	**83**	**116**	**72**	**110**

Source: calculated from "Trade Statistics of Sixty-Four Countries" in Memorandum on International Trade and Balances of Payments (various years). League of Nations, Geneva. Notes: a) special trade, only merchandises; b) original data expressed in gold pesos during the period 1928-1931 and in paper pesos during the period 1932-1934, in order to obtain the figures in current million US dollars, the US dollars/gold pesos exchange rates from Officer (2011) and the parity 1 gold peso = 2.27 paper pesos were applied; c) it is important to highlight that the values expressed in current million dollars are the closest possible to the transaction values taking into account the monetary and exchange rate instability for the period of analysis; and d) for 1928 and 1929, the figure for UK includes Irish F. State.

Short-lived allegiance to gold in Brazil

As Fritsch (1990, pp. 58-70) explains, between 1927 and 1930 Brazil was kept under the gold standard system with a fixed exchange rate. This was the logical approach of a country that was experiencing a positive influx of increasing primary products prices, an increasing influx of gold and foreign currency and favourable external credit conditions. In this context the gold standard prevented the monetary authorities from dealing with the increasing currency issues, so that economic activity could expand in a context of cheap credit, foreign and domestic, private and public.

Unfortunately, this recipe for the good times entailed grave vulnerabilities for the bad ones. Indeed, the adoption of the gold standard during cycles of foreign credit availability tended to increase the vulnerability of the peripheral countries by several means. The balance of payments, on which the monetary base ultimately depended, was heavily vulnerable to the single price of the most important export product, coffee, and the willingness of the foreign lenders to provide funds to the economy. The vulnerability increased as those two key variables were prone to change in the short-term. And if the imports were still at a peak, a fast trade balance and capital account deterioration could be expected, with a corresponding fall in the monetary base and the inevitable contraction of economic activity. This view coincides with the analysis of Alec Ford, cited by Salvucci (2006, p. 256), who argued that the automatic and smooth adjustment of macroeconomics under the gold standard was illusory. Furthermore for a peripheral economy engaged in exporting primary commodities, the operation of the gold standard amplified booms and busts rather than mitigating them, so that domestic adjustment to international imbalances was anything but smooth. In other words, the gold standard operated pro-cyclically in the periphery[502].

In spite of the evidence of strain in the economy due to the deflationary pressures, President-elect Prestes unsuccessfully tried to save what was left of the stabilization programme and negotiated access to new lines of credit in New York and London. He could not agree the terms with the American financial counterparts and the British kept pushing for a visit of a foreign mission to assess the real situation of the Brazilian economy (Fritsch, 1988). To this end, the famous mission headed by Sir Otto Niemeyer arrived on January 14th 1930, and produced an important report in July. The main suggestion was the reestablishment of the gold standard, for which the national budget was to be balanced, a Central Bank with the power to induce recession if necessary was to be created and coffee support was to be abolished. Nevertheless, the completely orthodox main recommendations of Niemeyer became obsolete in a few months' time, with the suspension of the gold standard in Great Britain.

From the monetary point of view, and in line with the gold standard, the Luís administration applied a restrictive credit policy that tended to exacerbate the downturn. During the second quarter of 1928 the reversal of the previously buoyant balance of payments position induced a reduction in the rate of growth of the Stabilization Office note issues, which stagnated by the end of the year. In Figure 22 the data from IBGE (2006) evidently shows the reduction, both in the money supply (M1) of 0.55 million contos de réis or 20.7% between the peak of December 1928 to the trough of September 1930, and the circulating medium of 1.22 million contos de réis or 23.4% between the peak of September 1928 and the trough of September 1930[503]. This

[502] According to Salvucci (2006, p. 260), "Brazil, for instance, was able to adopt the gold standard when ample capital imports allowed it to do so, but remaining there proved difficult. The domestic fluctuations in macroeconomic activity described by Ford occurred with an appreciating exchange rate (which raised opposition from coffee exporters); rising imports; a deteriorating balance of payments; and, inevitably, pressure to suspend convertibility altogether. The gold standard brought price rather than macroeconomic stability to Brazil, historians of its operation have concluded".

[503] The data hereby displayed follows the view expressed by IBGE (1990, pp. 513-514). Although the *Banco do Brasil* performed some functions proper of a monetary authority, it cannot be considered as such, and as a consequence the monetary base can be defined simply as the currency in the hands of the public and the banks, including the *Banco do Brasil*. There are several shortcomings in the data before 1945, and it is important to stress that most of it corresponds to estimates made by researchers from primary statistics made by the treasury or bank statements published over time. After June 1927, the currency issued includes the permissions of the national treasury, *Banco do Brasil*, *Caixa de Conversão* and the *Caixa de Estabilização*. The currency issued

assessment of monetary contraction is similar to a document in Salgado Guimarães et al. (1982, p. 56), which affirms that the measures of the *Banco do Brasil* provoked a contraction of 1.5 million contos in 1928, and continued well into 1929[504].

Indeed, the initial reaction of the *Banco do Brasil* during the second half of 1928 was to support banks and big companies in which financial stability was endangered by the sudden turnaround in credit availability and the monetary contraction from the diminishing *Caixa de Estabilização* issues. However, soon enough, harsh criticism was thrown at the *Banco do Brasil* from the supporters of orthodoxy, who feared the suspension of the gold standard and the conversion of the *Banco do Brasil* into a full Central Bank[505]. Those points of view prevailed and the bank reversed its position, by reducing the credit to the private sector, fostering a deepening of the downturn during the first half of 1929. The stagnation of the monetary base became a reduction, in line with the fall in the gold stocks held at the *Caixa de Estabilização*[506].

This debate about the proper response to the crisis prompted changes of policies and authorities during the Great Depression. Leão Teixeira, who replaced Mostardeiro Filho at the presidency of the *Banco do Basil* in August 1928, restricted sharply the bank's lending activities to the private sector by September 1928 in a move that contributed to the fall in the economy after November. With mounting bankruptcies, the business community complained about increasing difficulties for companies to keep working in a seriously contracting economy. The lobbing of the government resulted in the resignation of Leão Texeira on June 3rd 1929, who was replaced ad interim by Silva Gordo, then head of the Exchange Department and former President of the São Paulo Coffee Institute. Eventually, Silva Gordo was replaced in the *Banco do Brasil* presidency on September 1930, by the carioca banker and industrialist Guilherme de Silveira, in a move directed to re-enact the restrictive credit policy[507]. However, as already shown in Figure 22, the monetary policy was consistently restrictive during at least September 1928 - September

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by the *Banco do Brasil* was expropriated by the National Treasury in October of 1930 and incorporated into the treasury's own issue from 1931. Later, the bank issued new currency in 1930, but it was gradually retired until 1935. The *Caixa de Estabilização* was closed in October 1930 and the remainder of its issues was taken by the National Treasury. The remaining issues of the *Caixa de Conversão* lost their value from January 1931. As a consequence, from thereon the bills issued were only a responsibility of the national treasury. One shortcoming of the data is that it does not include the coins in circulation, but only the paper currency.

[504] See document from an unknown author dated November 1929, in Salgado Guimarães et al. (1982, pp. 56-57).

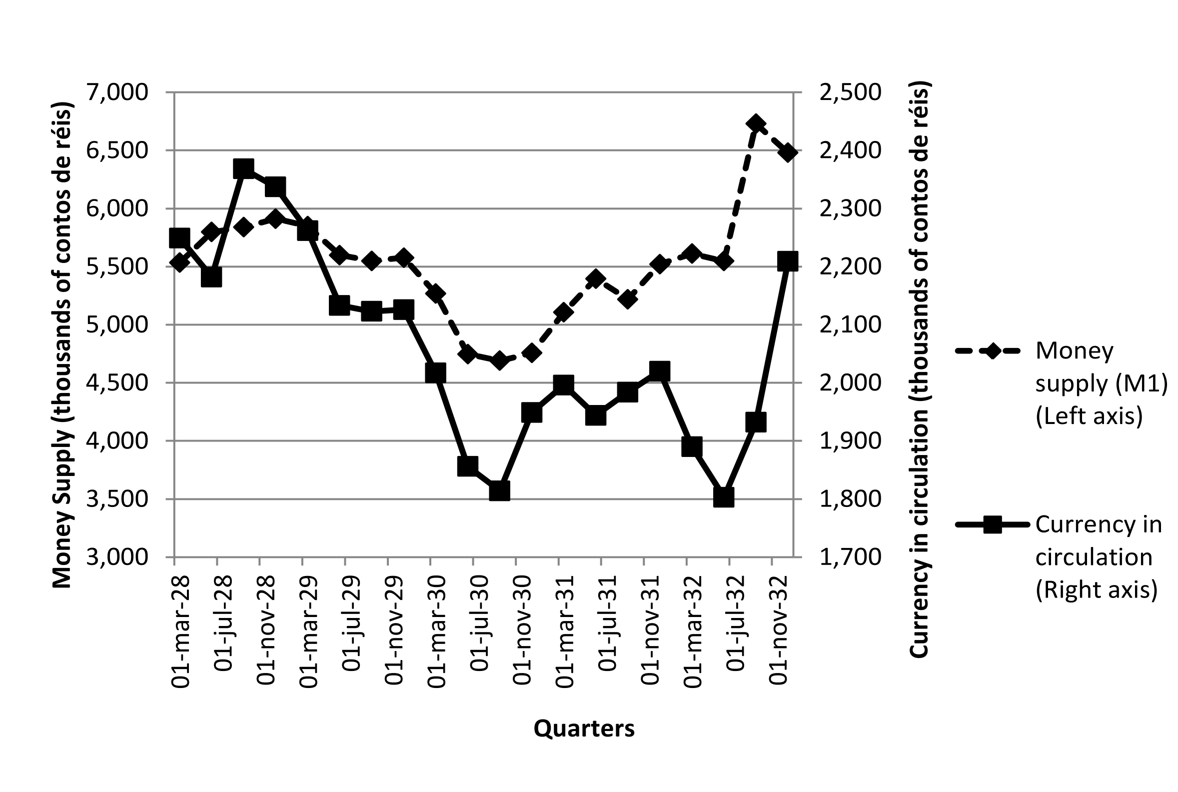
[505] To be more precise, the idea of a Central Bank was not understood as today, but a bank more in the lines of the gold standard orthodoxy. As described by Fritsch (1988, pp. 140) referring to the long standing debate for the establishment of a Central bank "This orthodox opposition to the proposed banking reform did not object in principle to the transformation of the *Banco do Brasil* into a Central Bank, but was utterly against taking any step in that direction before full convertibility was achieved at a revalued exchange rate. Most of all, they wanted to divest the monetary authority of all discretionary power to vary the monetary base, preferring a 1:1 gold backing on the lines of the pre-war Conversion Office (…)". And Washington Luís shared these views. Subsequently he would state: A Central Bank has to assume the obligation to make all our fiduciary currency convertible and should only issue notes convertible into gold and rediscount bills which can be converted into gold (...) It is easy to establish a bank to issue paper money and to open rediscount portfolios with paper money (...) However, its economic and financial effects are harmful, as the formidable losses suffered by all of us demonstrate" (Ibid., p. 56).

[506] See Fritsch (1990, pp. 60-61).

[507] See Fritsch (1988, pp. 147-151).

1930, even during the period of Silva Gordo at the *Banco do Brasil*. This restrictive policy certainly took its toll on economic performance within a context of global economic downturn.

Figure 22 Brazil: Money supply (M1) and currency in circulation



Source: IBGE (2006).

And contemporaries were aware of this policy. According to Simonsen (1930-1931, pp. 20-26), an influential *paulista* historian, politician and industrialist of the time, the Brazilian crisis was a result of the coffee overproduction, the international financial crisis, the deflationary policy of the *Banco do Brasil*, the political agitation and the lack of elasticity of the circulating medium. Regarding monetary policy, he argued that during 1929 the crisis was deepened by the *Banco do Brasil*. Instead of increasing the circulating medium to face the evaporation of the only source of growth, the foreign capital, the *Banco do Brasil* prioritized the stability of the currency value and accumulated deposits. In this way, approximately 300.000 contos or 10% of the circulating medium were held by the bank, and were not compensated by new issues of the Stabilization Bureau. The increase in the *Banco do Brasil* deposits and the relative unchanged value of issues, meant a contraction of the monetary base, and consolidated a deflationary policy in the first half of 1929.

This contractive policy added to the already mentioned political agitation of the second half of 1929 which contributed to the flight of capital, the increase of imports due to tariff reductions (especially in textiles[508]) and the relaxation of the coffee stock releases which reduced the value of coffee exports and contributed to the deterioration of the external position of the country.

[508] In 1928 a bill to lift the tariffs on textiles was introduced, which accelerated the imports of those products and contributed to damage the external position of the country (Simonsen, 1930-1931, pp. 23)

With the lines of credit nearly exhausted, the *Banco do Brasil* intervened in the market in March 1929 in order to avoid the outflow of gold, and the Coffee Institute did its own bit by contracting a new debt of 5 million pounds in London. However, the collapse of the New York Exchange in October started a worldwide crisis, commodity prices plunged and inevitably the brief stabilization achieved with those measures ended.

After the coup of October 1930, the new provisional Varga's government found itself with a worldwide depression and with a deteriorating Brazilian economic situation. To face this uncomfortable situation, Vargas appointed José Maria Whitaker, a lawyer, politician and banker from São Paulo, as his Minister of Finance. His policy was a sort of 'wait and see', mostly delaying the adoption of more radical economic policies while waiting for an improvement on the international economic situation and new loans that would restore the foreign balance of the country. The first exchange measures were oriented by primitive liberal rhetoric. The first measure was the suppression of the exchange monopoly established at the end of the old Republic in January 1930, under the assumption that it would prevent the economy from returning to normality.

In 1930-1931 an apparently liberal exchange policy was adopted, but it was mostly restrictive with several successive moratoriums on the foreign debt. Even though the monetary base was shrinking, there were no changes in the exchange regime. The efforts focused on reducing expenditures when possible, on raising taxes to balance the national budget and on using the remainder of the gold reserves to avoid as much as possible a full devaluation.

After it became quite clear that the international situation was unlikely to change in the foreseeable future, some decisions were taken in order to spare foreign currency. Whitaker only lasted until November 1931, when Oswaldo Aranha was appointed as the new Minister of Finance in November, a post in which he would remain until September 1934. Among his main decisions, he promoted a decree published on September 30th 1931 referring to the abnormal situation of all financial markets and to the necessity of controlling exchange operations in order to avoid speculation which would be to the general detriment of the country[509], and reintroduced the exchange monopoly under the *Banco do Brasil*. The sale of the export proceeds to the *Banco do Brasil* became mandatory and the distribution of the foreign currency was awarded according to priority in the following order: official needs and payment of foreign debt service; essential imports; other remittances, including dividends, imports in consignment and trade delays. The immediate consequence was that the difference between the official rate and the curb rate increased in October 1931. While the *Banco do Brasil* bought cheques at 60 milréis to the pound

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[509] The decree provided:

"(1) That export bills and money transferred abroad shall be dealt with only through the *Banco do Brasil*.

(2) That the cover thus acquired shall be apportioned among all the banks, having regard (a) to necessary requirements of the Federal government and the State governments or municipalities; (b) importation of goods; (e) other necessities as occasion demands.

(3) That questions respecting distribution shall be left to a special committee comprising a representative of the *Banco do Brasil*, the President of the Bankers' Association of Rio de Janeiro, and the President of the Bankers´ Association of São Paulo". See note from the Board of Trade signed by Mr. H. Fountain, dated October 9th 1931, in FO 371-15063, p. 119.

sterling, or slightly more, sterling had been brought at the Curb between 75 milréis and 80 milréis, and dollars from 17 milréis to 20 milréis [510].

The exchange control was essentially unchanged until 1934, when the non-traditional export receipts and other receipts not associated with exports were exempted from the control. By 1933 there existed concurrently three distinct foreign exchange markets in Brazil. The *Banco do Brasil* normally had complete control of exchange, and the first of the markets was the official exchange bourse centred in that institution. The second was known as the 'grey' market, which more or less had official cognisance - if not recognition - as it consisted of a percentage of export bills which was released to brokers by the *Banco do Brasil*. It was meant to provide exchange cover for some of the market requirements which the bank itself was not prepared to care for at the official rate. The quotation in the 'grey' market was roughly one-fifth above the official rate; thus there was a premium of 11 milréis in mid-October in the 'grey' market over the official 90 days' sterling rate of 55 milréis. There was a third market, known as the 'black market', where, on the same date, the rate was 71 milréis, showing, therefore, an even weaker exchange value than the 'grey' market. As late as October 19th, a new government decree made exchange operations illegal unless transacted through authorised banks, with the permit of the *Banco do Brasil*. The concealment of cover with respect to exports and the increase of prices of imported goods for the purpose of obtaining unwarranted exchange cover were actions liable to heavy fines[511].

In contrast to Argentina, even though the Brazilian exchange control during the thirties did not discriminate between countries according to their positive or negative trade balance with Brazil[512], the allotment of exchange was biased. For example, the funding loan mirrored the deteriorated bilateral relations between the new provisional government and the US. The difficult relationship was the result of the reluctance of the US government to accept the change of regime and its support for the old Republic, and opened the door for a brief resurgence of British influence, that was also supported by the availability of credit in better conditions offered in London at the time. It included a warranty for the payment of the service of the previous funding loans of 1898 and 1914, and stipulated that the payment of the rest of the federal debt would be paid with Brazilian papers of the 1931 funding loan. The amortization of the federal debt would be suspended and nothing was mentioned about the debt from Federated states and municipalities. Over time complaints mounted over the allotment of the scarce foreign exchange, which was clearly detrimental to American interests, and for that reason in May 1933 the American Chamber of Commerce made representations to their Ambassador, complaining that Great Britain was obtaining more favourable treatment[513]. And the British were aware of their advantage and chose not to press further the Brazilian government because the only serious complaints of preferential treatment were made by the Americans and others on

[510] See note from the Commercial Secretariat of the British Embassy to the Department of Overseas Trade dated October 20th 1931, in FO 371-15064, p. 362.
[511] See The Financial Times, article dated June 11th 1933, in CRT 203/33, in BT 11/157.
[512] See Abreu & Svirsky (1985, p. 548).
[513] See note from Mr J. Shaw from the Bank of London and South America Limited, dated January 11th 1933, in BT 11/157.

the grounds that Brazil allotted an undue proportion of her available exchange cover to repay the Rothschild consolidated overdraft[514]. Moreover, they concluded that the Americans, French and Germans were only getting their trade requirements, the Americans somehow more because of their investment in the power company *Empresas Elétricas Brasileiras,* but in general they 'grumbled bitterly' that the exchange was allotted to the British[515].

To sum up, the policy directed to ensuring the viability of the gold standard in Brazil would only work during a period of positive external balance. Most crucially, it depended on the continuity of favourable external economic conditions, which could change fast. In that case, the deflationary pressures from the automatic fall in foreign reserves would submerge the economy in a sudden downturn.

Uruguay and the dilemma of the exchange rate

In 1914 Uruguay declared the inconvertibility of the currency, but the value of the Uruguayan peso with regard to gold remained stable, although the convertibility and the free trade of gold could not be re-established again[516]. One of the biggest problems that Uruguay had to face was the exchange rate crisis. During the twenties, the BROU intervened in the exchange market, through open market operations, to keep the parity at the legal fixed exchange rate of 4.70 gold pesos per pound sterling and 0.96 gold pesos per dollar. In spite of the depreciation of the peso shown in Table 68, during the administration of the CNA the official exchange rate significantly overvalued the national currency. This feature could be considered counterintuitive for a country so pressured to promote exports and save hard currency in the turmoil of the crisis. According to Zunino (2009, pp. 14-15), there were two main objectives behind this policy: to ensure monetary stability as the priority and to prevent the contracting effect of the crisis on the purchasing power of wages. In this regard, it is important to comprehend that in a country with a limited internal market, strongly dependent on foreign intermediate and consumer goods (including oil), every depreciation or devaluation in the exchange rate translated quickly into raising internal prices, fuelling in this way inflation and consequently straining the relations between the government and the working classes.

In April of 1929, seven months before the crash of the New York Stock Exchange, and despite its best efforts, the BROU was forced to stop intervening in the market as its funds diminished dangerously and the country's external position continuously deteriorated[517]. Thus, the Uruguayan peso started to depreciate and the suspension of the gold parity became unavoidable[518]. It did so the same month as Argentina (December, 1929), and almost a year

[514] See memorandum Nr. 077 from the Commercial Secretary of the British Embassy, dated May 24th 1933, in BT 11/157.
[515] See memorandum Nr. 15 from Garnet Lomax, Commercial Secretary, dated January 27th 1933, in BT 11/157.
[516] See Román (2010, p. 11).
[517] See Díaz (2003b, pp. 114-115).
[518] The issue of whether Uruguay adopted or not the gold standard has been controversial. According to the League of Nations, Uruguay suspended the gold standard in December 1929 and added that in this country the gold standard had not been legally established since the war but it reverted *de facto* to the gold parity. In this

before Brazil (November, 1930). Recalling Table 68, the depreciation was very parsimonious, no more than 15% from the legal parity against the dollar and the pound by 1930. The government accepted this trend because it favoured exports, made imports more difficult, and tended to protect the national industry. But afterwards, as mentioned previously, the depreciation accelerated its pace and threatened to damage the economy whilst the cost of living increased too quickly. In this regard, it is worth mentioning that since the Uruguayan economy lacks an important internal market, trade and capital flows have always strongly conditioned the fate of the exchange rate, which in turn has directly influenced the cost of living, since most consumer goods are imported or produced locally from a strong dependence on foreign inputs[519]. However, it is not right to blame the Uruguayan peso free fall only on exogenous forces. The exchange rate crisis also could be explained by domestic factors. Evidence of this is that the peso began to depreciate in April 1929, some months before the crash in the US. For example, Díaz (2003b, p. 115) argues that the depreciation of the peso could have been a result of the strong growth of the BROU's credit to the private sector in the period 1924-1929, which increased at an annual average rate of 11%, well above 3% of annual GDP growth rate.

As a consequence of the great depreciation of the peso in 1931, the Minister of Finance, Javier Mendívil, established the *Comisión de estudio sobre la desvalorización de la moneda* (Commission to analyse the depreciation of the currency). This commission was composed of personalities such as Eduardo Acevedo Álvarez (later Minister of Finance), Ricardo Cosio, Emilio Frugoni, Octavio Morató (manager of the BROU), Carlos Quijano, José Serrato (ex-President of the Republic) and Luis Supervielle (banker), among others. It devoted its efforts to studying the depreciation of the currency and to analysing other alternatives for the monetary policy and allowed for a rich exchange of ideas. For example, Frugoni proposed the return to the gold standard arguing that the currency was strong enough from the point of view of

regard, Román (2010, p. 11) explains that in 1914 Uruguay, like other countries, had declared the inconvertibility of the currency and during the twenties the Uruguayan peso maintained its legal value in relation to gold, but the convertibility and the free trade of the metal were not established. The disjunctive on returning or not to the gold standard was a debated subject during the decade. On the other hand, Díaz (2003b, pp. 114-115) gives an interesting argument about the alleged suspension of the gold standard in an 'exchange rate crisis' context. Following this author, according to Yeager (1966) in 1929 the financial international press announced that Uruguay had left the gold standard. But, really, as Román argues, Díaz maintains that Uruguay had abandoned the system in August 1914, and it had never returned to it, unlike other countries (e.g. the UK in 1925 and France in 1928, whereas the US had remained in the gold standard through all the war and subsequently until 1933). Probably, the international observers had erroneously perceived that Uruguay had left the gold standard just in 1929 because until then the BROU participated in the exchange market to prevent the exchange rate from failing to meet the official parity; and when at a certain moment the BROU stopped doing it, the peso depreciated more than normal, in a move that was perceived as a change of regime, when in fact it was hardly a change of policy. That illustrates how 'a sufficiently managed floating exchange rate system' can reproduce for distant observers the same panorama as a fixed parity system. Nevertheless, if one takes the information provided by the League of Nations as the most official one (knowing that it should have been based on official Uruguayan sources) and the most suitable to do international comparisons for that period, although we know now that Uruguay only abandoned *de facto* gold parity, it is possible to conclude that the most suitable ending date for the gold standard in Uruguay is December 1929. But also in this respect, some researchers, such as Román (2010), maintain that the definitive suspension of the gold standard was in 1931 when Uruguay imposed the exchange control.

[519] Although the official records collected by Bertoni & Sanguinetti (2004) show null inflation for 1930, 1931 and 1934, we find that outcome most unlikely. However, for 1932 and 1933 data show a deflation of 1.8% and 4.9%, respectively.

consumption and production. However, Supervielle defended the free flotation system in force since April 1929 after the BROU was forced to withdraw. His argument was that the current flotation helped producers in a strongly recessive juncture. However, other members defended the thesis of the exchange control, a view that ultimately prevailed in the final report. The suggestions included the fixation of the price and quantity of money by means of direct intervention by the authorities and for that there were a variety of reasons. Quijano, Serrato and Acevedo Álvarez argued the inconvenience of exporting gold, Morató the need to avoid speculation and capital flight and again Serrato and Acevedo Álvarez the inadvisability of restricting the BROU's credit that the monetary discipline of the gold standard regime would suggest[520]. Thus, all these arguments coincided on disregarding the old belief that the gold standard system was suitable for boosting prosperity in that context.

In this scenario with the exchange rate more dependent on the market conditions of foreign currency and less on the gold backing of the national currency and as a result of the conclusions of the commission, it was unavoidable to intervene in the capital flows in order to support the official exchange rate. As we will discuss, during 1931-1932 the enactment of the exchange control, the ban on import goods considered competitive with the national production, the imposition of surtaxes on imports, the creation of the export controls and the creation of the *Caja Autónoma de Amortización* (Amortization Fund) were all measures taken with the aim of supporting the exchange rate at a stable level. However, this was not an easy task. The system was implemented by a 'trial and error' process, suffering continuous modifications, like in the case of Argentina. When considering the target for the exchange rate, the authorities not only had to take into account the availability of foreign reserves, but also the delicate balance between ensuring suitable profitability for the cattle farmers and exporters, keeping the cost of imported goods for traders affordable and maintaining the buying power of the incipient national industry and the consumers[521].

The *Contralor de Compra y Venta de Moneda Extranjera* or simply *contralor de cambios* (exchange control) was created by Law 8729 of May 29th 1931, which started to operate in September 1931[522] under the responsibility of the BROU as the country's currency regulator. This decision was one of the most transcendental ones in Uruguayan economic history, not only because it abolished the free exchange rate flotation that was in place since the BROU stopped its intervention in April 1929, but also because it became a permanent feature until June 1974[523]. It was also a measure that predated by approximately one month the Argentine exchange control, a situation that signals the close interaction of the policies applied by both countries at the time. Along with the already acquired position of promoting the economic activity granted

[520] See Díaz (2003a, pp. 315-316).
[521] See Damonte & Saráchaga (1971, pp. 387-388).
[522] According to the League of Nations Yearbook (1934) the formal imposition of this tool of monetary policy was in September 1931. Díaz (2003b, p. 117) affirms that the exchange control was totally implemented since October 1931.
[523] The exchange control was in force almost without interruptions between 1931 and 1974 with the exception of the interesting liberalizing experience of the Minister of Finance Juan Eduardo Azzini during the period 1959-1963. It ended in June 1974, with the Minister of Finance Alejandro Végh Villegas, under the harsh dictatorship that ruled the country from 1973 to 1985.

in 1928[524], the power of regulating the price and the quantity of foreign currency consolidated the BROU as a main actor in a new era of a state controlled economy.

The enforcement of severe controls was aimed at banning those dealings that did not respond to regular and legitimate economic and financial activities, preventing speculation against the Uruguayan peso and ensuring the availability of foreign currency in case of monetary imbalance or international crisis. But soon enough other objectives were pursued, such as balancing foreign accounts, increasing the tax revenue, boosting the national industry and diversifying exports. Thus, the need to create the export control arose and the so-called *Contralor de Exportaciones* (Export Control)[525] was put into effect by a law of October 16th 1931. This *contralor* forced exporters to sell all hard currency obtained from foreign trade to the BROU, at the official exchange rate under the assumption that this procedure would prevent hard currency from slipping into the black market. Furthermore, in the same year the *Contralor de Importaciones* (Import Control)[526] was also created, which prohibited economic agents from proceeding with payments abroad without proper licences issued by the BROU. But more importantly, this control mechanism enabled the government to further restrict the import of goods similar to or competitive with national production or from countries that did not offer conditions of reciprocity to Uruguayan exports. However, this sort of control was fully implemented by 1934[527].

One downside of the exchange control was the accumulation of unpaid debts (or blocked pesos' credits) by residents who carried out transactions abroad. The growing dissatisfaction with the exchange control, both at home and abroad, was evident. In this regard, the rural interests under the banner of the *Federación Rural* announced a demonstration meeting of producers; the British Chamber of Commerce had much to say in criticism; and both the US and Germany considered the problem so pressing that they dispatched official missions to Uruguay, as well as other South American countries, in order to formulate proposals for treaties, with a solution of the exchange problem as their basis[528]. Thus, the government was forced to propose modifications. In order to address this mounting problem, in July 1932 the *Caja Autónoma de Amortización* was created to assist importers and public companies in their payments abroad, by allowing them to spread out the payments and to give time to the national economy to face those payments[529]. The BROU assigned the highest priority in the distribution of the available exchange to the payment of interest and amortizable obligations at the *Caja Autónoma*. The remainder was assigned according to the following order of priorities: fuels, government inputs,

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[524] In 1928, the BROU had begun to assume the functions of an Institute of Development, as the industrial credit scheme was organized, and also the Fruit Market allowed the bank to extend financial assistance to producers with the products deposited on it as securities (Damonte & Saráchaga, 1971, pp. 120).

[525] See Law 8711/1931 and Decree of April 4th, 1935 (Zunino, 2009, p. 22).

[526] See laws of August 20th and October 10th of 1931, Decrees of July12th and August 1st, 8th, 14th, 20th and 24th of 1934, and Law 9440 from *Plan de Reajuste Económico y Financiero* (Economic and Financial Readjustment Plan) of November, 1934, enacted by Terra and his Minister of Finance Charlone (Zunino, 2009, p. 22).

[527] See Zunino (2009, p. 11-14) and Acevedo Álvarez (1934, p. 115).

[528] See note from the British Legation dated July 28th 1934 signed by A. Murray Simpson in "Uruguay Exchange and Currency Restrictions", BT 11/244.

[529] See Nahum (2008, pp. 141-142).

public services, inputs for the national industry, essential goods for the population and other obligations or needs[530].

In 1933, the creation of the '*tipo de cambio compensado*' ('compensated exchange rate') was probably the most important decision benefitting the interests of the cattle farmers after the coup of 1933 that overthrew the CNA and consolidated a government prone to favouring them[531]. This innovation granted up to a 40% bonus over the official exchange rate to some exports, which was in essence compensation to cattle farmers for the damaging overvaluation verified during the CNA's times. The compensation was at different levels for different export commodities and was intended to approximate the uncontrolled market rate. It was approximately the arithmetic mean between the official and the free exchange rates. Another important problem of the exchange control was that the parallel market evaded the official control and operated under a significantly higher value. For example, the official exchange rate was at least twice the free one in July 1934: the British pound was valued at 6.32 pesos at the BROU and 12.70 pesos in the free market, while the dollar was valued at 1.25 and 2.51 pesos, respectively. As per the compensated exchange rate, it was somehow between those ranges[532].

The official rate continued to be used to meet public and private external debt obligations and remittances. The differences between the official, the compensated and the free rates of exchange were so great that the ability of one particular importer among competing importers to act at the government controlled rate conferred him an absolute advantage. In order to illustrate this situation, the British Chamber of Commerce mentioned the case of an importer of a certain commodity, who after taking up $100,000 of gold bonds in respect of frozen funds accumulated up to 1932, found himself unable to obtain exchange for more than 20% of his requirements and had to cover the balance in the free market. At the same time his rivals were able to obtain official exchange, with the result that he found himself forced to abandon the market to them[533]. Another shortcoming of the exchange control was 'smuggling'. For example, it is possible to think that a considerable proportion of the 1934-1935 wool exports had been illicitly passed through as goods in transit, with the result that exchange in respect of probably some 16 million kilos had been lost to the open market. Furthermore, the figures cited by the newspaper *La Mañana* proved that there was ample exchange by that time to meet all of the country's obligations, but that about 30% of that exchange did not go through the hands of the Exchange Control Board for distribution and consequently was not available at official rates of exchange[534].

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[530] See Acevedo Álvarez (1934, p. 135).
[531] For more detailed information see for example Damonte & Saráchaga (1971, pp. 391-392) and Finch (1981, p. 107).
[532] See Acevedo Álvarez (1934, p. 134).
[533] See internal memorandum of the Board of Trade dated June 15th 1934 in "Uruguay Exchange and Currency Restrictions", BT 11/244.
[534] See note from the British Legation dated April 6th 1934, signed by E. Millington-Drake to Mr. Craigie in "Uruguay Exchange and Currency Restrictions", BT 11/244.

As a response, the government made an attempt to prevent illegal activities from taking place, and in a similar way to Argentina and Brazil, adopted a dual exchange rate system in 1934[535]. As such, the official market remained completely under control and was used for foreign trade. The other market operated with a *tipo de cambio libre* (free exchange rate), later renamed as *libre financiero,* which was recognized for the current account transactions on 'invisibles' and for transactions falling into the capital account[536]. In addition, in 1934 a *tipo de cambio libre dirigido* (controlled free exchange rate) was created that allowed the exporters to negotiate a percentage of their proceeds in hard currency from foreign trade in the free market with no other limitation than the obligation to exchange those amounts at designated banks that held corresponding import licenses. This rate followed the logic of the compensated rate but with the difference that it covered a greater range of export products, and as a consequence prompted a higher average exchange rate in the economy[537].

This complex system of *tipos de cambio multiples* (multiple exchange rates) affected the trade flows considerably. The reason for the imposition of this system was very evident: to subsidize some producing activities and to tax others. Not surprisingly, it was perceived more as a way of taxing primary production than a subsidy for goods with higher value added. In general terms, this scheme not only involved a sort of 'hidden devaluation', but also allowed the authorities to devalue in different proportions depending on the value added to the primary goods. With regard to imports, it was possible to regulate the percentage of devaluation according to the degree of competitiveness of the merchandise with the national production and an evaluation of its essentiality for the economy. It was an effective new weapon added to the protectionist arsenal. Indeed, the government chose to promote diversification of export by benefiting sectors with higher value added. For example, in the case of an export, the authority discretionarily resolved which percentage of the total value of the foreign currency obtained from each transaction was paid at the official rate and which at the compensated rate. As a rule, the higher the value added of the export good, the higher the compensated rate applied. According to BROU's regulations, the percentages of the exports that were paid at compensated exchange rate were as follows: farming produce, 100%; scoured wool, 70%; raw wool, 50%; dried ox-hides, 60%; salted ox-hides, 20%; and linseed, 50%. That meant, for example, that the exporter of raw wool received 1.86 pesos per dollar and the exporter of scoured wool 1.97 pesos per dollar, therefore representing a subsidy of 6.2% for the exporter of scoured wool or the equivalent tax for the less industrialized product[538].

Then, in 1934, the *Comisión Honoraria de Importación y Cambios* (Honorary Import and Exchange Committee) was created by a law of November 9th [539] as an institution in charge of

[535] See Bethell (1994, pp. 82-83).
[536] See Díaz (2003a, pp. 316-317).
[537] See Zunino (2009, pp. 13-15).
[538] See Díaz (2003b, p. 119).
[539] See translation of the law of November 9th 1934, establishing an Honorary Import and Exchange Committee, and providing for economic and financial readjustment, in "Uruguay Exchange and Currency Restrictions", BT 11/244:

the control of international trade in the framework of the ‘Economic and Financial Readjustment Plan’ promoted by Minister of Finance César Charlone[540]. The objectives of this plan included in Law 9400 were: a) to control and channel imports; b) to consolidate and pay the deferred exchange rate originated in unpaid commercial obligations after July 1932; and c) to use part of BROU’s gold with exchange rate stabilization purposes[541]. The honorary commission included a strong representation of employer's unions such as the chambers of commerce and industry, the *Asociación Rural* and the *Federación Rural*. The mechanism of control was for example as follows: if frozen beef was exported to the UK, the BROU received the corresponding British pounds for the transaction and sold those pounds at the fixed exchange rate to the importers designated by the *Contralor* or to the companies that requested ‘quotas’ of pounds to send to London as dividends of their shares in railway, tram, gas, etc. Thus, the government was not only controlling the imports, the trade balance and the balance of payments, but also defending the peso and protecting the national industry. In this regard, we agree with Nahum (2008, p. 161) that such a discretionary system allowed for the distribution of foreign currency or import

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“Article 1. An Honorary Import and Exchange Committee is hereby established, which shall undertake the individual distribution of exchange and shall grant import licences in accordance with the quotas which the Bank of the Republic shall fix periodically, by countries and groups of commodities, bearing in mind the available amounts of controlled "free" exchange and official exchange produced by exports to the various countries, and in accordance with treaties and commercial agreements already in force or which may be concluded hereafter.

The Committee shall assign to the different importing houses or firms individual quotas within each group of commodities. For this purpose the committee shall endeavour to obtain the collaboration of the various trade bodies.

In addition, the Honorary Import and Exchange Committee shall authorize the introduction into the country of articles or products when the importers can show that they possess the necessary exchange or bills, provided that the Bank of the Republic, which must first be consulted, is of opinion that the various groups of imports and the general interests of national economy will not be altered fundamentally or unsuitably thereby.

Notwithstanding the provisions of the preceding clauses, the Bank of the Republic may authorize the importation of indispensable foodstuffs in a proportion not lower than that of similar imports during the year 1933 plus 10%.

Any debt abroad, arising from the import of products or merchandise, which has been carried out in infringement of the provisions of the present law, shall be regarded as a simple natural obligation (article 1441 of the Civil Code); as a consequence no legal action may be brought for the purpose of compliance with such obligations.

Article 2. Import licences granted by the Honorary Import and Exchange Committee with official exchange or controlled "free" exchange will be in proportion to the exchange quotas assigned by countries, by groups and by different classes of exchange, the distribution of which shall be periodically by the Bank of the Republic, after retaining the sums necessary for its own requirements and those of the State.

During the remaining months of the present year the Bank of the Republic shall endeavour to arrange that the exchange quotas thus granted to each country shall not be less than 75% of the exchange produced by the export of Uruguayan produce to the respective purchasing countries. From 1st January, 1935, this percentage shall be regarded as a minimum.

These exchange quotas shall comprise

a) Payment for the respective countries exports to Uruguay;
b) Financial services of public and private debts, and of public services;
c) Freight insurance and personal drafts;
d) All transfers of funds for the respective countries.

Article 3. The Customs Houses of the country shall not deal with any import permits unless they have been previously furnished with a certificate of the corresponding license granted by the Honorary Import and Exchange Committee (…)”.

[540] See Bertino et al. (2001a, p. 17).

[541] See Román (2010, p. 16).

permits according to acquaintance and favouritism, beyond the national interest. As Díaz (2003a, pp. 317-318) explains, among several other analysts, these measures of 1934 completed a process in which the exchange control lost most of its monetary meaning as it resulted in a more than evident intervention in foreign trade. In addition, this intervention also provided important revenues for the public sector. Indeed, the spread in the official market produced for the BROU a profit of 25% over the purchase value, which nurtured a special fund created for the purpose, known as the *Fondo de Diferencias de Cambio* (Exchange Rate Differences Fund). This fund received the treatment of a fiscal source and was used to fund many projects under the oversight of the BROU.

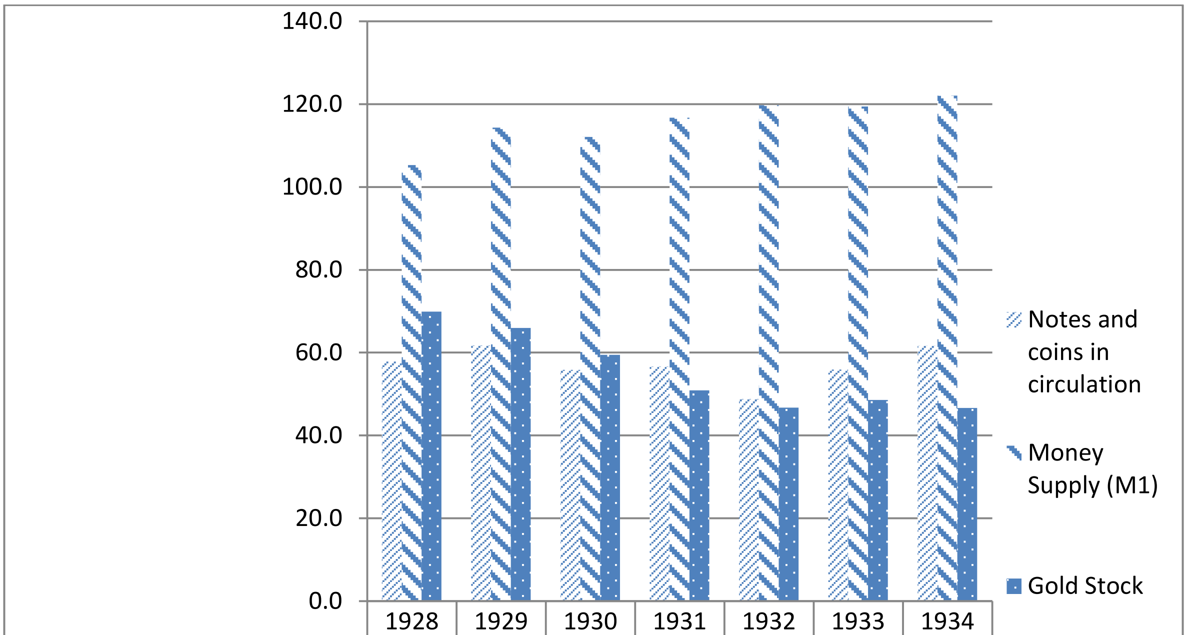
As we have been analysing, for many countries the exchange control was used as a tool not only to save hard currency, but also as a source of revenue for the public sector in times of trouble. However, for Uruguay this policy became so long lasting that the results were adverse. According to Díaz (2003b, p. 117), it is difficult to find in the history of Uruguay another measure with so intense an influence, prolonged and adverse for the local economy. Certainly, it is remarkable that most politicians discussed how to ration the available foreign currency, but few questioned the convenience of keeping the system in the long-term. Nevertheless, the introduction of a dual exchange rate system in 1934 had a beneficial effect in relation to exports and imports of ‘invisibles’ (e.g. tourism) and the flow of capital because these sort of flows remained beyond government intervention. The freedom with which the capital movements operated in spite of the exchange control, attracted foreign investment and partially compensated for the tense political environment and the livestock sector stagnation. Thus, it is even possible to think that the existence of a free market worked as an anchor against the fiscal irresponsibility and the political unrest.

Regarding monetary policy, in December 1929 the charter of the BROU was modified and the previously existing ceiling imposed in relation to the Bank’s capital for the issue of bills was abolished. From then on the issue of bills was limited only by a 40% mandatory gold bank reserve in order to meet the deposits and currency in circulation and a maximum limit was set for the lower issue of 20 million Uruguayan pesos meaning coins less than ten pesos value. While these measures increased the issue capacity, the difficulties in the exchange market lowered the potential issue currency as the gold reserves got reduced. However, the stock of gold still conditioned the BROU’s capability to issue currency. But, by Law 8830 of January 20th, 1932, as a consequence of the international financial crisis, the BROU was authorized to increase its issue capability by allowing the inclusion of the external debt in the mandatory bank reserve[542], so that it could issue currency further. In Figure 23 it is possible to follow that even though the gold reserves constantly fell during 1929-1932, actually the currency in circulation only mildly contracted in 1930 (-9.5%) and 1932 (-13.8%) and the money supply (M1) kept rising during the period, with the exception of 1930. Thus, the contraction of the monetary base as expected for a country under the gold standard regime did not happen in Uruguay, a

[542] See Román (2010, p. 15).

behaviour that is consistent with the perception that this country was not following that system. However, the allegiance to gold as a key national insurance and to restrict the issue operations of the BROU was undoubtedly important in the design of the monetary policy.

Figure 23 Uruguay: Money supply and international reserves (million pesos)



	1928	1929	1930	1931	1932	1933	1934
Notes and coins in circulation	57.9	61.7	55.9	56.6	48.8	55.9	61.6
Money Supply (M1)	105.3	114.4	112.1	116.7	119.7	119.4	122.1
Gold Stock	69.9	66.0	59.5	50.9	46.7	48.6	46.6

Source: Román, 2010, p. 46 and p. 51

As a summary, all three countries suspended early the gold standard and eventually chose to enact exchange controls. Although their control systems started to work effectively in September - October 1931, the temporary Brazilian exchange control of January - October 1930 and the Uruguayan exchange control law of May 29th 1931 constitute key backgrounds for the region.

iii. Conclusion

In the context of the contradiction between the gold standard ideology that dictated a strong commitment with deflationary forces, and the need to avert the economic depression, ABU had to make hard choices. And when the UK and the US themselves departed from the gold standard, it was a death sentence to the system that in a way validated the preceding course of action of ABU.

Indeed, ABU chose to depart early on from the gold standard and established instead exchange control systems, also devaluing strongly their national currencies. Argentina and Uruguay were quicker than Brazil. As a matter of fact, Argentina suspended the Currency Board in December 1929, and in Uruguay there is even a view among researchers that the country had not returned to the gold standard after its departure in 1914, although the League of Nations states that this departure was in December 1930, the same month as Argentina.

The case of Brazil has a different tinge, because the Luís administration made a stronger commitment to the system. The contraction of the monetary base in 1929 is a sign of that commitment. The hesitation regarding the coffee policy also added to the negative flow of foreign assets. In fact, Brazil was among the three countries the one that suffered the most dramatic loss of gold reserves.

The stubbornness of the Luís administration in adhering to the gold standard aggravated the crisis because the government lacked instruments to soften the deflationary forces, and furthermore the need to secure the transition to the elected president Prestes delayed the measures needed to face the crisis. That is why the Brazilian government let the foreign reserves fly away, while waiting for the world to fix for itself. However, this posture was not only followed by the Luís administration, but also during the first year of the Vargas one.

It is possible to say that in a way Argentina and Uruguay were more prepared to depart from the gold standard logic both because of the conviction that the stocks of international reserves needed to be preserved and for internal political reasons. Brazil eventually followed in November 1930, but during the first months of the downturn, it was relatively more vulnerable because of the hesitations regarding the departure from the gold standard. The depletion of the gold reserves and the political instability eventually made this decision inevitable. It is also important to point out that at least during 1929-1930, there is evidence that these three countries faced monetary contractions that added to the deflationary forces.

In any case, ABU were in the first group of countries to suspend the gold standard and they all chose to also apply instead exchange controls effectively working in September - October 1931. Both measures contributed to reducing country vulnerabilities to the worldwide deflationary forces, at least during this period of analysis.

XI. Heterodox policies from the semi-periphery

In the previous three chapters we addressed the political panorama of ABU and the importance of the trade channels of transmission of the crisis, as well as other associated variables that could magnify the enshrined vulnerabilities. We also engaged with the way in which ABU managed the departure from the gold standard, as an indication of the government's willingness to explore new policies that could contribute to a better handling of the crisis. In doing so we also analysed the exchange rate and monetary policies applied during and after the abandonment of the gold standard.

In this chapter, we analyse and contrast whenever possible the most salient country-specific policies other than the key trade policies and negotiations that we include in the next chapter because of their relevance. The idea is that when we take into account the dimension of policies applied to counteract negative economic effects already analysed, as well as the main political forces underlying their enactment, we can achieve a better picture of our complex concept of vulnerability that we defined for these countries.

i. Argentina: radical remedies or dangerous weapons?

In this section we present the policy responses in Argentina to fight against the Great Depression until 1934, a year in which that country presented clear signals of recovery. We analyse in particular the sort of policies, predominantly heterodox, that prompted a change of political regime in this country. We already analysed in the previous chapter the closure of the Currency Board and the imposition of exchange control in an attempt at avoiding a potentially severe exchange rate crisis. In this chapter, we address the rest of the fiscal and sectoral policies that were implemented in the framework of a growing State interventionism.

From our personal opinion, and in line with Rock (1985, p. 231), according to international standards, compared with most of the world's industrial nations or some of its Latin American neighbours like Chile, in Argentina the crisis was less severe and the country recovered very quickly. And with regard to the causes of that recovery there is an interesting and constructive debate to the present day. For example, Cortés Conde (2010, p. 21) maintains that the policies applied had a key role: the suspension of the convertibility in 1929 was perhaps the most important step to avert a disaster, as well as the implementation of expansionary policies such as the rediscounts at the Currency Board (although limited to the years 1931 and 1932) and the imposition of exchange control, a system which used the frozen pesos to fund the government. In this regard, della Paolera & Taylor (1999, p. 568) also argue that the radical change in monetary regime was crucial. However, for O'Connell (2000, pp. 174-176) Argentina managed to get out from the crisis thanks to the improvement of the terms of trade caused by the increase in the international commodity prices, to some extent due to the great drought that affected the US. But, for us, there was a combination of causes that explain the Argentine recovery. In the first place, that was partly, according to Sir Otto Niemeyer, because the exports of Argentina were relatively well diversified compared with some other South American states[543]. In the second place, Argentina like the other exporters of foodstuffs from the temperate zone suffered the impact of the crisis relatively less because the demand for this sort of goods showed a low income-elasticity[544]. And finally, the important package of pragmatic economic policies implemented during the first half of the thirties (included the revaluation of the gold holdings in 1935 coinciding with the opening of the BCRA) along with, as O'Connell argues, the recovery of international prices and the consequent improvement of the terms of trade since 1934, allowed Argentina to recover from the crisis.

By 1931, when the crisis was deepening, the provisional government expeditiously started to implement an important package of policies. The government knew that the first step was to balance the strong fiscal deficit inherited from Yrigoyen's government. That was a necessary step before implementing policies that would include a remarkable set of expansionary measures. For that purpose, among the main measures, the government fired public servants, cut public wages and increased various taxes, including tariffs[545]. When the Great Depression broke out, President Uriburu responded with heavy public expenditure cuts, discharging an estimated 20,000 government employees in Buenos Aires in the period 1930-1931[546], as well as with a cut of 10% in public sector wages in 1931. With regard to the latter, the state's administrative costs were the most expensive item in the accounts of the public sector and of course it was there that the government looked for savings. But, of course, this measure had as a consequence the discontent of the public sector workers. However, it is important to clarify that in 1932 government expenditure increased because of the monetization of the Patriotic Loan, a move to which Díaz Alejandro attributed a modest expansionary effect of the type 'balanced budget multiplier' over the aggregate demand[547].

Argentina acted rapidly to change its system of taxation and introduced taxes to compensate swiftly for the fall in customs revenues. In April 1931, the government modified or introduced various charges in an attempt to increase revenues: internal post and telegraphic charges were doubled, and so was the five cent post rate to countries of the Pan American Union. Moreover,

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543 See Royal Institute of International Affairs (1937, p. 271).
544 See Rapoport (2003, p. 315).
545 See Díaz Alejandro & Seibert (1979, p. 153).
546 See Rock (1985, p. 221).
547 See Ibid.

one year later petrol was taxed for the first time. In addition, cuts in public expenditure and Uriburu's increased tariffs depressed the demand for imports. In relation to this, as aforementioned, certain formerly duty-free articles were to pay tariffs ranging from of 5 to 25% by April 1931[548]. Furthermore, an additional 10% tariff on imports was imposed in September 1931. After the imposition of a new property tax, also in September, a tax on transactions was put into effect in October, which was highly criticized for having a cascade effect. For that reason, it was replaced near the end of 1934 by a sales tax that excluded basic consumer goods[549]. In 1932, the government gave a big step that had been announced early in 1931. Under the guidance of the Minister of Finance, Alberto Hueyo, the *impuesto al rédito* (income tax) was introduced as an innovative element of the fiscal policy. That meant important progress in the tax field because this tax affected income directly[550], while until then the tax regime was based exclusively on indirect taxes on goods and services[551]. The importance of the new tool in the fiscal performance was validated in 1933 with an extension of the income tax[552]. However, ironically, it is important to recall that the idea of an income tax was first discussed under Yrigoyen's presidency in 1918, although the initiative failed mainly because of the reluctance of the conservatives[553]. As a consequence of the imposition of this direct tax, along with a scenario of collapse of world foreign trade, tariffs and duties contributed less to total revenues[554].

However, Cortés Conde (2009, p. 85) maintains that although taxes increased until 1933, these additional contributions could not compensate for the decline in taxes on foreign trade, but by the end of our period of analysis this situation was changing. Alhadeff (1986, p. 108) argues that between 1932 and 1936 the combined receipts of the sales and petrol taxes almost compensated for the fall in customs revenues.

Other key element in the management of the fiscal policy in Argentina was the indebtedness level. As in most Latin American countries, a very large part of the external debt was contracted for unproductive purposes; at least 60% of the borrowing was unproductive. The provincial and municipal governments were even more reckless as to the purposes for which they borrowed. The US lent 27 million pounds to Argentine municipalities and provinces between 1924 and 1928 –a figure that represented around 40% of the total government revenues in 1928-. Thus, it is not surprising that when the US suffered the economic crash, Argentina was negatively affected[555].

However, Argentina did not default on its foreign debt and as a consequence in the late thirties the country did regain access to world capital markets, unlike the defaulting countries (e.g.

[548] See Alhadeff (1986, pp. 107-108).
[549] See Cortés Conde (2009, p. 85).
[550] The income tax affected the distribution of income and it is somewhat ironic that this sort of tax was introduced by the conservative regime of the thirties rather than the populist Radical regimes of the twenties (Díaz Alejandro, 1970, p. 104).
[551] See Vicente (2000, p. 4).
[552] For more detailed information see Prebisch (1991, pp. 207-208).
[553] See Rock (1985, p. 222).
[554] See also Table 45.
[555] See Royal Institute of International Affairs (1937, pp. 269-270).

Brazil and Uruguay). But being a 'good debtor' in the thirties was not so beneficial for Argentina in the long-run. As a matter of fact, in the post-war period Argentina was treated no better than 'bad debtors' in world capital markets[556]. With regard to the conversion operations of domestic public debt in 1933, this mechanism allowed the government sizeable savings in the service of the public debt. And according to Alhadeff (1986, pp. 109-111), it brought about a general fall in interest rates and alleviated the burden on debtors throughout the country. It reduced the likelihood of more taxation as it brought down government expenditure by cutting debt service payments. It also made productive investment more attractive relative to bondholding. As a result, it means that the conversion of the public debt had a reflationary effect on economic activity in general.

In order to analyse the evolution of the debt in Argentina, Table 76 displays the domestic funded and floating debt, as well as the foreign debt and the debt service. The total debt of the country increased during the period 1928-1934, taking into account the financial years. In 1930 the total debt was 17% higher than in 1928, and in 1934 that percentage climbed to 37% as compared to the same year. As mentioned, it is worth noting the important weight of the floating debt that represented 50% of the total domestic debt at the end of 1931. On the other hand, the growth of the foreign debt which represented in average terms 35% of the total debt during the period of analysis was erratic. The two financial years of more foreign indebtedness were 1931 and 1934, and that outcome is not a mere coincidence. At the beginning of 1931 Argentina needed more loans because of its serious trade deficit and the political revolution that faced the country. And in 1934 that debt increased as a result of the implementation of an interesting package of policies that involved the creation of new institutions and labour sources. And the devaluation of the peso prompted an increase of the debt in pesos. By contrast, during the years that Argentina suffered more from the impact of the global crisis, 1932 and 1933, foreign indebtedness diminished, reaching in 1933 a level 15% lower than 1928. However, the cost of the debt service was increasing during the entire period and did so even more after the devaluation.

It is also worth mentioning that, taking as a reference the studies carried out by Eichengreen & Portes (1990, p. 75), in 1929 Argentina had a central government debt-to-export ratio of 49, which grew to 73 in 1931 and 113 in 1933. Nevertheless, these figures were significantly lower than in neighbouring countries, Brazil and Uruguay, with ratios between 150 and 215 during 1929-1933[557]. In this context, it is relevant to highlight that of the major countries in Latin America (apart from Venezuela), only Argentina serviced its domestic and foreign debt in full.

By 1932, the annual service of the public debt absorbed around 32% of total government revenues and half of the total gold reserves. More than half of that service was paid to

[556] See della Paolera & Taylor (1999, pp. 584-585).
[557] In that journal article these authors studied the interwar debt crisis and classified several countries as 'heavy defaulters' and 'light defaulters'. They included Argentina in the group of 'light defaulters'. If the argument for that inclusion is that, in spite of the fact that the Argentine government serviced its debt, by that period some of its provinces and municipalities ceased payment on their external debt, this classification might be right. However, if it was not the case we disagree with this sort of classification for Argentina because this country did not default in the thirties.

foreigners[558]. Thus, according to Alhadeff (1986, pp. 96-97) these figures were relatively small in comparison with the state's administrative costs which absorbed 73% of total government revenue. Furthermore, according to Beveraggi Allende (1954) cited by Alhadeff (1986, p. 101), the Argentine exchange control system of the thirties was originally intended to check the increase in the cost of the external debt service brought about by the outflow of foreign exchange. But, although many provinces and municipalities ceased payment on their external debt by the suspension of either interest or sinking fund payments, the central government avoided default. In the early thirties Argentina was in a financially superior position to any other South American Republic. Thus, it could afford more easily the pressure on the budget deficit and released foreign exchange which could be spent for other purposes, while most countries saved it with the suspension of the payment of the foreign debt[559].

Table 76 Argentina: Public debt and debt service (million pesos)

Financial year	Domestic debt			Foreign debt	Total debt	Debt service (interest + amortization)
	Funded (consolidated)	Floating	Total			
1928	1,052	446	1,498	1,104	2,602	194
1929	1,156	453	1,609	1,112	2,721	226
1930	1,225	754	1,978	1,071	3,050	232
1931	1,228	937	2,164	1,210	3,374	241
1932	1,160	1,169	2,329	994	3,323	285
1933	1,448	1,071	2,519	943	3,462	286
1934	1,442	903	2,344	1,218	3,562	302

Source: compiled from Statistical Yearbook of the League of Nations, various years, from official budgetary documents. Economic Intelligence Service. Geneva. Notes: a) 10.X.1928; b) domestic funded debt: including railway bonds, excluding bonds held by the Treasury; and c) foreign debt shown at par.

There were various reasons for Argentina servicing its domestic and foreign debt in full. In the first place, this country by the end of the twenties counted a high level of international reserves, even taking into account the loss of reserves for the global depression. Secondly, as Rock (1991,

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[558] See Royal Institute of International Affairs (1937, p. 271).

[559] The decline of debt service payments, however, took some of the pressure off fiscal policy because it avoided the need for further tax increases or expenditure cuts. Budget deficits, therefore, remained common and internal equilibrium a distant goal in most republics. The tension between external equilibrium and internal disequilibrium did produce serious financial and economic instability in some republics (e.g., Bolivia), but it could also contribute to economic recovery at a faster pace than was found in countries where tight fiscal and monetary policies left the non-export sector with insufficient demand and unable to respond to the new vector of relative prices (Bethell, 1994, p. 87)

p. 19) argues, the depreciation of the peso provoked a corresponding contraction in the gold or hard currency profits of foreign companies, many of which therefore ceased making remittances abroad in the hope that exchange rates would eventually improve. Thus, delayed remittances helped reduce the balance of payments deficits and the resources required to service the foreign debt. Thirdly, in the early thirties public foreign indebtedness remained light by comparison with that in the early 1890s. Out of a total foreign investment of 4.3 billion pesos in 1934, only 900 million constituted public debts. In the fourth place, the close trading links with the UK and the possibility of continuing loans also persuaded Argentine policymakers to service the debt, the bulk of which was owed to the UK. Finally, the financial orthodoxy of the conservative Argentine wing in the administration field in the thirties also provided a strong predisposition in favour of debt repayment.

However, it is relevant to put emphasis that facing the payment of floating debt, as part of the total debt, caused the most financial pressure for the State between 1929 and 1932. Successive budget deficits since 1929 increased the absolute size of the floating debt and its relative weight in the total public debt. In the financial year of 1932 the floating debt was higher than the funded debt and it reached 50% of the total domestic debt and 35% of the total debt, including foreign debt[560]. In this scenario, the government authorized the so-called ‘Patriotic Loan’ in May 1932 thanks to the good standing with regard to national credit of the country that favoured the government and the private sector. The objective of this loan was to provide the necessary finance to the government’s large floating debt. The 150 million pesos subscribed by the general public, together with 170 million pesos in cash advanced by the Conversion Office in exchange for an equivalent deposit of Patriotic Loan bonds, allowed the government, at least for the time being, to bring salary payments up to date and meet its obligations with suppliers. In fact, it was gaining the rewards for having paid its bondholders punctually in the past[561]. Furthermore, Argentina’s producers obviously welcomed the Patriotic Loan because it allowed the government to pay the debt with the private sector. Representatives of the so-called *fuerzas vivas*, among them the SRA, the UIA, the *Bolsa de Comercio* (Buenos Aires Stock Exchange), and the *Confederación Argentina de Comercio, Industria y Producción* (Argentine Confederation of Commerce, Industry and Production), gave their common approval to the Patriotic Loan law and asked for its rapid implementation[562].

Finally, another important heterodox measure in the fiscal field of the period of analysis was the conversion of the public debt. In 1933, the government attempted to reduce the weight of the debt service in the government's expenditure and for that reason it put into effect conversion operations that lowered the interest paid by the public sector on its debt. The conversion proposals extended the duration and the cost of the loans[563] but resulted in smaller annual debt

[560] See also Table 76.
[561] See Alhadeff (1986, p. 102).
[562] See Ibid.
[563] The government offered to exchange bonds at par from the years 1907, 1909, and 1910 that were in circulation at 5.5% and 6.0% interest “for various series of bonds, issued in pesos, that shall be called *Crédito Argentino Interno* at 5% interest and 1% accumulated annual redemption, by purchase or bid (tender), when the bonds were quoted below par, and by lot when they might be at or above par; and the Patriotic Loan at 5%

services that brought immediate benefits to the government and to the private sector at the expense, of course, of the bondholders. As a consequence, the conversion operations allowed the government sizeable savings in the service of the public debt. The success of those operations was firstly because of the improvement in public finances achieved by renewing access to the debt market and to the income derived from the spread in the foreign exchange market[564]. Secondly, the bondholders were prepared to accept a lower return on their bonds when a present date was taken as the basis for amortisation payments[565]. By the time the domestic debt had been fully converted, according to this author 3 billion pesos (£200 million) worth of bonds had been negotiated by the government. Although the State held one of the 3 billion in bonds in its coffers, the success of the operation was undeniable. For that reason, President Justo did not hesitate to describe the conversion of the public debt as the biggest financial operation ever attempted in Argentina.

As a summary, although many of the most important policies implemented by the Argentine government were under the direction of Minister Pinedo during the first years of Justo's government, he mainly continued the restraining fiscal policy of his predecessor, prioritizing the balance between revenues and expenditures. However, in this regard Villanueva (1975), cited by Alhadeff (1986, p. 109), argues that the tax and budgetary reforms of the early thirties could be described as 'ad hoc' economic policies with which the government in Argentina responded to the depression. That means that, although the solid financial position of the Argentine government towards the mid-thirties could be attributed to those policies, Villanueva does not give relevance to them. He only identifies an economic strategy for the administration of the Argentine economy once Pinedo took office in 1933, which included the expansionary measures adopted by the end of that year. Those measures include, for example, the construction of a new terminal elevator for grains, the creation of new institutions and Pinedo's Economic Recovery Plan. In particular, the latter plan sought as a main objective to increase demand and to stimulate the growth of industrial output, mainly by means of the construction of public housing.

Nevertheless, from our point of view the legacy of provisional government was very important because it introduced effective the changes in policies that could only benefit the economy later. First of all, the improvement in the method of budgeting in the early thirties was crucial. During Uriburu's government, expenditure accounts were simplified and unknown sources of past deficits were incorporated explicitly in the budget[566]. Furthermore, the government opted for publishing periodically the state accounts in the federal budget. On the other hand, reflecting on

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interest and 1% annual accumulated redemption by lot at par" (Article I of the Conversion of Domestic Debt – *Conversión de Deuda Interna* -, November 11, 1933). Similarly, a decree announced on November 21, 1933, ordered the conversion of mortgage loans, to trade those that rendered 6% interest for new ones that rendered 5% (Cortés Conde, 2009, pp. 99-100).

[564] See Ibid., p. 97.

[565] The government gave bondholders the choice of exchanging their bonds for new updated issues. It imposed no obligation on them to accept the scheme. As creditors of the State, bondholders could have asked if they wished for full compensation for their capital (Alhadeff, 1986, p. 110).

[566] Examples were the expenditure for Social Assistance and for the National Council of Education, and the accounts of the Autonomous Departments, all of which were included in the federal budget to give a more accurate representation of the state of government finance (Ibid., p. 108)

the system of taxation, it is possible to conclude that receipts under the system in existence before 1931 would in fact not have been sufficient to balance the financial year of 1932. With regard to this, President Justo stated that without the imposition of new taxes on transactions, petrol and income, it would not have been possible to achieve a financial balance between 1931 and 1934. Between 1932 and 1936 the combined receipts of the income, sales and petrol taxes almost compensated for the fall in customs revenue[567]. In relation to this argument, for the important Argentine journal *La Prensa* cited by Alhadeff (1986), the budgetary reforms initiated under the rule of General Uriburu were the starting point of a more realistically-minded management of government finance.

Regarding the sectoral policy, the industrial and agricultural sectors were the recipients of some of the relevant measures taken by the Argentine government in the framework of Pinedo's Economic Plan of 1933. As mentioned, most of these measures involved the creation of new institutions, such as the regulatory boards that acted as supporting organs of price intervention schemes.

The 'modern industry' started to develop in Argentina at the end of the twenties, a period in which it is possible to observe more industrial investment, more imports of machinery and equipment and an important inflow of foreign companies[568]. By that time, the revenues from exports and capital inflows had allowed the import of a large number of goods for which domestic production was on the edge of becoming competitive[569]. Furthermore, thanks to the prosperity of the previous decades, an important and interesting consumer market had been established in the country. Urban social facilities, some industrial experience, a literate urban labour force and big urban markets helped the fast growth of industry. However, the outbreak of the crisis and the rapid deterioration of the economy, along with the struggle of political and economic interests during the first half of the thirties eroded the capacity to transform the economy, especially the process of transformation of domestic savings into machinery and equipment. As a consequence, the industrial growth suffered a contraction. The struggle of interests hampered the good development of industry and in this regard Díaz Alejandro (1970, p. 303) describes very well what the real situation was: the exports were linked to oligarchic rural landlords connected to foreign interests and importers, whilst protection was linked with industrialization, nationalism and social democracy. Thus, the struggle for industrialization was in Argentina the struggle for the democratic transformation of its style of life. That was something difficult to accept. But, the fall in trade openness, the tariffs and the lack of foreign exchange created suitable conditions for the substitution of imported goods by others produced

[567] See Alhadeff (1986, p. 108).
[568] See Villanueva (1972, pp. 475-476).
[569] According to the speech of June 12th, 1929, by Deputy Raffo de la Reta (1929), Argentina was so close to becoming competitive with imports in several activities during the late twenties, to the point that some entrepreneurs had placed orders for machinery to set up new import-competing activities before the outbreak of the Great Depression. There was one case where an important manufacturing firm had machinery to install a cotton textile plant in customs in 1929, and claimed that it was waiting for greater tariff protection before clearing these capital goods through customs (Díaz Alejandro, 1970, p. 101).

locally, especially those that did not require very complex technology or that relied on an industrial base that could be more intensively used. In addition, the depreciation of the peso caused a high level of implicit protection for the manufacturing sector due to the increase of import prices, boosting therefore domestic production. And the change in world prices and public policies also allowed Argentina to achieve competitive advantages to provide locally goods such as textiles, cement and various industrial crops.

Certainly, a good example of domestic industrial expansion during the thirties was the textile industry. It grew notably[570], but so did the most of the other activities related to the consumer market, such as food processing and diverse chemical and metal products. Big businesses, until then predominantly linked to export agriculture, increased their industrial activities[571]. In fact, since 1931 the Argentine production diversified and was increasing its level of elaboration. Then, during the second half of the decade there was an industrial growth which continued the trend of the previous years[572]. Nevertheless, although by the early thirties there already was a special attraction of an existing and captive market for the import substitution industrialization process, this one entirely developed beyond our period of analysis (during Peron's government).

As in Australia and the US, the policy measures taken by the Argentine government in the thirties attempted to assist rural producers and to help industry, but the complex cobweb of oligarchic interests was an obstacle in the path of industrialization. However, a big difference with those countries is that by that time Argentina lacked an articulated plan for industrialization. That was also the case for Uruguay, which had not a long-term planned industrialization policy in spite of the protectionist industrial policy carried out by the *batllismo*. Instead, policies were characterized by particularism and short-termism. Nevertheless, there were some attempts to boost the industry by both Uriburu's and Justo's governments. One example of this is the creation by Decree[573] of the *Comisión Nacional de Fomento Industrial* (National Commission for Industrial Promotion). However, all efforts were slowed down by dogmatic enemies of industrialization and rural proponents of free trade, inside and outside the government. In addition, sometimes the exchange control were used to hamper rather than encourage the industrial growth of the country, although many times politicians justified the trade protection for the development of the 'infant industry', job creation[574] and the improvement of the terms of trade.

With regard to the rural sector, the history is different. As mentioned in previous chapters, this was a sector from which the country obtained its main export products. Thus, the actors related

[570] See Randall (1978, p. 131).
[571] The most important export firm, *Bunge y Born*, which already had industrial investments, in 1932 established the textile firm *Grafa* in what became then the most dynamic industrial sector. Other traditional economic groups such as *Leng Roberts* or *Tornquist*, which combined agricultural, industrial, and financial activities, did the same, as did the new foreign investors. Significantly, in the mid-thirties three great North American textile firms –*Anderson Clayton*, *Jantzen* and *Sudamtex*- established plants, to be followed immediately by *Ducilo*, dedicated to synthetic fibers (Romero, 2002, pp. 67-68).
[572] See Bunge (1984, p. 219).
[573] See Decree 58, 1/15/1931 (Berensztein & Spector, 2003, p. 351).
[574] In this matter, it was created by Law 11896 (8/21/1934) the *Junta Nacional para combatir la Desocupación* (National Board to Fight against Unemployment-, autonomous and permanent) (Ibid.).

to the sector exerted big pressure on the government, looking constantly for benefits, especially when world conditions worsened. The livestock sector continued losing ground during the thirties to grain cultivation, just as in the previous decade. However, it still constituted a significant sector that gathered the powerful so-called ‘oligarchs’. The cattle farming activities were the pillar of the meat industry, and the latter was of particular importance due to its decisive weight in the economic course of the country, linked to the world not only through the external markets, but also through the foreign capital that financed to a large extent its expansion. Accordingly, the economic influence of oligarchs translated into political power, so that politicians, like Justo, owed those landed classes their access to office.

In relation to arable farming, on the one hand private initiatives found as an exit from the crisis the introduction of agricultural machinery. On the other hand, the official concern focused on the reform of the commercial organization of agricultural trade and the removal of the disincentives to high quality production as preconditions for capital-intensive agriculture in Argentina. But the main problem was that arable farming was led by one of the weakest and poorest groups in Argentine society and its vulnerability presented a permanent threat to the success of the trade. For example, wheat farming had begun on the basis of colonization to absorb the domestic market from US and Chilean suppliers[575]. According to this author, immigrants obtained access to the land by four main methods. Those with capital bought land as a cash purchase; poorer immigrants paid by instalments, usually over four to seven years; and, some obtained yearly tenancies. The fourth method was share-cropping agreements under which colonists transferred anything from 8% to 50% of their output to the landlords, depending on the level of facilities provided.

Nevertheless, as the Argentine grain trade became increasingly export-led, the structure based on colonists farming about 80 acres gave place to a structure of tenant farms with a typical size of 500 acres. Thus the tenant class became a considerable factor of strain, as they required scarce rural labour and a certain amount of fixed capital, also scarce due to the international downturn, to operate. In addition, the seasonal nature of their activities called for working capital which had to take the form of credit. As a consequence, since the State was unwilling to assist adequately and the facilities offered by the BNA were onerous and restricted, the need for credit made them desperate to accept credit from the village storekeepers who bought their crops[576]. And although agricultural production did not decline so much despite the collapse in prices and trade, the producers’ economic situation deteriorated sharply, especially the small ones. In this regard, the government responded to this critical situation. Accordingly, in order to protect farmers, one of the first measures was the legislation of 1932 establishing minimum five-year contracts for farm tenants and the requirement that tenants should be reimbursed for improvements they had made on the lands they farmed[577]. And in 1933, in a context of dropping international agricultural prices, devaluation of the peso and raising inflation, the government applied a moratorium on farmers’ debts and created important institutions. These policies

[575] See Gravil (1970, pp. 150-151).
[576] See Ibid., p. 151.
[577] See Rock (1991, p. 29).

benefiting farmers were also common in the region. For example, Brazil lifted coffee producers' debts by means of its *Reajustamento Econômico* and Uruguay followed in 1934 with its generous policies towards the cattle farmers.

Probably the best known characteristic in the 'new formula' of economic policy attributed to Minister Pinedo was the stimulus given by the government to production, in particular agricultural production. Starting in November 1933, minimum prices were guaranteed by the government for wheat, maize and linseed[578] and for that purpose a new institution had to be created. This institution was the *Junta Reguladora de Granos* (JRG – Grain Regulatory Board) created by decree in November 1933[579]. It is important to highlight that the time in which the JRG was created was not a coincidence. Its creation coincided with the modification of the system of exchange control in the same month, the creation of the *Dirección Nacional de Elevadores de Granos* (National Department of Grain Lifts) in October of that year[580] and a new terminal elevator with a capacity of 80,000 tons that was constructed by the Buenos Aires Great Southern Railway Company[581]. The main objective of the JRG was the regulation of the commercialization of grain production to attenuate the effects of the cyclical crisis and defend local producers. This agency was obliged by decree to purchase exclusively for export purposes wheat, maize and linseed, in whatever quantities producers were able to present. The original basic prices at which such purchases were to be made on FOB shipside terms of 100 kilo lots, were 5.75 pesos for wheat, 4.40 for maize and 11.50 for linseed[582]. The Argentine scheme used the funds coming from the exchange differential in the official foreign exchange market derived from a modification of the system of exchange control. It guaranteed a minimum price for rural producers, avoiding them having to sell in the worst times. For that reason, the exchange system had to be modified before, to help agricultural producers and therefore, it was necessary to secure foreign funding loans to release blocked funds in the country. For that purpose, the most important of these funding operations was procured by the so-called Roca-Runciman Loan[583]. But, this support price was announced as a temporary measure and when the recovery in international grain prices rendered it useless towards the end of 1936, it was abandoned.

It is important to highlight that this sort of intervention was similar to the brief intervention in commercialization by the BROU in Uruguay in order to face specific events for grains (maize and wheat) during 1928-1930. By that time the main instrument applied by the Uruguayan government was the purchase of harvests by the State and the fixation of minimum prices (e.g. the purchase of cereals at fixed remunerative prices).

It is worth noting that during the period 1933-1934 and especially in 1933, there was an interesting proliferation of innovative institutions in order to regulate the production and support prices in the productive sector in the face of the global crisis. Thanks to the funds obtained by

[578] See Alhadeff (1986, p. 113).
[579] See Decree 11742, 11/28/1933 (transitory) (Berensztein & Spector, 2003, p. 351).
[580] See Decree 11742, 10/7/1933 (transitory) (Ibid.).
[581] See Royal Institute of International Affairs (1932, pp. 119-120).
[582] See Salera (1941, p. 104).
[583] See Alhadeff (1986, p. 114).

the spreads in the foreign exchange market and the Roca-Runciman Loan[584], the government could impose as an innovative measure a scheme of 'support prices' for export products, in order to protect agricultural producers from the fall in international prices. These measures required the creation of new institutions during 1933-1934, some of them as already mentioned the regulatory boards. The main objective of these institutions was to give relief to the producers in times of severe collapse of prices and to allow for a rapid recovery of the agricultural activities that were the genuine engine of the Argentine export trade.

In this regard, other regulatory boards were established under the guidance of the Ministry of Agriculture. That was the case of the *Junta Nacional de Carnes* (JNC, National Meat Board)[585] that tried to control the meat trade and to fix the rules of classification of products, but was limited to the small remaining meat market beyond the control of foreign meat-packing plants[586]. In addition to the JNC, in 1934 *Juntas para Promover Exportaciones de Carne* (Boards for Promotion of Meat Exports) were established[587]. These boards together with the creation of the *Corporación Argentina de Productores de Carne* (Argentine Corporation of Meat Producers) and the JNC represented pressure groups at the time of negotiating market access regarding the meat trade.

During our period of analysis, the *Junta Reguladora de la Industria Lechera* (Dairy Industry Regulatory Board)[588] was also created. This sort of system was extended to producers outside the pampas zone, such as those of wine and cotton. In relation to the production of cotton, a subsidy for growers was introduced with the purpose of expanding it. It was also financed by the profits of the exchange control and handled by the *Junta Reguladora de Algodón* (Cotton Regulatory Board) [589]. Furthermore, in the same period, some commissions were created in order to fight against the imbalances in production and prices, such as the *Comisión Nacional de Aceite* (National Commission of Oil)[590] and the *Comisión de Productos Alimenticios Nacionales* (Commission of National Foodstuffs)[591]. Although most of the new institutions were created during Pinedo's term, it is important to take into account that in 1931, during the *de facto*

[584] Villanueva (1975) argues that the Roca-Runciman Treaty constituted the point of departure for the Pinedo team. This was indeed the case, and when the connection between the Roca-Runciman Treaty and the reform in the system of exchange control is recognised explicitly, the contribution of the earlier administrations of the thirties to Pinedo's 'new formula' of economic policy cannot be in doubt (Alhadeff, 1986, p. 116).

[585] See Law 11747, 10/7/1933 (autonomous and permanent) (Berensztein & Spector, 2003, p. 352).

[586] The Board's most significant function was to set up a cooperative type of packinghouse "for the defense of national livestock production and to lower the price of [retail] products....". This was the organization anticipated in the Roca-Runciman Pact, and its main purpose was to utilize the 11% quota made available for such an enterprise. Once established, this packinghouse would become "totally independent" of the Board, though still subject to the general regulations of the trade (Smith, 1969, p. 152).

[587] See Decree 46299, 7/27/1934, that it had been dissolved by Decree 119263 (10/10/1927) (Berensztein & Spector, 2003, 351).

[588] See Decree 40140, 4/12/1934. Later, this regulatory board became the *Dirección de la Industria Lechera* (Dairy Industry Department) in the Ministry of Agriculture (Ibid., p. 351).

[589] Another boards were: *Junta Nacional de Yerba Mate* by Decree 30854 (11/8/1933) with a relevant role in the foreign trade between Argentina and Brazil (later *Comisión Reguladora de la Producción y el Comercio de la Yerba Mate* by Decree 12236 10/4/1935, autonomus and permanent) and *Junta Reguladora de Vinos* with *Comisión Asesora Honoraria* by Law 12137 (12/24/1934), transitory (Ibid.).

[590] See Decree 42621, 6/5/1934 (Ibid.).

[591] See Decree 44423, 6/30/1934 (Ibid.).

government, other commissions were created, such as the *Comisión Nacional de Patatas* (National Commission of Potatoes)[592] and the *Comisión Nacional de Fibras Textiles* (National Commission of Textiles)[593].

Finally, it is important to highlight that in 1933, attempts at international cooperation in which Argentina participated failed, such as the World Monetary and Economic Conference and the World Wheat Conference. However, according to the work of González & Pollock (1991, pp. 461-465), after these failures some Argentine personalities, such as Raúl Prebisch, started to change their minds on the topic of Keynesianism. On this issue, Alhadeff (1986, p. 98) affirms that Lascano (1972) maintains that there was a rigid adherence to economic orthodoxy in the early thirties which led to the disconnection of economic policy from practical reality. During Uriburu's government and even when Hueyo was Minister of Finance during Justo's government, most of the policies implemented were orthodox, especially in the fiscal field. But there were nuances, such as the rediscount operations in 1931, the imposition of the income tax and the authorization of the Patriotic Loan, both of them in 1932, which meant heterodox policies. Furthermore, from our point of view it is important not to play down the importance of these measures which constituted the base line for Pinedo's Economic Plan. Then, after 1933 the Argentine authorities became incipiently Keynesian in their outlook implementing heterodox policies[594], which meant according to Villanueva (1975) 'a new formula' in government economic policy which led to a 'new economic orientation' for Argentina since then. In this regard, this author indicates that the heterodox economic policies practised in other countries to promote internal recovery (e.g. the New Deal in the US) made Argentine policymakers doubt the efficacy of their traditional remedies and as a result they started to implement other measures.

ii. Brazil: between coffee and the gold standard stubbornness

Since mid-1928 the international financial situation was dominated by the scarcity of gold, which was flowing to the US, attracted by historically high interest rates and speculation on the New York Stock Exchange, and by mid-1930, foreign lending throughout the world had collapsed[595]. As a consequence and in a similar way to other Latin American countries, the crisis affected the three levels of government -cities, states and federal government -, as well as the coffee scheme sustainability and economic stability.

But there were also internal contributing weaknesses. Sir Otto E. Niemeyer clearly reported that in common with most other countries, Brazil suffered from the abrupt change in overseas lending and the heavy depression of general prices which characterised the Great Depression,

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[592] See Ministerial Resolution, 7/8/1931 (Ibid.).
[593] See Decree 1401, 11/14/1931 (Ibid.).
[594] In 1933 Prebisch had read the four journal articles written by Keynes published in "The Times", from which in Prebisch (1947) he said that he had started to think about expansionary policies (Cortés Conde, 2001, p. 84).
[595] See Ahamed (2009, p. 401).

but it suffered especially from the consequences of its internal financial policy in previous years. The undue reliance on issues of notes, expensive borrowing from abroad for purposes of doubtful economic value and excessive public expenditure produced an inflated financial position, with the natural and inevitable tendency to a weakening foreign exchange[596]. And the main instrument of the government for dealing with the crisis, the *Banco do Brasil*, was "worthless as a Central Bank, badly organised, badly managed and subject to radical changes of policy with every change of government"[597].

Nevertheless, the analysis of the weaknesses of Brazil during the Great Depression unavoidably requires an analysis of the weaknesses of the coffee economy. As we have explained before, the coffee was at the centre of the economy and was one key source of gold and foreign exchange for a country that committed itself during the second half of the twenties to keeping in line with the gold standard mechanics. It is quite intuitive to think that coffee was a major source of vulnerability and a key element to determine whether the economic crisis of 1928-1932 was mostly imported, endogenously generated, or a result of endogenous and exogenous elements combining to create a perfect storm.

There were several internal factors that strained the coffee economy. The already mentioned contracting monetary policy carried out by the *Banco do Brasil* squeezed the coffee sector, contributed to rendering the coffee debt instruments increasingly illiquid and forced both the *Banco do Estado de São Paulo* and the *Instituto* to seek foreign loans and credits in gold abroad to continue financing the coffee sector. Also the collapse of coffee prices was fuelled by nature because in 1929 another bumper crop deepened even more the never ending problem of the accumulated stocks. That year the coffee in stock of the State of São Paulo alone climbed to around 15 million bags[598], so that the value of the coffee stocks accounted for more than 10% of the GDP[599]. Furthermore, the business equation was falling into the red zone for the planters, as the retention period lengthened and planters had to cope with increasing costs from an estimate of 118 to 153 mil-réis per bag with the cash advances of the *defesa* system of only about 100 milréis[600]. And beyond those difficulties, most of the coffee support provided by the State of São Paulo relied on foreign loans. Thus it was natural that with the deep fall of the coffee prices produced by the unprecedented bumper crop of that year, the *Instituto* resorted to the usual practice of negotiating foreign loans. According to Fritsch (1988, p. 130) and other authors the *Instituto* negotiated with Lazards of London a one year loan of 5 million pounds and another long-term 5 million pound loan, which allowed an increase in the retention of a larger crop and the extension of the cash advances to the more pressed farmers. The news that the Coffee Institute had obtained the funds needed to support the coffee prices alone was enough to increase coffee prices from 150 milréis to 200 milréis per bag during the second half of 1927

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[596] See report submitted to the Brazilian government by Sir Otto E. Niemeyer, dated 4th July, 1931, p. 3, attached to FO 371- 15063.
[597] See note from the Commercial Secretary of the British Embassy in Rio, to His Majesty´s Ambassador regarding talks with Sir Otto Niemeyer and William Goodchild, dated April 4th 1931, in FO 371- 15063, p. 44.
[598] This figure was taken from Simonsen (1930-1931, pp. 20-21).
[599] This figure was taken from Furtado (1985, p. 184).
[600] These figures were taken from Fritsch (1988, p. 144).

and the first of 1928. There lay the main weakness of the system: the potential failure to secure foreign loans in the face of a great accumulation of stocks would critically jeopardize the stability of the coffee managed economy.

The combination of coffee overproduction with an increasingly difficult international economic panorama became critical for the survival of the *defesa*, and forced the *Instituto* to take three measures to overcome the juncture[601]:

1) Negotiation with Lazard's in order to obtain new funds.
2) Coffee deliveries to the warehouses increasingly spread over the year and reduction of the financing at the peak load.
3) Understatement of the size and increment of the stocks in order to avoid further distrust in the foreign markets.

As the *Instituto* failed to access new lines of credit abroad, by July 23rd 1929 it agreed with the *Banco do Brasil* on a stand-by credit of 100,000 contos to save the *defesa* scheme from the high requirements of the 1929 crop. However, when a new phase of restrictive monetary policy restarted under the presidency of Guilherme da Silveira at the *Banco do Brasil*, the promised stand-by loan was not honoured by the federal government. Both presidents Luís and Silveira refused Institute President Telles' arguments for the continuity of the support, who incidentally ended up resigning from his post on October 11th 1929. Simonsen (1930-1931, pp. 20-26), recalled that he also travelled to Rio de Janeiro by the request of the President of the State of São Paulo in order to persuade President Luís and the President of the *Banco do Brasil* of the necessity of an immediate restoration of the bank's rediscounts, as a way to avert the crisis. He accomplished nothing.

In December 1928 Washington Luís forced the Coffee Institute to lower prices in a move meant to increase exports. The government was convinced that the increase in exports quantum would increase the export receipts and the stabilization program would hold[602]. The landowners, who pushed for increasing exports of coffee, contributed to this decision. They hoped it would ease the stringent liquidity position created by the combined effects of a lengthened retention period of up to 16 months due to the bumper crop in 1929 and the reduced income from the small crop of 1928[603]. The Institute started to sell stocks for future delivery and future prices began to fall. Against Luís' expected outcome, this decision naturally had an adverse effect on the value of exports, which actually fell in the first quarter of 1929, deepening the balance of payments

601 Among other authors, Fritsch (1988) and Delfim Netto (2009) describe the measures taken by the *Instituto*.
602 Silva Gordo, President of the Banco do Brasil, blamed the falling coffee prices for the pressures on the exchange market and convinced President Luís of the necessity of lifting the Coffee Institute's December 1928 directives which allowed for an increment on the coffee exports, on the grounds that distrust of the commitment of the government with regard to the coffee policy would make consumers retreat, trade bills lower and would ultimately compromise the stability program. Nevertheless, the government was completely engaged in defending the stabilization programme, at least until the elections to be held in March 1930, so that any federal assistance to the Coffee Institute in face of increasing external pressure was unlikely (Fritsch, 1988, pp. 147-151).
603 See Fritsch (1990, p. 61).

troubles[604]. In this regard, Delfim Netto (2009, pp. 117-118) stressed that this decision constituted a sharp change of view of the President who in fact had supported the *defesa* system, and was due to the prospects of losing the effort of four years of stabilization policy and the 'desperate' need to ensure his own political survival and of his elected successor. The leak of the government's position on its own induced a run by coffee bill holders on the *Banco do Estado de São Paulo*, which had to suspend the rediscount operations in September 1929. Then, the coffee market could not escape the same fate as the New York Stock Exchange in October 1929. With the coffee prices plunging, the balance of payments was hard hit, with exports falling from 94.8 million pounds in 1929 to 65.8 million pounds in 1930, in spite of a 7% increase in coffee export quantum. Workers also suffered in the face of the crisis, as the coffee industry reacted by reducing wages by a figure that could be estimated as ranging between 35% and 60%[605].

By the end of 1929, both the opposition supporting Vargas and the international lenders (Schroeders, Rothschilds and Barings) opposed further involvement from the *Banco do Brasil* with the coffee *defesa* scheme. A 2 million pound short-term loan was granted by Rothchilds and Barings to the State of São Paulo in November 1929. This loan was followed in April by a larger long-term Coffee Realization loan of 20 million pounds, but granted under the condition of ultimately suppressing the *defesa* by liquidating the existent stocks and preventing future accumulation. From then on Brazil arranged for the gradual liquidation of the coffee valorisation plan. Indeed, as Abreu (2006, pp. 110) has pointed out, a peculiar feature of the policies during the thirties was the destruction of the equivalent of three world annual coffee crops between 1931 and the early forties.

Once in power, the provisional government blamed to a great extent the economic collapse of the country on the coffee stocks. Indeed, according to President Vargas, the continued retention of coffee in the São Paulo regulating warehouses weighed on the national markets hindering the agriculturalists from selling or even raising money on their stocks of produce. In consequence they ceased to pay their own labourers. For this reason, the merchants in the interior, not receiving payment for the quotes they had advanced, placed the wholesalers in serious difficulties which reflected upon the industries, paralyzing the general trade movement. As a consequence, the task of the government was to purchase these coffee stocks, in order to permit the free movement of future crops. From these measures, two advantages were expected: one internal, which consisted of restoring the planters' credit; and the other external, which consisted of restoring the confidence in the consuming markets[606]. Thus, In February 11th 1931, with the opposition of the *paulista* oligarchy, the government put together the new scheme and decided to buy the stocks of coffee as of June 30th 1930, except for the stocks of the realization loan held in São Paulo. Under the direction of Minister Whitaker, the coffee industry was bailed

[604] See Fritsch (1988, p. 145).
[605] These figures were taken from Pacheco Borges (1979, pp. 141).
[606] Extracted from the speech of Mr. Getulio Vargas, Provisional President of the United States of Brazil, delivered on October 3rd 1931, the first anniversary of the 1930 Revolution. Attached to note from the British Embassy, Mr. J. Garnett Lomax, to Sir Otto Niemeyer, dated November 18th 1931, in FO 371-15064, p. 408.

out and the federal government proceeded with a plan to burn the stocks. The coffee would be temporarily retired from the market and paid with resources from the treasury. All coffee exported was forced to pay a tax of 20% in specie. The price of purchase paid by the federal government would not exceed more than 60 milréis, and the State of São Paulo had to contribute with 20 milréis[607].

However, in April 1931, the crisis of the coffee sector peaked as the stocks held by the State of São Paulo alone reached 18 million bags. The estimated production of the season 1931-1932 was 18.5 million of bags, the estimated exports were around 9.5 million bags, and consequently an overproduction of 26 million bags was estimated. Given the emergency, the State of São Paulo proposed an agreement to deal with the accumulating stocks, and for that purpose a Conference of Coffee Growing States was convened. The agreement signed at Rio de Janeiro on April 24th 1931 represented an attempt to establish a second scheme, the first being considered insufficient. According to British diplomats this second plan was originated by the major firm of agents and coffee dealers Messrs' Murray, Simonsen & Co. and also representatives of Lazard Brothers[608]. The essence of the agreement was a tax of 10 shillings to be paid in foreign currency per bag of exported coffee, and the proceeds applied to the destruction of the surplus accommodation. It was estimated that from 8 to 12 million sacks a year would be destroyed under this arrangement. As part of the agreement, a new *Conselho dos Estados Produtores* was established, which would manage the agreement, collect the tax and administer the destruction of the coffee[609]. However, in May the federal government created the *Conselho Nacional do*

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607 See partial translation of Decree Nr. l8,688, February 11th 1931:
"(…) Article 1. The Federal government, through the Minister of Finance, will acquire, by purchase, in order to remove it temporarily from the market, all the coffee withheld from the market on June 30th of this year, with the exception of the stock bought by the State of São Paulo from the proceeds of the 20,000.000o pounds loan of 1930.
Section 1 The price per sack, taken upon a basis of type 5 Santos, shall not exceed Rs 60 milréis having regard to the differences in grade for other types superior or inferior 'escolhas' or inferior types of coffee shall not be purchased,
Section 2 Payment will only be under after verification of the classification at the expense of the seller.
Section 3 The coffee not sold to the Government will be liberated for export in chronological order of despatch by annual minimum quotas of a tenth part of the stock existing on the June 30th 1931. (…)" in FO 371-15063, p. 7.

608 See note dated May 2nd 1931 from British Embassy to the Department of Overseas Trade signed by the Commercial Secretary, attached to FO 371- 15063, p. 159.

609 See the partial translation of the text of the Agreement of the Conference of Coffee Growing States, signed up at Rio de Janeiro on April 24th 1931, says that: "The States of São Paulo, Minas Gerais, Rio de Janeiro, Spirito Santo and Paraná, whose representatives, as undersigned, met in this capital at the invitation of the State of São Paulo, resolved to sign an agreement in the following clauses, which will be submitted for ratification to the Federal government and to the respective States.
Clause l- The signatory States to this agreement and those which associate themselves with it engage themselves to create a special export tax of ten shilling sterling per sixty kilo sack of coffee produced in their respective territory to be paid when the coffee is despatched abroad; the tax say be reduced or suppressed by vote of an absolute Majority in the Council of Coffee-growing States and increased in the same way with the approval of the interested States.
Clause 2- This special tax shall be collected during a period of four years from the date of the ratification of this agreement by the interested states. At the end of this period it shall be suppressed independent of the action by the states, which can, in that ease, incorporate its proceed in their ordinary revenue. (…)
Clause 4- The funds of whatever nature derived from this levy shall be applied exclusively in the purchase of present production and existing stocks, in order to eliminate the excess production, with the object of

Café and in December 1931 the previous agreement was amended, so that the tax was increased from 10 to 15 shillings, of which five shillings would be applied for the payment of the realization loan. Furthermore, the *Conselho* started to sell Brazilian coffee directly in foreign markets, in a move that was protested by exporters. In another move, in April of 1932, the *Conselho* imposed a tax of 1 milréis for each new *cafeiro* planted and from November new plantations in Brazil were forbidden, except for Paraná and other states which had fewer than 15 million *cafeiros*[610].

The program of support from the federal government counted from the beginning on the support of the *Banco do Brasil*. In December 1931, the *Carteira de Emissão e Redesconto* of the *Banco do Brasil* was authorized by the federal government to implement the funding of its operations for 400 mil contos. At the same time, the *Carteira* was authorized to discount *Conselho*'s papers, with the tax of 10 shillings as collateral. Then, the *Conselho* deposited the proceeds from the tax at the *Banco do Brasil*. In December 31st of 1932, the bulk of debt of the *Conselho* with the *Banco do Brasil* amounted to 258.6 thousand contos, and at the same time the treasury had conceded to the *Conselho* a loan of 250 mil contos[611]. In this respect, it is relevant to note that this sort of expansionary policy was also applied in Argentina when in 1931 Uriburu's government assigned a new role to the Conversion Office, starting to rediscount commercial papers from the BNA. However, this measure was limited to the years 1931 and 1932.

In February 1933, the *Conselho Nacional* controlled by the State of São Paulo was replaced by the *Departamento Nacional do Café*, which was completely under the control of the federal government, as the directors were selected by the Ministry of Finance[612]. Later, Minister Aranha replaced in 1933 the system of direct purchasing with a system of sacrifice or controlled production quotas. The newly created *Departamento Nacional do Café* took over the previous scheme and administered the coffee stocks, by exporting 30%, destroying 40% and accumulating 30%[613]. A program called *Reajustamento Econômico* was also established, which allowed at the end of 1933 all debts from the coffee producers before mid-1933 to nominally reduce by 50%, and re-contract at a 10 year term with a reduction on the amortization initially contracted[614], in line with debt-lifting policies also applied in Argentina and Uruguay in 1933-1934. For that purpose, the *Cámara de Reajustamento Econômico* was created and resources were obtained with the issue of debt by the treasury, with a fixed interest of 5% per year, at 30 years given to creditors, mainly banks[615].

As a summary of the coffee *defesa* scheme consequences, coffee prices kept high than perfect competition would allow, although it also encouraged the emergence of new coffee competitors elsewhere. Another consequence was that the productive capacity of the coffee plantations was

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balancing supply and demand, including the expansion involved in the purchase the cost of maintaining the Council and its attendant services (…)", in FO 371-15063, p. 20.
[610] See Villanova & Suzigan (2001, pp. 189-195).
[611] See Ibid., p. 197.
[612] See Abreu (2008, p. 115).
[613] See Ibid., p. 297.
[614] See Abreu (1990, p. 79).
[615] See Abreu (2008, p. 119).

reduced by 50% over 15 years after the 1929 crisis, and some of that disinvestment was redirected to other activities. From 1914 to 1929 the share of Brazil in the planted cotton worldwide increased from 2% to 8.7%[616]. This contributed to diminishing the Brazilian dependence on coffee, opened the way for the emergence of other crops, and contributed to the incipient process of industrialization that had started during the twenties and during the thirties would benefit from an increasingly protectionist trend.

The genesis of the *defesa* can be linked both to the parallel exogenous reduction of foreign loans caused by the Great Depression, and the endogenous accumulation of coffee stocks, aggravated by the two bumper crops of 1927 and 1929. Those combined forces rendered the deep fall in coffee prices inevitable.

However, in this point we need to recall the earlier debate between Furtado and Peláez. The classic view corresponds to Furtado (1985), who concluded that the coffee support scheme applied by the government equated to a Keynesian countercyclical policy. Peláez (1972) contested this approach by concluding that the monetary and fiscal policy of the time was essentially orthodox. The main contribution of Peláez (1972, p. 32) was the conclusion that the *defesa* scheme was mainly financed through taxes on the coffee sector, that accounted for 66% of the total expenditure during May 1931-February 1933. But as Franco (1985, pp. 401-413) explains, the fiscal policy applied by Vargas was all but orthodox because of the significant share not financed by taxes. Most of those deficits were financed with monetary emissions, the resort to resources not spent in the payment of the foreign debt and commercial delays. The credits of the Treasury and the *Banco do Brasil* can be calculated at least from 3.5 to 5.5% of the GDP, meaning that the scheme must have had an important impact and contributed to the recovery of the Brazilian economy after 1931. This policy is genuinely a key difference with Brazilian neighbours, since Argentina and Uruguay lacked any similar policy with regard to, for example, meat products, so that the full contraction imported from the worldwide depression could not be dampened as it was in Brazil by this mechanism.

Beyond the coffee economy, the policies of the time mirrored the political swings. The outbreak of the revolution that started in October 1930 forced President Luís to take extreme emergency measures beyond the extension of martial law to the entire Republic. Immediately, the Congress placed at his disposal 100,000 contos (about £2,000,000) for combating the revolution[617]. Other measures such as declaring a moratorium, calling reservists and stockpiling, among others, damaged further the already weakened public finances. Eventually, the *Banco do Brasil* issued 300,000 contos with a warranty of 1 million pounds and the Treasury appropriated the entire gold reserve of 10 million pounds. The transfer from the bank to the Treasury was highly criticized because it provoked a sharp increase of the issues[618].

Then, the provisional government of Vargas was orthodox in its economic approach, since it prioritized budgetary equilibrium. As a matter of fact, by march 1931 Minister Whitaker

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[616] This figure was taken from Villanova & Suzigan (2001, p. 207).
[617] See article from The Financial Times, October 7th, in FO 371-14200.
[618] See Bello (1966, p. 286).

estimated that the government would needed to save between 200,000 and 300,000 thousand *contos de réis*[619]. And in May 1931, the government presented to President Vargas a report on the savings taxes applied by the government to face the difficult financial situation. In short, the government had applied a reduction of 147 thousand *contos de réis* for the budget of 1930 and further 142,000 *contos de réis* in 1931 (around 10% of the total government expenditure). As the government explained, having taken the expenditure reductions to the limit, it would be required to implement measures to increase the government revenues, as the deficit climbed to more than 300,000 *contos de réis*, if those increases had not taken place. Thus, there were increases or creation of taxes that included the increases in the taxes on foreign trade; increases of 50% of the taxes on tobacco, national or international beverages, jewellery, scents and vinegar; increases of 10% in other taxed articles; the creation of a new tax on the production of matches; the taxes on lotteries were extended to local lotteries; taxes on insurances were doubled; and, a reduction of 25% scheduled on income tax was skipped[620].

However, a significant part of the coffee policy was financed with credit. Moreover, the public deficit was around 12% of the gross expenditure in 1931 and 1933, and peaked at 40% in 1932 as a result of the *Revolução Constitucionalista* in São Paulo. Here it is possible to identity a difference between the discourse and the effective applied policies. Probably the more relaxed fiscal policy was not in line with the official discourse, which communicated a more compatible orthodox discourse. This was also consistent with the needs of a government eager to consolidate its power after the fall of the first Republic and to transmit confidence in the face of the adverse international and internal economic situation[621].

Another problem of Brazil was its high level of indebtedness. According to Marichal (1989, pp. 174-194), Brazil was the most prodigal borrower of the twenties. A significant share of the loans was provided by Schroeders, Lazards, and Rothschilds and served to protect the large and traditional British role in the Brazilian economy. Between 1920 and 1930, the foreign debt increased by more than 600 million US dollars, a figure that we can calculate as 1.25 times the total exports of Brazil in 1928, and includes large loans of five national, twenty-one provincial and ten municipal governments. All of the national, provincial and municipal governments had a considerable degree of autonomy, as demonstrated by the fact that provincial legislatures and city councils could negotiate foreign loans without asking for authorization from the national government in Rio de Janeiro. The mounting debt proved to be an additional weakness of the Brazilian economy when the external imbalances reached a point of rupture. Indeed, as Abreu (1990, p. 75) explains, the exchange crisis of 1929-1930 made it impossible to continue the payment of the external debt service because it would have amounted to an excessive proportion of the foreign trade balance. Furthermore, the depreciation of the Brazilian currency increased the budgetary impact of the public debt service on the three levels of the government, especially between the end of 1930 and August 1931, when the pound sterling and the dollar were still under the gold standard. The origin of the debt problem was also a matter of concern. The debt,

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[619] See Folha da Manhã, March 24th, 1931, p. 1.
[620] See Folha da Manhã, May 8th, 1931, p. 1.
[621] See Abreu (1990, pp. 79-80).

calculated at 1,250 million dollars, was denominated in pounds sterling (65% of the total external public debt), in dollars (about 30%), and the remainder in French francs and florins. Indeed, on November 20th 1930, the Council of British Bondholders calculated that the Brazilian loans in default in pounds sterling was about £ 76,102,380, with the corresponding services annuity being 5,712,649 or 8.7% of the total Brazilian exports of that year[622].

The British financiers were committed to helping the Brazilians not only because they were the major creditors but also because of their large investments in railways, banks, and plantations, as well as their considerable stake in the coffee trade. For example, the fact that the Schroeder banking firm of London owned coffee plantations in Brazil probably influenced its decision to participate in the Coffee Realization Loan of 1930. Thus in spite of the fact that during the twenties the British investment decreased by 10%, the North American investments multiplied by four. Besides, the American debt was less solid, more concentrated on federated state and municipal level and more expensive because it was mostly negotiated during the twenties when the rates were higher. In any case, the selective commitment of the government to honour its debt according to its origin would affect the bilateral relation with those two major powers.

On September 1st, 1931, word came from Rio de Janeiro that the government had resolved to suspend sinking fund payments on all foreign loans except the funding loans handled by Rothschilds[623]. A few days later, the Brazilian government suspended the payment of interest on the external debt[624]. The official statement delivered by the Brazilian Ambassador in London announced that owing to the prevailing economic conditions, the government was unable to obtain the necessary foreign exchange to provide in full service to its external debts. However, the government committed to executing the plan for rehabilitation of Brazilian finance which was proposed by Sir Otto Niemeyer and hoped that the alleviation resulting from the suspension would allow it to provide the foreign exchange necessary for the payment of interest on its external loans[625]. Then, on October 7th a decree was enacted authorising a sixty day moratorium for all foreign exchange obligations, including commercial bills due from that date until the 31st December 1931[626]. On October 17th 1931, a funding loan was officially communicated[627], which meant an automatic refinancing of the debt service and the postponement of the capital

[622] These figures were taken from a memorandum from the British Council of Foreign Bondholders, dated November 20th 1930, in FO 371-15064, p. 14.
[623] See Marichal (1989, p. 220).
[624] See telegram No. 185 from Mr. Keeling to the Marquees of Reading, dated October 10th, 1931, p. 314, in FO 371- 15063.
[625] See article from The Financial Times, September 1st 1931, in FO 371- 15063, p. 96.
[626] See partial translation of Decree No. 20.495:"
The Chief of the Provisional Government of the Republic of the United States of Brazil decrees:
Article 1 - Bills and contractual obligations (*Titulos e prestações contractuaes*) falling due up to the 31st of December, -which are payable in foreign currency, are hereby prorogued for 60 days.
1 - All purchases and sales of exchange are excluded from this prorogation
2 - The concession of this advantage will be dependent upon a deposit in paper currency in the *Banco do Brasil* or in the bank by whose intermediary the collection of the amount of the debt is to be made, of an amount equivalent to the debt at the exchange of 4d. taking the pound at its parity rate with the dollar of $4.666536.
Any difference by exchange which may occur at the final liquidation will be adjusted at that time (…)".
[627] See Pacheco Borges (1979, p. 198).

amortization for three years ending in 1934. In practical terms, the debt possessor instead of receiving the payment of the interest received more Brazilian papers, which in the end meant a further increase of the Brazilian debt[628]. Regarding these events, the British Embassy reported that the general tone of the press was that Brazil was bestowing a considerable favour on its creditors by not simply repudiating its debts and this point of view reflected public opinion accurately[629]. And indeed the press, with official backing, explained that Brazil was not dealing with a moratorium in the ordinary sense of a suspension of payment of the service of external debt, because it was offering bonds equal to the cash with which it ought to pay the coupons. The press defended that Brazil required a delay of at least three years by a regime of payments in securities which were negotiable and could be turned into hard cash by the holders of Brazilian bonds and stocks[630].

But some British analysts were reluctant to accept the Brazilian arguments. For example, Mr Niemeyer was distrustful on the grounds that the suspension of interest seemed quite ‘unnecessary and unutterable folly’, because in his view the whole science of exchange control rested on a control of exports rather than on more or less futile efforts to prevent people from remitting for purposes the government did not consider useful[631]. However, the British Embassy was more understanding of the Brazilian stance, and explained that the stoppage of debt payment was forced upon the government by the disappearance of bills from the market and that the announcement was simply recognition of what had in fact already taken place. The reasons for the sudden lack of bills in August and September 1931 were according to this source the ineffectiveness of the exchange control, as the exporters had not been obliged to sell their bills before making shipment; the discouraging official rate of 3 l/8 d. that did not satisfy many of the exporters, who tended to make arrangements with the consignees in such a way that the bills did not come into Brazil; and the existence of a series of transactions for which the authorities were themselves responsible, involving the shipment of considerable supplies of coffee for special purposes and for which no bills appeared in the market[632]. Another possible reason was the growing practice of barter that reduced the export bills on the market and became an important contributing factor in the weakness of the milréis[633].

Although the measures of 1931 and 1932 brought some financial relief, it was not enough. By 1934 the Brazilian government asked its foreign creditors to discuss a new restructuring of the debt. Once again the ubiquitous Niemeyer appeared as the representative of British interests, and his presence carried additional weight as his services were simultaneously requested by the Argentine government to help set up a Central Bank. Niemeyer submitted an outline of

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628 See Abreu (1986, p. 56).
629 See note signed by Mr. Keeling from the British Embassy to the Marquess of Reading, dated October 23rd, 1931, p. 216, in FO 371- 15063.
630 See leading article of the *Jornal do Commercio*, published on October 18th 1931, p. 217, in FO 371- 15063.
631 See note signed by Otto Niemeyer to Mr Lomax at the British Embassy, dated October 31st 1931, in FO 371-15064, p. 51.
632 See note from the British Embassy, dated November 18th 1931, signed by J. Garnett Lomax, to Sir Otto Niemeyer, in FO 371-15064, p. 52.
633 See note dated October 9th 1930 signed by J. Garnett Lomax, Commercial Secretary to the British Embassy, in FO 371-15065, p.34.

negotiable reforms to the new Brazilian Minister of Finance, Oswaldo Aranha. His suggestions were accepted, and the loans were classified according to a complex hierarchy of seven grades. Grades 1 and 2, which included the Rothschild loans, would receive full interest payments. Grade 3, which included several federal loans plus the bonds issued by the São Paulo Coffee Institute, would receive 30 per cent of the interest. The remaining loans, mainly the dollar loans of the twenties for the federal, provincial, and municipal governments, would receive lesser sums. The representatives of the American bondholders fought unsuccessfully to modify this scheme. The British bankers still had the upper hand[634].

iii. Uruguay and the pressure of the circumstances

The depreciation of the peso and the collapse of foreign trade during the early thirties prompted a significant reduction in the government revenues, creating a serious budget imbalance. Although in 1930 the fiscal deficit was relatively modest (786,000 pesos, 1% of the total expenditure and 0.2% of the GDP), it turned into a structural problem marking the end of the economic expansion that had begun in 1924[635]. In this regard, looking for options to get the country out of the crisis, the indebtedness level of Uruguay increased. For example, in 1930 the CNA, following a proposal of the BROU and taking advantage of the lower interest rates after the crash of 1929 in the US, decided to contract a 10 million pesos new debt with the Hallgarten House of New York (the 'second Hallgarten') to 'stabilize and rectify' the foreign exchange. A second issue of 7 million pesos debt was acquired by the BROU, making a grand total of 17 million pesos debt issue[636]. In this respect, it is interesting to point out that Uruguayans had better luck with American financiers than Brazil, if the failure of President-elect Prestes to negotiate contract loans in New York during this period to save the prospects of the suffering Luís regime is taken into account.

But the debts further aggravated the fiscal imbalance. Thus, similarly to Argentina, the CNA chose an orthodox policy in 1931 imposing new taxes, increasing others and reducing expenditure. The first cut in public expenditure came from the law of August 6th 1931, which enacted a 15% reduction of the ministries' operating expenses, a 50% cut in public vacancies that would not be filled and the suppression of several posts at the Ministry of War and Navy, among others. Some institutions such as the *Banco de Seguros del Estado* (BSE, National Insurance Bank), the BROU, the *Administración Nacional de Puertos* (ANP, National Port Administration) and the national power company (*Usinas y Transmisiones Eléctricas*, UTE), would have to transfer some of their cash to the national budget. The first law was complemented a few days later by a second law of August 20th, which reduced by 10% the remaining budgetary items left untouched by the law of August 6th. Furthermore, a wage tax was imposed on public servants, the retired and pensioners with 6 progressive bands starting from

[634] See Marichal (1989, p. 221).
[635] See Bertino & Bertoni (2003, p. 20).
[636] See Acevedo Álvarez (1934, pp. 83-97).

6% tax for wages ranging from 841 to 1,200 yearly earned pesos, to a maximum of 15% to wages over 7,201 pesos. There was also a minimum 70 monthly pesos exempted from tax (100 pesos for family groups). Three-fifths of the workers earned under the minimum wage, so they were exempted from paying the tax, and there was also a maximum monthly payment of 300 pesos for retired and 200 pesos for pensioners. The law also established a new tax on land, another on lubricating oil and the tax on fuels was increased 2 cents per litre, but with a complex system of tax drawback for public transport and transport of goods. As mentioned, taxes or equivalent burdens were raised on imported cars, cigarettes, spirits and alcohol used to produce perfumes and the CNA was authorized to increase to 48% tariffs on foreign products that were competitive with national products. The inheritance tax was also increased[637]. Thus, all these increases show that during our period of analysis the tax burden was raised. Regarding this, Azar et al. (2009) estimate an increase of the share of the overall tax revenue as percentage of the GDP from 11.7% in 1928 to 13.3% in 1934. The small relative size of Uruguay and its strong dependence on foreign trade explain the need to enact such harsh measures.

In the meanwhile, there was a run on the currency that together with the fiscal deterioration made the suspension of the service of amortization of the foreign debt unavoidable. In particular, the official answer to the crisis was a law of September 7th 1931 that postponed the payment of obligations of around 8 million gold pesos until December 31st 1931, and stipulated monthly amortizations by the debtors with a minimum of 25% between January and May 1932. This move almost coincided in time with the suspension of sinking fund payments on all foreign loans enacted in Brazil on September 1st 1931, and differs with the outcome in Argentina, which did not default at all. The following month, on October 14th 1931, the foreign companies established in Uruguay were forced to deposit their funds in banks and their remittances abroad were only to be authorized by the BROU after January 1st 1932 in monthly values not bigger than 25%. Then, although the economic situation improved in 1932 and the trade deficit was reduced significantly, the pressure on the currency was still strong and a new law of January 10th 1932 extended the moratorium throughout 1932. Thus, with all these decisions Uruguay turned into a ‘defaulter country’. Later, on July 15th 1932, a law was passed giving two options to the creditors in foreign currency. On the one hand, the unpaid bills of September and October 1931, along with the new payments not covered until July 15th 1932, were postponed again one year until 1933. On the other hand, similarly to Brazil, a new debt issue was offered, scheduled to be rescued gradually during a 5 year period, in foreign currency or gold pesos, and with a maximum interest rate of 6%[638]. In order to administer this last option, the aforementioned *Caja Autónoma de Amortización* was created[639].

Overall, according to Acevedo Álvarez (1934, pp. 207-213), the laws of August 20th and 6th 1931 and January 20th 1932 produced savings of 17.5 million pesos, of which the unpaid amortization of the foreign debt amounting to 4.8 million pesos was the most important item. However, those measures were not enough, and with further reductions in customs revenues due

[637] See Ibid., pp. 197-202.
[638] See Ibid., pp. 121-123.
[639] See Bertino et al. (2001a, p. 15).

to the deep contraction of imports and other taxes, the period 1931- 1932 ended with a budget deficit of 4.5 million pesos. This amount added to the deficit of 1930-1931, made a grand total of almost 12 million pesos, a figure that was consolidated by a law of January 2nd 1933. Moreover, this law allowed the CNA to issue new debt for 15 million pesos, known as the 'consolidated internal debt' of 1933, which included an interest rate of 6.5% and amortization of 1%, although the rescue was suspended until a further decision of the Parliament. The law also included additional cuts in public expenditure of about 3.3 million pesos, leaving a total amount for the national budget of 59.8 million pesos.

In that contractive scenario, the new *de facto* regime found itself with a burden of over 21 million pesos in 1933, resulting mainly from the 12 million accumulated floating debt of 1930-1932 and the 7.3 million pesos deficit accumulated during the second half of 1932[640]. Terra, eager to consolidate his power, decided to apply a less orthodox fiscal policy. In order to intensify the recovery that started by the end of 1933 the government expanded the public investment financed with credit provided by the BROU in 1935 by means of the *Ley de Revalú*o (Revaluation Law) of August 14th of that year. Taking advantage of the upward trend of the international price of gold, and with the same volume of gold in the BROU's reserves, this law established that the value of such reserves was 'readjusted'. The BROU was authorized to issue almost 50 million pesos without modifying its legal gold backing[641]. Certainly, it was a *de facto* non-declared currency devaluation, using part of the reserves of the BROU in an 'unconfessed' departure from the gold standard[642]. Thus, along with the resources provided by the Revaluation Law, beyond the key public monopolies created during the early thirties such as ANCAP and UTE, among others, two important public investments which constituted the landmarks of the regime were the petroleum refinery of ANCAP in 1935 and the hydroelectric dam *Rincón del Bonete*, which started in 1937 (partially financed by the Italian and German governments). And finally, a much smaller amount derived from that law was destined to education and old-age pensions[643]. Furthermore, using most of the resources obtained from the law mentioned above, Terra's government also implemented generous policies towards their main supporters during the coup, the cattle farmers.

Among the main measures, the devaluation of 1935 boosted exports representing an important reward for this group. In addition, the fiscal burden was diminished. The *contribución inmobiliaria rural* (rural property tax) was reduced by 10% and although up to some extent later as compared with Brazil and Argentina, the amortization of the loans contracted by cattle farmers with the *Banco Hipotecario* (National Mortgage Bank) was suspended[644]. However, the new government with its interventionist style in the economy could not be indifferent to the claims of the manufacturing industry for higher protection and more advantageous access to

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640 See Ministerio de Hacienda (1934b, p. 6).

641 The same law created the Departamento de Emisión (Department of Issues) of the BROU integrated with bank officials and representatives from the banking, trade, industry and agriculture vested interests, with the power to regulate monetary circulation (Bertino et al., 2001a, p. 18).

642 See Bertino et al. (2001a, pp. 17-18).

643 See Nahum (2008, pp. 162-163).

644 See Bertino et al. (2001a, p. 11).

imports of intermediate goods. In spite of the public commitment of the government to the rural sector during 1933-1934, with measures such as the suspension of the amortization of the loans contracted by cattle farmers with the *Banco Hipotecario*, it was the urban sector which by the late thirties displayed the higher degree of dynamism[645]. The industry benefited from the creation of two already mentioned key strategic companies: ANCAP in 1931 and CONAPROLE in 1935. However, there was no room for industrial policies of the sort adopted in Brazil and later in Argentina, and it probably would have been costlier in terms of efficiency. For example, unlike Brazil, Uruguay was limited by conditions of topography and soil to principally pastoral pursuits[646].

Possibly, as Bértola & Porcile (2007, p. 18) argue, this relatively more stringent characteristic pushed the country to more active policies in order to diversify exports as much as possible by targeting sectors with higher value added. Thus, in spite of the narrow domestic market, industry managed to increase its output and relative importance among the economic activities and was favoured as a result of the fact that it was able to process national and imported raw materials, so that its dynamism contributed to consolidating the economic recovery. Of course, the strong dependence of this sector on energy inputs, technology and certain foreign raw materials prompted stronger state interventionism with the aim of saving foreign currency, prioritizing its expenditures and promoting industrial activity[647]. The executive also decreed fiscal benefits for those national industries that expanded their scale or the new investments that settled in the country. As a result, in 1936 the textile industry, like in Argentina, became one of the main drivers of Uruguayan exports and occupied more than 6,000 workers, a significant figure by Uruguayan standards[648]. However, the industrial sector could not absorb the whole available workforce and the government enlarged its size in a disproportionate way. Thus, even not necessarily for political calculation (e.g. obtaining votes with promises of public posts but also for the conviction of its social role), the result was that, as with all bureaucratic systems, its internal logic of functioning and vested interests did not always coincide with what was convenient for the global economy. As a result, it is fair to say that the state interventionism not only discouraged innovative ideas, but also brought about opportunist behaviour and the search for rents by businessmen. There was a general distrust in the legal system as the public servants tended to process particular demands according to their economic power or political connections. Thus, it was not uncommon that the particular interests too often prevailed over the general one.

The measures that favoured the industrial sector were a source of dissatisfaction for the rural sector. The policies applied to the meat sector were not enough to compensate for the stagnation of the vital livestock industry[649], and by 1934 the government realized that it was necessary to provide additional support to that sector. In this regard, in the framework of the 'Economic and

645 See Finch (1991, p. 200).
646 See United States Department of State, FRUS (1952, p. 642).
647 See Bertino et al. (2001b, p. 28).
648 Data were taken from Rela (2009, p.500).
649 See Bethell (1994, p. 91).

Financial Readjustment Plan', the aforementioned Revaluation Law was enacted, which gave authorization to issue pesos without modifying its legal gold backing. This policy meant a non-declared currency devaluation to boost agricultural exports, and the revenues derived from this measure made it possible to grant premiums for exports, a reduction of property tax and improvements in education, among other measures. Moreover, with the support of these benefits and the expansionary credit policy the government could boost public investment and in that way counteracted the decreasing private investment, stabilizing production and the exchange market. However, even though Uruguay was more successful than Argentina and Brazil in creating its own national meat-packing plant, *Frigorífico Nacional*, as Nahum (2008, p.165) explains, regardless of all efforts of both administrations to strengthen the main Uruguayan product, it could not be developed as expected since the weak allocation of warehouses trimmed its commercialization potential and its small scale of production hindered its growth. The North American trust, owner of the other three meat-packing plants, kept fixing prices paid to the livestock farmers, controlling distributing warehouses and reserving the consumption markets.

Although during Terra's government the capitalist class was strengthened and the rural sector expected that the *batllistas* policies would be readdressed, the reality was dissatisfying for them. It was impossible for the new regime to reverse the changes brought about by the Great Depression. According some researchers such as Finch, the political base of the *de facto* regime was eroded by its inability to reflect the popular consensus in the domestic market and to maintain its coherence in the face of a changing international scenario[650]. For example, the way in which the intervention in the exchange market was conducted showed the weakness of the optimization approach to target variables, in particular the case of the exchange rate. As the policymakers' rationality was limited, when the objective-variables did not reach 'satisfactory' levels, the government responded with active policy measures[651]. Thus, we agree with Díaz Alejandro & Seibert (1979, p.149), who referred to Uruguay as an 'active small country' with a relatively autonomous public sector.

iv. Conclusion

Using Díaz Alejandro's well-known expression, ABU were in the group of the most active countries in South America, along with Colombia and Mexico [652], because of their leadership in policy experiments.

The experience of Argentina during the Great Depression, according to various academics and in the words of della Paolera & Taylor (1999, p. 587), constituted an ideal historical laboratory for the research of macroeconomic stability and policy choice in an open economy under a fixed exchange rate regime. In this regard, similarly to many other countries, as illustrated in Figure 24, Argentina adopted defensive policies based on state intervention and the end of *laissez-faire*,

[650] See Finch (1991, pp. 199-201).
[651] See Zunino (2009, p. 15).
[652] See also Díaz Alejandro & Seibert (1979, pp. 147-156).

e.g. imposition of exchange control, price intervention schemes and an increase of tariffs. This country was closing its economy and, against an important section of public opinion, it started to think in terms of an import substitution industrialization process. All these reactions represented, as Rock (1991, p. 4) argues, the acceleration of a profound ideological change: the decline of liberalism and the rise of nationalism. This nationalist sentiment was challenged at the time by the disadvantageous negotiations with the British that ended with the signature of the well-known Roca-Runciman Treaty.

It is important to stress that these policies were interconnected. One example of that connection is between trade and exchange rate policies. With the imposition of the exchange control the government could use the foreign currency as a non-tariff mechanism in order to handle foreign trade and to obtain fiscal revenues, taking the differences between buying and selling rates in the official market. These profits also allowed the implementation of significant sectoral policies, too. Nevertheless, it is important to point out that many of these measures were implemented on a 'trial and error' basis amid desperate conditions that did not allow that interconnection to mature.

First of all, Argentina responded by closing its Currency Board and by abandoning the gold standard rules in 1929, in order to reactivate its economy. Then, after the coup of 1930, the country implemented a series of economic policies that can be divided into orthodox and heterodox. In this regard, although in general the analysed literature suggests that in 1930-1931, during Uriburu's term, and even when Hueyo headed the Ministry of Finance in the course of Justo's term in 1932-1933, orthodox policies were implemented, in contrast to the period 1933-1935 when Pinedo was Minister of Finance, it is important to emphasise that during those periods not all was orthodox. Prebisch (1986, p. 135) argues that there was an unfavourable combination of an external contraction and an internal expansion which led the economic team to act in both areas: on the one hand, to check internal expansion by means of a balanced budget, and on the other, to intervene in the export sector. Thus, this combination resulted in the necessary implementation of both sorts of policies: orthodox and heterodox.

It is true that at first with the outbreak of the crisis, as Figure 24 shows, the main ideas behind the design of the economic policies were: to balance the budget, to service the foreign debt and to eliminate the trade deficit. The complicated international context put a stop to the machinery of government revenues because of the depressing effect on Argentina's foreign trade and the country inherited from the Yrigoyen government a significant fiscal deficit. Thus, as Alhadeff (1986, p. 96) states, when the balance of the budget was declared by General Uriburu to be a fundamental aim of the revolution of September 1930 and its Minister of Finance Enrique Uriburu confirmed it as pillar of the government's economic strategy; nobody doubted that the first response would be decrease public expenditures. According to Díaz Alejandro (1970, p. 96) more by the pressure of the circumstances than by design during the early years of the Great Depression (1930-1931) the orthodox fiscal policy was in fact focused on, first of all, reductions in public expenditure, and then application of more taxes and increase of others. In this regard, it is interesting to point out that the situation was quite similar in Uruguay, which had to cut operative expenses in ministries, increase existing taxes (e.g. fuels), and create new taxes (e.g.

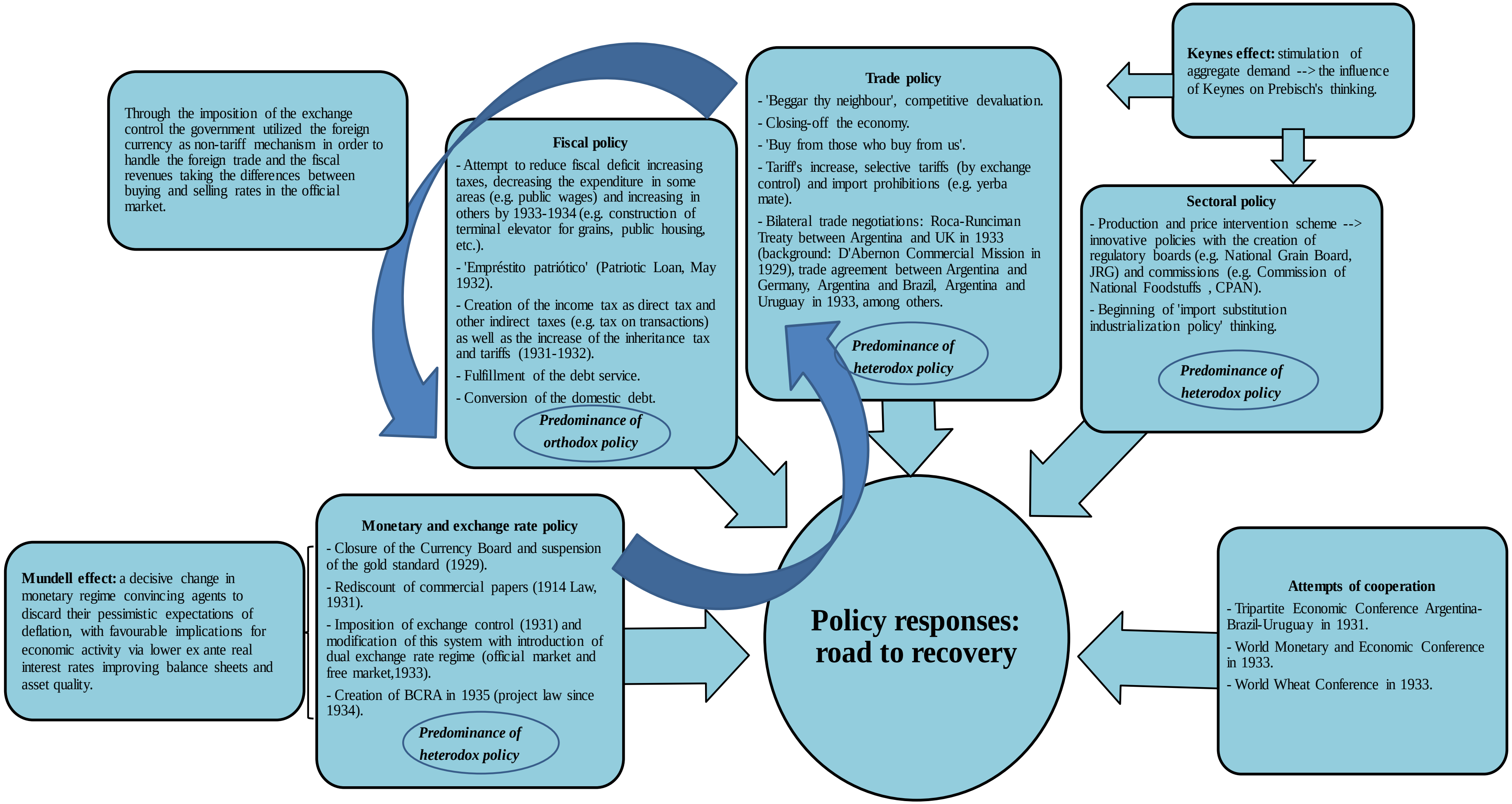
public servant wages). And it did not have the advantage of Brazil which counted on its coffee *defesa* scheme as a countercyclical policy to smooth the economic contraction.

Indeed, the fiscal area was not itself an area of change of regime at all. But, in relation to the latter, during Hueyo's term there was an innovation, a new path: the introduction of the *impuesto al rédito* (income tax) in 1932 with the chief objective of generating more revenues for the State. Consequently, this represented a heterodox element added to the fiscal policy, as well as the authorization by the government of an *empréstito patriótico* (Patriotic Loan) in the same year. Furthermore, the imposition of exchange control in 1931 that changed the exchange rate regime, the implementation of the Rediscount Law, as well as the increase of tariffs for fiscal and protectionist reasons, constituted heterodox measures, under the advice of the great Argentinean economist and policymaker Raúl Prebisch when he was part of the economic cabinet during the provisional government.

Then, in August 1933, when the crisis was deepening the government initiated an era of stronger intervention in the economy. The person appointed to put in place innovative ideas to fight the crises by President Justo was Federico Pinedo. This famous Minister of Finances had an interesting strategic vision, and together with his adviser Prebisch and other celebrities, merited by the public the so-called 'brain trust' nickname[653]. In fact, since that date, there was an explosion of original ideas and all researchers concur that it was a period with a high proportion of heterodox policies. However, even though the evidence shows that in the fiscal area there was a predominance of orthodoxy, there were heterodox changes that evolved according to the progressive influence of Keynes' ideas on Argentine policymakers. This economic team not only continued with the implementation of new tools of policy first applied during Hueyo's term such as the 'income tax', but also generated policies even more inventive than those followed in more advanced countries. These measures involved the creation of new institutions such as the regulatory boards that acted as supporting organs of price intervention schemes (e.g. the imposition of minimum prices for wheat, maize and linseed) and the *Banco Central de la República Argentina* (BCRA, Central Bank of the Argentine Republic) that predated those of Brazil and Uruguay. The main idea behind these policies was to encourage growth and to reconcile economic efficiency with income distribution.

[653] According to Prebisch (1986, p. 134), they were a small group of economists trained in Buenos Aires who had been with him since the creation of the Economic Research Unit at the *Banco de la Nación Argentina* in 1928. In words of Prebisch, part of the group which he led ended up fortuitously working in the provisional government and launching those mostly orthodox ideas.

Figure 24 Argentina: Policy responses - road to recovery



Neither Argentina nor Uruguay had such a policy as the coffee *defesa* scheme in Brazil. The need to secure the support of the powerful landed coffee classes, along with the social implications in terms of political instability arising from collapse of the coffee economy, prevented the authorities from deciding the abrupt termination of the coffee scheme. This policy was at the centre of the national Brazilian economy, and meant both strong vulnerabilities and a sort of stimulus package suitable to counterbalancing the Great Depression’s negative effects. On the one hand, the possibility that a negative external shock would spread to the real economy by means of the gold standard was doomed to be amplified if the coffee sector was affected by the perfect storm of deteriorating market conditions and the overproduction from unprecedented favourable weather conditions. Indeed, given the mechanics of the *defesa* system and the coffee economy, and with a similar view as Fritsch (1990, p. 59), we think that there were at least three variables which the authorities did not control and that made Brazil especially vulnerable. First of all, the size of the crop: the bigger the crop, the bigger the pressure on the financial resources of the *defesa* system. The second one was the state of worldwide demand. If this was to fall, there would be a need for a reduction in the transport of coffee from the warehouses to the ports, which affected the demand for financing in the same way as a big crop did. And the third one was the state of domestic liquidity, which contrary to the demand and supply shocks already described, would not affect the financial requirements directly through the increase in the requirements of global financing, but through its effects on the ability of the bank system to contribute to exports for the financing of stock retention. The Great Depression met all these conditions with the combined effect of deteriorating demand from the core countries and the drought of foreign credit conditions.

On the other hand, there was a good side of that policy. From the Furtado (1963 and 1985) point of view, with which we agree, described by Abreu (1990) as the ‘classic view’, it was indeed a ‘program for boosting the national income’ and a sort of anti-cyclical policy. The accumulation of stock piles had the effect of increasing the net investments in the country, or in other words, the GDP in the country would have fallen harder during the Great Depression if those investments were not available. Purchases of stockpiles entailed generation of income and in the end purchasing power, which avoided a sharper decline in demand. It also involved a foreign disequilibrium that was compensated for in the early thirties by the decline in the external purchasing power of the Brazilian currency. Thus, the demand was supported by expansionary fiscal policies, through the acquisition of coffee due to be destroyed. Furthermore, the reorientation of demand due to the depreciation of the Brazilian currency and the imposition of import controls was accommodated by the utilization of previously unused production capacity. This unconscious policy was the most anti-cyclical policy of its time, even when considering industrialized countries such as the US. It was in a way a Keynesian approach before Keynes, which supported the economy.

As a consequence, Brazil started to grow again as early as 1933, not only because of the recovery of foreign flows, but also because of the pump-priming policy unconsciously adopted in this country as a by-product of the protection of the coffee interests and the departure from orthodox thinking.

Uruguay was too much conditioned by the world-system. The narrow internal market did not provide a cushion for the Uruguayan economy. In spite of its high stock of foreign reserves when the Great Depression hit and the lesser fiscal exposition to foreign trade taxes, most key variables such as GDP and exports, contracted more than its neighbours.

A good example is that the Uruguayan peso lost stability in a context of foreign trade decline and capital flight. The contraction of most of the export products due to the contraction of foreign demand and the slump in international prices, as well as the closure of key markets and diseases, deeply affected Uruguay.

The political tensions within the government translated into an exacerbated questioning of the CNA. Under the new Terra's government, the capitalist class was strengthened and the rural sector expected that policies of the past would be readdressed. However, it was impossible for the new regime to reverse the changes brought about by the Great Depression. As happened in Argentina, Uruguay had to implement a pack of orthodox and heterodox policies. In the fiscal area, the first measures were fundamentally orthodox, decreasing public expenditure and increasing and creating taxation in order to reduce the fiscal deficit. However, not everything was orthodox. The heterodoxy was mirrored in public investments creating major sources of employment and the 'great' monopolies, some of them still existing nowadays. With regard to the trade and exchange rate policies, closely linked between them, the predominance was the heterodoxy again, characterized by a complex system of exchange control with multiple exchange rates and selective tariffs. But, it is relevant to highlight that one important difference with Argentina was the Uruguayan default on its foreign debt, another example of heterodox thinking.

The conclusion of this chapter is that all three countries applied heterodox policies meant to diminish the negative effects of the Great Depression. Although the comparison among ABU is not straightforward, the main heterodox characteristic of the Brazilian case is the coffee *defesa* scheme. In Argentina, it was the price support schemes for grains and the use of regulatory boards, along with the big change of the monetary regime aiming at the creation of a Central Bank in 1935, mentioned in the previous chapter. Finally, in Uruguay this characterization is given by a stronger government intervention through the use of state owned monopolies and, as mentioned, a complex mechanism of exchange control. However, it is important to stress that after all, in the three cases the thinking of the incumbent governments was changing. Ideas such as 'buy from those who buy from us' and competitive devaluations under the slogan 'beggar thy neighbour' were spreading among decision makers and societies. A new path for import substitution industrialization policies was being drawn as a base for the industrialization and development of these countries.

XII. Trade policies and diplomacy from the semi-periphery

In the preceding chapters we have seen the inevitability of the transmission of the Great Depression from the core countries to our semi-peripheral case countries. We have seen that they enacted several reactive and defensive policies, including the departure from the gold standard, the suspension of the payment of the foreign debt (only Brazil and Uruguay) and the imposition of exchange controls. However, most of the recovery coincided with the recovery elsewhere, and in general it was difficult for these countries to change the patterns of interdependence they held with the main core countries, especially the UK and the US.

In this chapter, we analyse the trade policies implemented by ABU, as well as the trade negotiations and representations made by each country, which gives a good idea of those patterns of interdependence. It marks the end of our analysis of the elements that constitute our definition of vulnerability, as presented in our introductory chapter and illustrated in Figure 1.

i. Foreign trade policies and dependence

Protectionism in ABU was linked to events elsewhere in the world-system. In this regard, Picture 4 is a caricature from the famous Argentine comic magazine *"Caras y Caretas"* that represents the exaggerated way in which the US and the UK demanded goods and capital, that was ultimately detrimental to the rest of the world. This picture also illustrates that their behaviour had resulted in overproduction that depressed international prices and a serious fall in world exports in a context of 'tariff war'. Thus, according to the meaning of this caricature, these countries, in an attempt to accumulate wealth, caused the rapid deterioration of the world economy, including primary exporting countries, with the subsequent increase of unemployment and cost of living.

Although what this caricature expresses could be exaggerated, it was not far from reality. During the Great Depression, the supply did not find demand and the global demand fell sharply. The reactions of the industrialized nations to the crisis were: to use their buying power to defend their markets, to ensure the repayments of debts and to protect their investments and industries with the increase of tariffs and the imposition of quantitative restrictions (quotas)[654]. In relation to the protectionist tools, tariffs rarely insulated domestic markets as successfully as quantitative restrictions did. This explains why during the thirties the domestic prices of wheat in some European countries were three to four times the price in Canada or Argentina. In addition, discriminatory measures were also used to favour trade with certain countries, as tariffs were supplemented by import quotas and licenses to favour particular sources of imports[655].

Picture 4 The fight for the wealth among powers

Source: *Caras y Caretas*, 05/09/1931.

One relevant example for its consequences on ABU was the trade policy of the UK. During the thirties the British concentrated on its Empire, strengthening its relations with its colonies and dominions, the so-called ‘sterling zone’, granting trade preferences and establishing limits to the US presence there. The main expression of the strengthening of the commercial ties of this country with its Empire was the signature in September 1932 of the Ottawa Agreements[656] by which the UK granted various preferences in favour of Argentine and Uruguayan competitors such as Australia, Canada and New Zealand. In addition to this, it imposed a general tariff[657] and quota restrictions on foodstuffs imports. And these measures added to the fact that although the UK did not impose exchange control, the inconvertibility of the pound sterling and its

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[654] As Taylor (1965) argues, evaluating the protectionism in the UK, the whole process was a dramatic reversal of the secular trend by which the UK had become predominantly industrial, whilst drawing foodstuffs from the rest of the world. The reversal was perverse at the time of the Great Depression and perhaps the main victim of that perversity was Argentina (Díaz Alejandro, 1970, p. 94)
[655]See Eichengreen & Irwin (1995, p. 2).
[656] For more detailed information see “Ottawa Conference” in C.P. 298, 1932 and “Ottawa Agreements Bill” in C.P. 297.A, 1932.
[657] By the Emergency Abnormal Duties Importations Act of November 1931 the UK abandoned the old tariff regime and since February 1932 with the Import Duties Act started to apply a general tariff (Kitson & Solomou, 1990, p. 3).

depreciation in September 1931 caused an important dislocation in world trade. Furthermore, as Richardson (1969, p. 13) argues, in a context of global financial restrictions and in an attempt at safeguarding its income from loans or investments, the UK imposed an embargo on many sorts of overseas lending.

The meat sector was extremely sensitive for Argentina and Uruguay, perhaps not so much for its intrinsic economic importance[658] as for the cobweb of interests linked to the meat trade: producers, meat-packing plants and shipping companies that had the ability to put strong pressure on the governments. In particular, the meat industry was hit very hard by protectionist policies elsewhere. Indeed, as Bidwell (1939, p. 785) recalls, in 1930, yielding to pressure from American livestock interests since 1926-1927 and against the advice of the Secretary of Agriculture, the US Congress made country-wide embargoes mandatory. As a result, orders were issued prohibiting imports of live cattle and meat from several countries, including Uruguay and Argentina, using the foot-and-mouth disease as an excuse.

The Imperial Preference added to the negative panorama. Among other measures adopted, from a separate note of the memorandum about “emergency restrictions in imports of meat, bacon and hams”[659] it is possible to conclude that the UK decided to cut down meat imports from South America during the second part of November and December 1932. In particular, it sought to reduce chilled beef imports by 10% (to be increased if necessary up to 20%) and to cut down frozen mutton and lamb imports by 20% as compared with their ordinary programme for that period, that is to say, taking as base the figures of the already low 1932 purchases. And even worse, the Ottawa Agreements provided for an agreed reduction at the outset of 10% in the foreign supplies of mutton, lamb and frozen beef and this reduction would gradually increase to 35% in the second quarter of 1934.

For Uruguay the agreements meant a reduction of 11 thousand tonnes of beef as compared to the period 1930-1931 (-27.3%). Furthermore, the quotas for frozen meat were scheduled to be reduced up to 35% until June 1934[660]. As a consequence, the Uruguayan and the Argentine main export market, the UK, was at risk at a time when for Uruguay it was very difficult to diversify the beef exports towards other markets. And although this country was determined to reduce tariffs on products from its main destination markets, the fact is that Uruguay was importing from the UK almost the same, whilst this big importer of meat was importing 50% of the volumes that it used to buy before the Ottawa Agreements[661].

[658] According to figures calculated from the League of Nations, in particular, by 1928 the meat trade in Argentina represented around 12% of the total trade in current dollars, and in this category chilled beef represented around 6.5% and frozen beef only 2%. However, by 1930-1931 this situation changed. Meat trade represented around 20% of total trade (as first export product in 1930 and second in 1931) and chilled beef trade doubled its figure in comparison with 1928 reaching half of the total share of the meat trade. For the case of Uruguay, meat trade (including its by-products) represented an average of 33% of the total trade in 1928-1934, while the chilled beef and the frozen beef trade had a share of around 7.5% of trade each one.

[659] According to the Board of Trade these voluntary restrictions were quite separate from the restrictions provided for in the Ottawa Agreements, in view of the serious situation in the livestock industry, which had deteriorated even further since Ottawa (“Argentine-UK Tariff Negotiations” in BT 11/165).

[660] See Acevedo Álvarez (1934, pp. 145-148).

[661] See Barrios Pintos (1978, p. 238).

In addition, regarding the grain trade, some measures were especially detrimental to Argentina. For example, according to the same memorandum, a duty of 2 shilling[662] per quarter on all foreign wheat was imposed, but this was subject to the proviso that the duty would be suspended if adequate supplies were not forthcoming at the world price from Empire producers. Furthermore, the duty on butter which was fixed at 10% ad valorem under the Import Duties Act had, under the Ottawa Agreements, become 15 shillings per hundredweight, which was roughly equivalent to 15% ad valorem. Finally, under the Agreement with India a duty of 10% ad valorem was imposed on foreign linseed[663]. The Board of Trade defended the British position arguing that a large proportion of Argentine staples such as maize, raw wool, hides and frozen and chilled meat were still duty-free in the UK. However, after analysing the 'emergency restrictions' taken by this country, that argument was not convincing for the Argentine government, especially in the case of meat exports.

Other core countries applied measures that affected the region. Germany, another key customer of ABU, imposed exchange control in July 1931 in order to face an important banking crisis, and started to put into practice 'clearing agreements' as well as a barter system together with the creation of the ASKI marks as an exchange currency. In the Latin American sphere these mechanisms were particularly implemented with a group of four Latin American countries: Argentina, Brazil, Chile and Uruguay. Such arrangements had marked consequences for regional trade, and a good deal of Latin American trade was canalized bilaterally not by choice, but by the actions of European trading partners, a situation that was detrimental to rival markets. Another important European trading partner, France, did not impose exchange control and joined the group of the last countries which suspended the gold standard in 1936. However, it increased tariffs and imposed quota restrictions on agricultural products.

With regard to the US, the Tariff Act of 1930, otherwise well-known as Smoot-Hawley tariff[664], increased nearly 900 American import duties and prompted the economic isolationism of the era. In fact, the Smoot-Hawley tariff is probably the most commented upon change of policy after the crash of 1929, and it could be argued that it was the equivalent for the trade system of the 1929 crash in the financial system. Since the imposition of the Fordney-McCumber tariff in 1922 the US was evidently increasing tariffs on goods coming from ABU in comparison with the 1913 Law, a situation that was aggravated with the imposition of the Smoot-Hawley tariff. For example, according to data from Cortés Conde (2009, p. 346) with the 1922 Law imports of linseed oil were taxed with a duty of 40 cents per bushel while in 1913 this duty was 20 cents and even worse with the 1930 Law this duty increased to 65 cents per bushel! On the other

[662] 20 shillings = 1 pound sterling and 12 pence = 1 shilling.

[663] See "Effect of Ottawa Agreements on Argentine imports into the United Kingdom" signed by the Board of Trade and "Emergency Restrictions in Imports of Meat, Bacon and Hams" signed by the Foreign Office in Memorandum prepared for the use of the Prince of Wales (…) in "Argentine-UK Tariff Negotiations", dated January 1933, BT 11/165.

[664] This Act is called after the names of its sponsors. Willis Hawley was a congressman from Oregon, and Reed Smoot, a senator from Utah ("Protectionism: The battle of Smoot-Hawley" in The Economist, 2008).

hand, some goods that were duty-free within the framework of the 1913 Law such as meat[665], corn and fowl, had in 1922 tariffs of 20% over the value, 15 cents per bushel and 6 cents per pound respectively; and in 1930 these tariffs continued increasing to more than 20% (6 cents per pound), 25 cents per bushel and 10 cents per pound. In addition, if one takes into account the information provided by Berglund (1930, p. 472), whilst in 1913 cattle and milk were duty-free goods, in 1922 they were taxed and in 1930 cattle under 700 pounds reached a tariff of 2.50 cents per pound and cattle over 700 pounds 3 cents per pound, and on milk there was imposed a tariff of 6.5 cents per gallon. Furthermore, the US imposed duties of 10% on hides and skins, with this country being the largest importer of this important Argentine and Uruguayan product. Then, to worsen the international scenario, in March 1933, during Roosevelt's administration, the US imposed exchange control and in April of that year declared the inconvertibility of the dollar, with the subsequent devaluation of its currency, meaning another serious collapse for world trade by a time when most countries were fighting against the crisis.

A good example of the consequences of the global protectionist wave is shown in the significant contraction of the volume of world grain exports that was accelerated by the measures by which governments of the importing and exporting countries attempted to avoid pressure on domestic prices. In order to give more detail, we analyse the case of wheat, a product with a high share in Argentine exports. In Germany, Italy and France, the three most important wheat-importing countries of continental Europe, wheat tariffs were increasing since 1929[666]. In Table 77, one can see that in Germany wheat tariffs in 1929 increased practically 30% in relation to 1928 and skyrocketed 400% in 1931! In Italy these percentages were 86.5% and 170%, respectively, and in France 43% and 129%. These numbers illustrate the protectionist ruthlessness of those years. Furthermore, these three countries imposed quantitative regulation on the demand of millers, who were forced to grind a certain percentage of domestic wheat thanks to cheap loans and subsidies, complemented by state purchases on the grain markets. In France, the tariff was refunded on export wheat after the abundant crop of 1929. Like Germany in 1929, France exported a large volume of wheat in 1930 and 1931. But while Germany and Italy restricted their imports or kept them at low levels, France bought more foreign and colonial wheat than ever. Then in 1933 important restrictions were introduced in these three countries when crops in all of them reached record levels, due in part to favourable weather conditions. Also highly detrimental to Argentina was the tariff of 6.1 cents per bushel (at the old mint par) introduced by the UK on foreign wheat, while it continued to allow duty-free imports from the Empire[667]. Moreover, in 1931 Belgium and the Netherlands imposed important restrictions, affecting ABU trade. Belgium enacted a licensing system for imports and transit trade. The following year this country introduced a quota on imports, ordered the millers to use domestic wheat and paid

[665] It is important to recall that although the US increased tariffs on meat by 1930, in 1926-1927 fresh, chilled or frozen meat from any regions where foot-and-mouth disease was found to exist was prohibited from entering the US, resulting in the practical elimination of such imports from ABU.
[666] See also Davis (1934).
[667] Beginning in 1932, the subsidies granted to wheat farmers in the UK were significant. Payments, under the modality of a tax on flour, were guaranteed in full on sales of domestic wheat up to a maximum of 50.4 million bushels (later increased to 67.2 million) (Taylor & Taylor, 1943, pp. 114-115).

subsidies for the expansion of wheat acreage. The Netherlands introduced fixed prices and compulsory milling quotas in 1931, and two years later monopolized grain imports and exacted monopoly fees. Even Denmark began to impose grain tariffs although they were low[668].

Table 77 Wheat tariffs (cents per bushel)

Year	Germany	Italy	France
1928	32.4	39.4	37.3
1929	42.1	73.5	53.3
1931	162.1	106.3	85.3

Source: Taylor & Taylor (1943, p. 112).

On the other hand, the situation of the great wheat-exporting countries, like Argentina, was critical not only because of the aforementioned measures taken by importing countries, but also due to competition from Eastern Europe. The USSR, under the first 5-year plan[669] increased imports of production goods such as machines needed for the planned industrialization of the country and for the mechanization of agriculture, for which it had to pay with the help of greatly increased exports of agricultural products. The USSR apparently wanted to regain the place on the world grain market which it had before the war of 1914-18. During 1930-1931 the USSR exported almost 94 million bushels of wheat, a larger quantity than Australia shipped during the middle of the twenties. With regard to the US and Canada, the Canadian dollar had not depreciated so much as the pound sterling before 1933, when the US dollar was devalued, making exports difficult. In addition to this situation, both governments, in an attempt at avoiding more depressed prices, withheld wheat from the market[670]. By contrast, Argentina and

[668] See Taylor & Taylor (1943, pp. 112-115).

[669] The first 5-year plan included the period from October 1, 1929, to December 31, 1933 (Taylor & Taylor, 1943, p. 115).

[670] In 1928, there was the first big attempt by the Canadian wheat pool to control the price of wheat. Until then, these organisations had as their chief objective the balancing of the supply and demand of wheat in the market over each crop year, thus avoiding the fall in price when individual farmers sold their wheat as soon as it was harvested. In that year, however, faced with a very large crop, the central selling agency of the pool took the decision of withholding from the market a part of it in order to prevent prices falling sharply, and to carry this as stocks until there was a short crop -it was the same valorisation idea as the Brazilian coffee scheme, and essentially the same technique was used- (Rowe, 1965, pp. 126-127). Then, at the beginning of the critical crop year 1929-30, the Canadian pool again had heavy stocks, on which it had reached $1.00 a bushel for the producers. As prices collapsed, the governments of the wheat provinces guaranteed the bank loans made to the pool, and held the elevators as security. In 1930, the government retained the central agency of the pool as the organ for its intervention on the wheat market. After that, between 1931 and 1932, it granted a production bounty as an aid to the wheat farmers. During the following three years large quantities of wheat were withheld from the market. The carry-over increased; by the middle of 1933, stocks amounted to 237 million bushels and two years later they were still 225 million (Taylor & Taylor, 1943, pp. 117-118). On the other hand, in the US, because of the fall in wheat prices in 1930, the Federal Farm Board through the Grain Stabilisation Corporation bought almost 330 million bushels of wheat between February 1930 and the summer of 1931, at an average cost of 81.97 cents per bushel. As a result, for some months Chicago wheat prices were kept well above world prices, with the inevitable consequence that exports virtually ceased. The government transferred part of its stocks to the American Red Cross and sold part of them to foreign governments (Germany, China, Brazil), but ceased buying when the 1931 crop reached nearly 942 million bushels. As a consequence the price to producers, still 51.9 cents on June 15, 1931, dropped irregularly to a low of 31.6 cents on December 15, 1932. In the meantime, exports showed only a small temporary improvement and stocks continued to pile up (Ibid.). Thus, in 1933 the Roosevelt administration came in, and introduced a

Australia, deeply in debt, had to do their utmost to export wheat, whereas the two North American countries could finance the accumulation of huge stocks. Australia, as well as Argentina, abandoned the gold standard in 1929. It devalued its pound at the beginning of 1931 and later held it at a rate 20% lower than the pound sterling after the latter depreciated. Among the main measures implemented by the Australian government was that wheat farmers received loans, production subsidies and relief payments financed in part from a tax on flour[671].

And regarding the main Brazilian export staple, Table 78 illustrates the level of tariffs affecting coffee for several key importing markets. It is possible to verify that the US policy was more benign in relation to Brazil, since it granted free access to Brazilian coffee, while at the same time it hit Argentine and Uruguayan meat and wool interests. As a matter of fact, most European countries levied high tariffs on coffee, especially Italy and Germany.

Table 78 Statement showing the duties leviable on Brazilian coffee in foreign countries

Country	Duty description	Duty
United Kingdom	Customs import duty	14/- per cwt.
United States	No duty	No duty
France	Customs import duty, 231.20 frs. per 100 kilos or	19/- per cwt.
	plus internal revenue duty, 180 frs. per 100 kilos or	14/9 per cwt.
	plus special tax, 10 frs. per 100 kilos or	10d per cwt.
Italy	Customs import duty, 477 lire per 100 kilos or	52/5 per cwt.
	plus consumption duty 1123 lire per 100 kilos or	122/6 per cwt.
Germany	Customs import duty, 160 Rm. per 100 kilos or	81/- per cwt.

Source: FO 371-15060, no exact date, probably of June 1931, p. 192. For the US, the information was taken from the Smoot-Hawley Act 1930.

ii. More tariffs and discrimination against ABU

Given these facts imposed by the world-system, the trade policy of ABU by the thirties was based on two fundamental pillars: the increase of tariffs and the bilateralism. These countries had three powerful weapons in commercial matters: the differential exchange rates via the exchange control, devaluation and the creation and/or increase of tariffs. All of them are indicators that their governments had put into practice policies of the 'beggar thy neighbour' type. But the justification for these measures at that difficult period in history is that these countries were dependent on the purchases of staples from the rest of the world and for that reason the slogan that the governments started to prompt was: 'buy from those who buy from

scheme of direct acreage control, combined with a subsidy to the farmers financed by a tax on flour. Direct acreage restriction was the right way to control wheat production, for low prices had very little effect in discouraging production in the prevailing conditions either in US or other exporting countries. But this policy was almost too successful. Due to drought, the 1934 crop was so small that the remaining government stocks which had not already been given to the Red Cross for the unemployed, or sold cheap in Asia, were all required for home consumption. For the first time in history the US became a net importer of wheat, though the amount was inconsiderable (Rowe, 1965, p. 131).

[671] See Taylor & Taylor (1943, pp. 116-117).

us!' As a matter of fact, competitive devaluations and discretionary management of the foreign trade were policies shared in one way or another by ABU.

In Argentina, the collapse of free convertibility during the thirties put this country in a difficult position concerning surpluses with Western Europe and deficits with North America. Thus, following the aforementioned slogan 'buy from those who buy from us', Argentine trade policy attempted to divert imports from the US towards Western Europe, especially the UK[672]. Indeed, during this period Argentina had as first priority to strengthen ties with that country. By that time, Argentina demonstrated great diplomatic activity in the economic field. The result was the increase of the bilateralism under the modality preferred by those European countries. An example of this is that by 1938 about 60% of Argentine imports were performed under barter or clearing agreements (compensation agreements)[673], as mentioned earlier, a system much implemented by Germany and its allies.

Indeed, faced with the onset of the Great Depression and the threat of Imperial Preference, President Yrigoyen abandoned in 1929 the moderate protectionism which had characterized his first term and based his trade policy on proposals from the *Sociedad Rural Argentina* -SRA-[674]. And after the coup of 1930 and given this unfavourable international panorama, the first response during Uriburu's government was to increase tariffs, which from then on became more important as trade regulators than as instruments of taxation. As Table 79 shows, during the period 1928-1930 under the presidency of Yrigoyen, the total import duties as a percentage of the 'real value' of merchandise imports was decreasing, a situation that was reversed by the early thirties. During 1930-1933 this percentage was increasing, reaching an average of 24% for the whole period. This percentage suggests that duties in Argentina were internationally high, as they were on average bigger than in the US (18%) and Canada (15.5%) for the same period[675].

By April 1931, certain formerly duty-free articles such as fuel oil, printed books, machinery and spare parts, certain heavy chemicals, special industrial sewing machines, eggs, dried beans, dried pulses and pleasure boats were to carry tariffs ranging from 5 to 25%[676]. Furthermore, in September 1931 a 'temporary' surtax of 10% ad valorem[677] on practically all classes of dutiable

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[672] According to Díaz Alejandro (2000, p. 23), Argentine controls were practically forced upon it by the UK pressure for bilateral clearings, but in order to comply Argentina had to discriminate against US exports. Therefore, such 'buy from those who buy from us' policies generated hostility in the US against Argentina, and some North Americans viewed her controls as a sign of Nazi rather than British influence.

[673] Díaz Alejandro (1970, p. 99) based on Kelly (1965).

[674] See Solberg (1973, p. 283).

[675] These data were taken from Díaz Alejandro (1970, p. 285).

[676] See Alhadeff (1986, pp. 107-108).

[677] The values of goods used in the trade returns and in the assessment of ad valorem duties were those fixed in the Valuation Tariff of 1906, adding the aforementioned increase of 60% made in 1923 (this was the position in 1930; during 1931 the valuations of a large number of goods were increased by varying percentages and hundreds of new valuations were established). These values were not generally reliable and the Argentine Statistical Department in order to reach a rough true value of their imports calculated what they called '*valores reales*' (real values), as distinct from 'tariff values'. Although the 'real values' and 'tariff values' for total imports were approximately the same, there were wide differences in detail and those differences were studied by the Board of Trade in order to have more elements of discussion in the trade negotiations. "Economic and

goods was imposed[678]. Even the British argued that by 1931 the Argentine government had increased substantially the duties levied on British goods[679]. This policy was not different from those applied by neighbouring countries. Brazil, for example, applied tariff increases (e.g. cotton yarns, jute, hemp, paper goods). Uruguay did so for goods competitive with the national industry and imposed new duties on automobiles (which later were doubled), alcohol, cigarettes, spirits, fuels and bananas, among others.

Table 79 Argentina: Data on the level of import duties

Year	Total import duties as a percentage of the 'real value' of merchandise imports	Ratio of 'tariff value' of imports to their 'real value'	Total import duties as percentage of the 'tariff value' of merchandise imports
1928	17.4	1.014	17.1
1929	17.3	1.023	16.9
1930	16.7	1.020	16.4
1931	21.7	1.028	21.1
1932	28.6	1.040	27.5
1933	28.7	1.083	26.5
1934	22.4	0.923	24.2

Source: Díaz Alejandro (1967, p. 79) based on data on receipts from import duties, 'real' and 'tariff' values of merchandise imports from *Dirección General de Estadística de la Nación*, *Anuario del Comercio Exterior de la República Argentina*, various issues for the period of analysis.

However, according to Chalmers (1953, p. 110) Argentina, similarly to other Latin American countries, removed in 1932 the duties on a list of foodstuffs, machinery and other products which had been made dutiable the year before. About the latter it is possible to imagine that Argentina revised the duties imposed before in order not to hamper the development of its national industry which later would constitute the full expansion of the import substitution industrialization model. But, according to various researchers, this revision was not enough to avoid difficulties in the industrialization level. In consistency with the increase of tariffs and according to figures from Díaz Alejandro (1967, p. 82), the real value of duty-free imports during 1930-1934 as a percentage of the real value of all imports was on average 26.5%, whilst during 1925-1929 it was 29.8%, which means a reduction of 3.3 percentage points in comparison with that period. On the other hand, during 1930-1934 the percentage of total import duties in relation to the real value of imports subject to duties increased from 23% between 1925 and 1929 to 32%.

Trade Relations. Record of conversations between the Argentine Ambassador and Mr. Craigie (Foreign Office) and also with the President of the Board of Trade" in "Argentina-UK", BT 11/79 (1932).

[678] This information was taken from "Argentina-Tariff Discussions" in "Economic and Trade Relations. Record of conversations between the Argentine Ambassador and Mr. Craigie (Foreign Office) and also with rhe President of the Board of Trade" ("Argentina-UK", BT 11/79, 1932).

[679] This information was taken from an Aide-memoire in "Economic and Trade Relations. Record of conversations between the Argentine Ambassador and Mr. Craigie (Foreign Office) and also with the President of the Board of Trade" ("Argentina-UK", BT 11/79, 1932).

In this regard, it is worth mentioning that the Argentine tariffs were much more encompassing than those of the US. Many raw materials and manufacturing inputs which were duty-free in already industrialized countries were dutiable in Argentina. Some authors attribute this to the revenue-raising character of the Argentine tariff. Others have suggested 'protectionism in reverse' or, in modern parlance, 'negative effective protection', meaning raw materials attracting duty at a higher rate than finished products[680]. In relation to this issue, in the academic field, as well as in the view of livestock farmers and exporters, it is considered that the Argentine 'protectionist in reverse' tariff legislation[681] hampered imports of raw materials in favour of the import of manufactured goods, avoiding the full development of the import substitution industrialization.

In the internal political game, the supporters of tariffs were:

- i) the national and foreign producers of rural and manufactured goods, who gained from higher duties and acted sometimes as a pressure group (e.g. *Unión Industrial Argentina* -UIA-, Argentine Industrial Union);
- ii) a few nationalistic and pro-industry citizens; and,
- iii) the Treasury officials concerned with increasing public revenues (Díaz Alejandro, 1970, pp. 306-307).

Some of the arguments used by these supporters of the tariffs were, i) the need to diversify the Argentine productive structure by means of strengthening the industry because export structure based on products of rural origin made the country especially vulnerable[682]; and, ii) the argument that greater protection should have been given to the manufacturing sector before 1930 to compensate the decline in the growth-promoting contribution of the rural export products.

Pushed by these pressure groups and taking advantage of those politically appealing arguments, Argentine protectionism also started to discriminate among countries. The official slogan 'buy from those who buy from us' which had been advocated after the embargo imposed by the US on Argentine meat exports in 1926, renewed its role in the Argentine discourse. In this context, on November 29, 1929, as a result of the criticized commercial mission of Lord D'Abernon from the UK[683] and in an attempt to grant preferences to the UK, Yrigoyen issued a silk rebate decree, ordering a 50% tariff reduction on yarns and cloths containing artificial silk imported from the UK. However, Argentina was bound by an adherence to the unconditional most-favoured-nation clause in many of its already signed treaties with many countries. France was the first of those countries to protest that decree on the grounds that it violated existing treaties. Taking into account these facts, Yrigoyen refused to promulgate the aforementioned decree, placing a precedent that would make it difficult to grant further concessions.

[680] See Alhadeff (1986, p. 87).
[681] As mentioned, the law applied in the thirties was the 1906 Law.
[682] For more detailed information see Bunge (1984, pp. 193-220).
[683] The *Unión Industrial Argentina* (UIA, Argentine Industrial Union) launched a vigorous campaign to fight against the President's policy (Solberg, 1973, pp. 283-284).

In addition, by that time, certain exemptions were applied which had as a consequence complaints by important trading partners of Argentina, including the US. One good example is the Argentine exception on South American white pine lumber, apparently in favour of Brazil, against North American pine. According to the Chargé d' Affairs of the United States in Argentina, Mr. White, Article 2 of the Argentine decree of October 6, which exempted from increase of duties rough sawn South American white pine lumber in planks and boards from the increased duties applied to other kinds of lumber, constituted a discrimination against American lumber not justified by the provisions of the treaty of amity and commerce between Argentina and the United States of 1853. Furthermore, he added that the provisional government had issued a decree dated December 9 supplemented by a customs decree of December 11 according a 50% rebate to birch ply wood of Finnish origin on the ground that Finland gave exemptions from duties to Argentine bran and derivatives. The Consul had reported that this agreement was considered to be principally directed against the USSR. Other countries, however, were much affected, such as, for instance, Germany. Article 4 of the German treaty of 1857 appeared to be identical, as regards the unconditional most-favoured-nation clause for imports, to Article 4 of the US treaty of 1853, so that Germany was entitled to invoke that clause. In fact, the Germans seemed disposed to see in this apparent disregard of the unconditional most-favoured-nation clause a reflex of the condition created for Argentina by the prospect of the application of a quota in the UK for imported wheat[684].

In this regard, the Argentine government reacted indicating that the South American white pine wood included in Section 1216 of the *Tarifa de Avalúos* (Tariff Valuations) had been distinguished from other kinds of pine which had been entered under Section 1217 to 1220 inclusive, by reason of differences in quality, type, price, etc., and this for many years without any objection. That pine was known under the name of Brazilian pine, or Parana pine. The exemption provided by the decree was based, precisely, on said differences. South American white pine was not similar to any North American pine, or those included in the other customs classifications, it being similar only to Siberian pine. As a result Article 4 of the Treaty of Commerce of 1853 was not applicable in that case[685]. In this respect, Mr. James Grafton Rogers for the Secretary of State responded to the Chargé in Argentina that he was authorized to discuss orally with the appropriate authorities the apparent weakness of the arguments based on the Argentine *Tarifa de Avalúos*[686]. Thus, the North Americans were not convinced of the Argentine arguments and the North American Ambassador in Argentina Mr. Robert Woods Bliss stated that as a result of tariff barriers against its products on the part of other countries, and particularly under the stimulus of fear that the UK, Argentina's best market for meat and cereals, would restrict its purchases, the policy of the government appeared to be, in theory at

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[684] See note Nº 1463 (635.113 Lumber/5) signed by the Chargé d' Affairs of the United States in Argentina Mr. White to the Secretary of State, in FRUS (United States Department of State, 1948, pp. 381-382).

[685] See United States Department of State, FRUS (1948, p. 386).

[686] See note Nº 569 (635.113 Lumber/13) signed by James Grafton Rogers for the Secretary of State of the United States to the Chargé in Argentina Mr. White, in FRUS (United States Department of State, 1948, p. 387).

least, to substitute bargaining or reciprocity clauses in its treaties, for those of the most-favoured-nation[687].

In any case, between 1933 and 1934 Argentina signed various bilateral agreements with the UK, Belgium, the Netherlands, Germany, Switzerland and Spain, and in the following years with another fourteen European and South American countries.

In Brazil, the perception of the foreigners living in the country was that people's mood of the time was 'anti everything foreign'[688]. That mood facilitated the adoption of protectionist measures. Although the new provisional government in office from October 1930 indicated that its commercial fiscal policy would be directed towards the general objective of encouraging agriculture and checking the present tendency towards excessive industrialization[689], the fact is that it enacted new measures of increasing tariff protection. On January 1931, a budget decree increased Brazilian customs tariffs, in particular to practically prohibiting levels of duties on cotton yarns, while there were also increases on jute and hemp. British and French representatives protested against certain increases, while Portuguese, Spanish and Italian importers were also seriously affected. However, duties on pottery (a British interest) were not increased, while decreased duties were provided for raw cotton and corded cotton threads[690]. However, these changes in tariffs were not uncommon, as Argentina and Uruguay also introduced tariff revisions in 1931-1932.

Although Brazil did not resort significantly to quotas and similar import restrictions[691], the tariff was really a tool used to incentivize industrial activity. On September 7th 1931 a Decree modified the tariff system providing for two columns with abatements of 20% and 35%, called the general and the minimum tariff, respectively, and a punitive column of double the general tariff[692]. Chalmers (1953, p. 111) attributes to the proposed introduction of a double tariff the

[687] See note Nº 1630 (635.113 Lumber/20) signed by the Ambassador of the United States in Argentina Mr. Robert Woods Bliss to the Secretary of State, in FRUS (United States Department of State, 1948, p. 389).

[688] See extract of a letter from J & G. Meakin, Ltd , Hanley, England dated January 22nd 1931, in FO 371-15060, p. 174

[689] See note dated December 9th 1930 signed by J. Garnett Lomax, Commercial Secretary to the British Embassy, in FO 371-15065, p. 47.

[690] See telegram from Mr. Seeds dated January 7th 1931, in FO 371-15060, p. 147.

[691] See Chalmers (1953, p. 110).

[692] See translation of Decree 20380 of September 8th 1931, in FO 371-15061, p. 46:

> "(…) Article 2- For greater facility in calculation in the Customs Houses, for greater stabilisation in international commercial transactions and for better security in the provision of revenue and until the new Tariff should be in force, including the general revision to which article 1 of this decree refers , article 2 of law No.4,984 of the 31st of December, 1925 should be revoked in order that the Customs duties fixed in the present Tariff shall be calculated in gold milréis at the exchange of 27d. to the milréis and paid with an abatement of 20% or 35%.
>
> Section 1- The Tariff with an abatement of 20% shall constitute the General Brazilian Tariff and shall be in force in the absence of any special arrangement resolved by the Government.
>
> Section 2- The Tariff with an abatement of 35% shall constitute the Minimum Tariff and shall be applied to the products of countries that guarantee, by means of commercial agreement, an effective minimum tariff to Brazilian products.
>
> Article 3 The Government reserves the right to increase, by decree and as may be decided, to the extent of double, the rates of the General Tariff for the products of countries which deliberately, by increasing the differential rates or by any other method, seek to obstruct the entrance of Brazilian products into their markets (…)".

conclusion of over thirty commercial agreements of the most-favoured-nation type and of limited duration by 1932. The first of them was signed with the UK, with other examples being Sweden, the Netherlands and other European countries[693]. However, the column probably referred to the embargo placed by the Argentine Republic on Brazilian *maté* and especially to France[694]. The origin of the impasse with the French was the frozen credits in Brazil that damaged bilateral relations, aggravated after the French decree of May 8th 1931 that doubled the duties on meat and cocoa. The Brazilian government reacted with a decree imposing a special rate of 120 milréis per kilogramme on serum and vaccine and an increase of 25% in consumption tax on wines and foreign beverages. However, in September of the same year both governments committed to revoking those measures after an exchange of notes was effected proroguing modus vivendi between both countries, pending negotiation of a definite agreement[695]. Later, in November 1933 the impasse was renewed after new Brazilian retaliatory tariff measures were enacted, being promptly followed by the French decree imposing prohibitive duties on Brazilian products[696]. Nevertheless, discriminatory policies were common at the time, and the Brazilian threat to punish certain countries was in line with the discriminatory allocation of foreign exchange practiced by Argentina and Uruguay or the tariff exemptions granted by Argentina to some countries (UK, Brazil, etc.) on some products.

The Brazilian protectionism included from 1931 the reduction of export duties on some products[697]. The tariffs applied to capital goods required for the production of cement, canned foods, glass, tires and other rubber products, cellulose and alcohol were eliminated or strongly reduced during the tariff revisions of 1932 and 1934. On the other hand, tariffs on several other similar national products were increased to keep them at competitive levels. For example, one exporting American firm complained that its paper exporting products were almost eliminated by a tariff of 300% ad valorem established in 1932. A similar case is found in the industry of fabric from cotton and wool. This level of tariffs was not uncommon. In the revision of 1934, further to increases or readjustments of the old duties, a reduction in tariffs on several foreign products not considered as directly competitive or regarded as necessary to the economic life of the country was applied, while selective protection was awarded to developing national industries, through customs facilities for raw materials or equipment needed from abroad[698].

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693 See partial translation of the text of the exchange of identic notes between Brazil and the UK, providing for and arrangement facilitating and regulating commercial relations, signed September 11th 1931, in FO 371-15061, p. 47: "(…) (a) Goods, the produce or manufacture of Brazil imported into the United Kingdom (whether for consumption, re-export or transit) will receive treatment not less favourable than that granted to goods, the produce or manufacture of any other foreign countries; (b) Goods, the produce or manufacture of the United Kingdom imported into Brazil (whether for consumption, re-export or transit) will receive treatment not less favourable than that granted to goods, the produce or manufacture of any other foreign countries; (c) Similar treatment will be accorded in Brazil to goods, the produce or manufacture of any British colony, protectorate or territory in respect of which His Majesty exercises a mandate in which Brazilian goods receive treatment not less favourable than that accorded to goods of most favoured foreign countries".

694 See note signed by Stanley G. Irwing, from the Commercial Secretariat of the British Embassy to the Department of Overseas Trade, dated June 27th 1931, in FO 317-15061, p. 32.

695 See telegram Nr. 089 from the British Embassy dated September 10th 1931, in FO 371-15061, p. 15.

696 See memorandum from the British Consulate in Santos, dated November 3rd 1933, in BT 11/157.

697 See Chalmers (1953, p. 87).

698 See Ibid., p. 129

This policy was reinforced by a decree stipulating that whatever the exception or reduction of tariffs on the imported products, in no case could they be applied to products for which there was similar national production that could be provided in enough quantity for the national consumption[699]. The tariff also included a drawback clause, which meant a total or partial exemption of the taxes on raw materials incorporated in products for export[700].

Regarding the benefits specifically provided by tariffs and other trade measures to certain sectors, there was a harmonious relationship with the textile producers. They obtained several concessions from the federal government, including an embargo on the importation of new machines needed for the production of textiles, in order to prevent the increasing overproduction in the sector[701]. The development of the textile industry entailed a strong lobbying on behalf of the industrialists in the biggest cities, and government intervention, as Stein (1979) clearly analyses. For 25 years the textile industry had expanded, but as early as 1926 there were the first signs of uneasiness. The contraction of the coffee prices reduced the income of the rural workers, who used to buy the rough fabrics produced by the Brazilian industry. At the same time the British products surged because they were more competitive in price and quality. As a consequence of the falling coffee economy, industrialists and capitalists in general invested in urban industrial activities, thus expanding dangerously the installed capacity of the textile industry. The overproduction threatened the profitability and survival of many textile companies as prices were reduced.

Given the economic downturn of the coffee economy, the political power of the rural oligarchy was reduced in favour of the industrialists. The increased political leverage of industrialists led to two key measures. In 1928, the tariff on cotton fabrics was increased over the already high levels, to avert the damage caused by the alleged British dumping. The industrialists perceived that the collapse of the demand due to the depression of the coffee economy, the impossibility of export due to the competence of the British fabrics and the redirection of investment from the countryside to the cities explained the strong overproduction that was eliminating the smallest companies and undermining the soundness of the biggest ones. The solution was a decree signed in March, 1931 by President Vargas, restricting the import of machines for industries whose production was considered excessive by the government, and in May the textile industry was declared officially in a state of overproduction, a condition that lasted until 1937. The consequence was the birth of a national loom industry that supported the textile industry, which eventually managed to grow in spite of the depression and the capital goods restrictions. This move of the Brazilian government was quite contrary to the measures enacted in Argentina and Uruguay, which tended to increase the industrial production of fabrics. For example, Uruguay enacted tariff reductions on raw cotton and corded cotton threads and on equipment needed for industrial production. However, as Fishlow (1972) points out, the experience of the depression encouraged a model of growth in the consumer goods industries based on the exploitation of vast amounts of inexpensive labour and encouraged a mind-set of short-run planning and

[699] See Hilton (1977, p. 100).
[700] See Ibid., p. 110
[701] See Ibid., p. 101.

technological and managerial obsolescence. Over the long-run, this strategy of capital-scarce industrialization perpetuated the use of antiquated technology and low-wage labour-intensive methods of production.

Other industries were also protected. For example, in 1931 Brazil required the purchase or the mixing of domestic alcohol in given proportions to the amount of foreign gasoline imported. For the purpose of supporting this activity, the *Instituto do Açúcar e do Álcool* was created, which in fact was a turning point in state intervention in Brazilian history[702]. Tobacco exporters benefited from special privileges when they exchanged their foreign proceeds into milréis. The big increase in manufactures from concrete was fostered by the suppression of the tariff on the industrial equipment imports. Entrepreneurs interested in the meat sector benefited from a reduction of 30% in import tariffs for machinery, instruments and vehicles needed for the establishment of those activities. In 1934, the government conceded further tariff reductions on the imports of the equipment needed for the production of rubber products, alcohol, cellulose and other light industry products. While the government in the case of key imports kept the already high tariffs over several import products. Other measures tended to encourage the use of domestic commodities. One example of this was the high tariff on the oil used for the production of soap, since the government believed that there were other domestic substitutes that were suitable for that purpose[703].

The work of the provisional government focused on the equilibrium in the exchange of goods, in an attitude of defending the country against other countries that hampered the expansion of its foreign trade. Probably a good picture of the general guidelines of the Brazilian trade policies is outlined by an official statement of the Brazilian delegation to the Monetary and Economic Conference of 1933. The delegation stated that Brazil did not apply restrictive measures affecting international commerce other than those which were imposed by circumstances beyond its control, and did not resort to prohibitions, limitations, import quotas or measures of tariff reprisals of any kind whatsoever. Brazil was also opposed to any interpretation that it was trying to evade the most-favoured-nation clause, and for this reason it was opposed to any system quotas for imports in any shape or form and refused various proposals for international clearing agreements. In order to contribute to the outcome of the Conference, Brazil pledged its adhesion to the tariff truce and its willingness to examine any proposals for the reduction of customs tariffs by means of the conclusion of bilateral agreements of reciprocity, provided that such agreements did not exclude the most-favoured-nation clause and provided, further, that account was taken of the essential needs of the treasury as well as of the minimum of protection indispensable to the agriculture and industries of the country. In accordance with this policy Brazil had signed by 1933 twenty-five commercial agreements in the space of less than two years[704].

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[702] See Abreu (2008, p. 299).
[703] See Hilton (1977, pp. 49-52).
[704] See Conf. M.E./9 in BT 11/157, not dated, 1933.

Brazil also embarked on negotiations of trade compensating agreements under the guidance of the Foreign Minister Afranio de Mello Franco. The basic political guideline was that the domestic market needed to exercise its purchasing power abroad according to an assessment of the access conditions of the national production into each country abroad[705]. Internally there was an underlying debate that crossed institutions, government agencies and social classes, which was the contradiction between the free trade model of commerce with the US or the protected commerce with Germany. As a consequence of this contradiction, Brazil opted for the free trade with North America, but without renouncing completely to compensated trade with Germany[706]. That is why according to an assessment of British diplomacy, the Brazilian needed to favour the Germans in regard to coal, in the face of a threat of' reprisals by the Germans in relation to coffee[707]. The government resorted to barter agreements with the two main trade partners, Germany and United States, although there were no formal agreements signed[708]. One example of those barter agreements was the exchange of coffee (about 1,225,000 bags) for wheat (25,000,000 bushels) with the United States. Accordingly, the Brazilian government prohibited the importation of flour for eighteen months, in connection with the large-scale barter with the US[709]. And in 1936 Brazil formally signed with Germany an agreement of compensated trade[710]. This policy of barter agreements and managed trade particularly explains the increased share of Germany in Brazilian imports and exports. Germany became an important partner especially after 1934, when shipments of cotton multiplied several times. Cotton added to coffee, and contributed the bulk of the Brazilian exports as a token for German imports[711].

Brazil used this ambivalence between both central powers at the time to win time and concessions. That was also facilitated because the US was willing to sacrifice some short-term gains, as the priority was a long-term goal of preventing Brazil from negotiating alliances with other powers or implementing more nationalistic policies. Especially under the government of President F. D. Roosevelt, there was a change to the ‘Good Neighbour’ policy, which meant the rejection of coactive politics, the adoption of diplomatic negotiations and promotion of initiatives regarding military and economic cooperation, as a strategy designed to diminish the European influence in Latin America and to foster American influence in the Hemisphere[712]. Accordingly, the US disregarded after 1934 the pressures from bankers, industrialists and other lobbies to restrict trade and payments. Thus, unlike the case of Great Britain’s use of its trade policy to obtain privileged treatment by Argentina, Brazil was almost free of foreign constraints[713]. That US policy also allowed Brazil to maintain a higher level of foreign reserves

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[705] See de Barros (1938, p. 8).
[706] See Moura (1982, p. 581).
[707] See record of discussion with the Commercial Secretary at Rio de Janeiro Mr. Lomax as to the possibility of commercial negotiations with Brazil held at the Board of Trade on August 15th 1933, in BT 11/157, 1933.
[708] See Abreu (2008, p. 288).
[709] See Chalmers (1953, p. 87).
[710] See Moura (1982, pp. 581-582).
[711] See Hilton (1977, p. 87).
[712] See Moura (1982, p. 579).
[713] Hilton (1977, pp. 94-95) gives a good account of the U.S. Department of State’s self-restraint regarding the claims by the North American exporters who complained about Brazilian protectionism.

and consequently more liberty for its policies[714]. However, the trend for a closer bilateral relationship between Brazil and the US was more evident with the tariff reductions on the bilateral trade signed at the bilateral trade agreement signed in 1935[715].

With the Great Depression the Uruguayan economy hastened its path to a closed economy, especially after the imposition of the exchange control in 1931. Some authors such as Arocena Olivera (2002) so-called this period '*el encierro*' ('the enclosure'), a stage characterized by the rise of the import substitution industrialization model, which in Uruguay relied on the strengthening of the internal market, the imposition of a system of multiple exchange rates and protectionist barriers to foreign competition. This model meant for the first time in Uruguayan history that the weak industrial sector had a better performance than the agricultural sector with a superior GDP share.

The protection for national industry, along with the distributive policies, was one of the key responses to the crisis. The CNA was authorized in August 1931 to ban imports of merchandise similar to Uruguayan production or that were considered as luxurious goods -e.g. jewels-[716]. Furthermore, the CNA could overcharge up to 100% all customs duties, provided that there was a reduction of less than 30% on the global value of imports. Nevertheless, these prerogatives were not actually applied since the authorities were fearful of retaliation from foreign countries. Instead, the government required that tariffs were to be paid 75% in pesos and 25% in gold or its equivalent in foreign currency, although several commodities demanded by the industry and essential goods consumed by the lower classes were waived from this regime[717]. In 1931 tariff exemptions were implemented for the import of machinery, spare parts, raw materials and industrial inputs[718]. And in order to protect the national industry, the budgetary law of August 6th 1931 allowed the CNA to raise the tariffs applied to products competitive with the local production from 31% to 48%[719]. Moreover, import tariffs on automobiles, alcohol, fuels and bananas were imposed, and later the tariff on automobiles was doubled[720] to the discontent of the North Americans[721].

In 1932 'quotas' were enacted in order to restrict the foreign imports, although they were enforced two years later. The so-called consular fees were increased to 2% ad valorem on all tariffs and an export bounty on wheat was established, while another bounty to grape growers

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714 See Abreu & Svirsky (1985, p. 548).
715 See Moura (1982, pp. 581-582).
716 See Jacob (1981, p. 79).
717 See Acevedo Álvarez (1934, pp. 106-111).
718 See Bertino et al. (2001a, p. 13).
719 See Acevedo Álvarez (1934, p. 111).
720 See Nahum (2008, p. 142).
721 In 1932 a draft law provided a tariff preference of a 10% discount granted over the general tariff to countries with a favourable trade balance to Uruguay and conditional on the provision of most-favoured-nation treatment to Uruguayan products or on special benefits granted to them. Another 15% discount was granted if the goods imported originated in a country whose purchases favoured Uruguayan industry. However, this text never became law due to the Terra coup in 1933. See Acevedo Álvarez (1934, pp. 159-160).

was proposed[722]. In addition, and as a way to take into account the changes in the relative value of the peso against main currencies because of the international juncture (e.g. the departure of the British pound from the gold standard in 1931) it was decided to increase by 25% the official customs import values in 1932, and by 40% for store, haberdasheries, upholsteries and electricity goods in 1933. There was also a reduction of 10% for coal (favouring the British) and 62% for fuels[723].

In 1933, like in Argentina, a locust plague hit the countryside, affecting particularly the production of wheat and potatoes. Although those products had a low share in Uruguayan exports, their reduced availability forced unexpected imports to cover the internal demand, so nature contributed to a deterioration of the foreign trade balance. Furthermore, the government decided to skip the tariff collection on those imports in order to alleviate the hardships of the population, and as a consequence the additional purchases also did not contribute to balancing the national budget[724].

Since 1931 Uruguay was planning to negotiate tariff treaties with various overseas countries with the main purpose of securing favourable tariff treatment for its exports. In this regard, the interpellation of the Minister of Foreign Affairs Mr. Blanco of September 5th 1932 is very illustrative. The Minister concluded that the policy of the government was as follows:

- i) preferential tariffs for countries with which Uruguay had a favourable trade balance;
- ii) special agreements with various countries;
- iii) agreements on the basis of certain selected articles with the UK and other countries with which Uruguay had a favourable trade balance (which should tend to level the balance of payments and provide exchange);
- iv) parliamentary approval of various commercial treaties containing a most-favoured-nation clause and various agreements in relation to special articles;
- v) reorganization of the methods of production and preparation of meat, taking into account the special requirements of European markets; and,
- vi) increased attention to the recommendations of the London Public Health Committee in the preparation of meat for export, and an endeavour to open fresh markets in Europe, America and the East[725].

Although during 1933-1935 trade agreements were signed with Spain, Turkey and Egypt, the most important ones were with Germany and the UK. In particular, the *terrista* regime tried to open new markets by resorting to 'barter' agreements promoted by countries like Germany and Italy. That initiative resulted in the trade agreement with Germany in November 1933. The US was also approached, even with uncommon suggestions. An example of this is that according to

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[722] See Chalmers (1953, pp. 65, 109-110).
[723] See Acevedo Álvarez (1934, pp. 174-175).
[724] See Poder Ejecutivo (1934, p. 8).
[725] See minutes of the session of Chamber of Representatives of the National Parliament of September 5th 1932, reported in the official Gazette of September 27-28 1932, enclosure in Mr. R.C. Michell's Nr. 133, October 1st 1932 in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114.

the memorandum by the Secretary of State, Cordell Hull, from a meeting with the Uruguayan Minister of Foreign Affairs, Mr. Arteaga, in 1934, the latter suggested that Uruguay produced better cognac than France and that Uruguay could import a substantial amount of cotton goods from the US in exchange for cognac[726].

International bargaining also included the allocation of exchange, since the Uruguayan government was thus being forced into canalization of its foreign trade on the basis of buying from the countries which 'bought from Uruguay'. In 1934, published press reports from London informed that American interests in Uruguay were being jeopardized by foreign exchange negotiations between Uruguay and the UK[727]. The British were insisting, with the threat of compulsory action, that Uruguay allocated the greater part of its sterling exchange in the settlement exclusively of all British long-term obligations, British-Uruguayan trade necessities, and payment of dividends due on British investments in Uruguay. Those reports added that this proposed treaty would prevent or seriously prejudice payment of American and other foreign obligations of Uruguay. In fact, the US government was observing that the panorama could turn into something similar to Argentina after the Roca-Runciman Treaty. In the Argentine case, the principle was accepted that the sterling exchange obtained from Argentine exports to the UK were to be allocated to remittances from Argentina to the UK. Consequently, as less exchange was available for the payment of service on Argentina's public external debts, national, provincial and municipal payable to countries other than the UK, American interests were especially hurt[728].

Furthermore, the Uruguayan Minister for Foreign Affairs at the time, Juan Arteaga, was familiar with the Roca-Runciman Treaty and considered it fair. Moreover, he assumed that Uruguay was acting along similar lines. He stated that it was possible to assign 10% of sterling exchange for the requirements of countries other than the UK. This allotment, in addition to the exchange acquired through the sale of Uruguayan exports to countries other than the UK, would suffice for distribution of exchange to American and other interests in a manner which would not be discriminatory against them as compared to the amounts paid to the UK. But soon enough this argument changed and the Minister indicated that foreign exchange was becoming increasingly scarce in Uruguay as exports tended to decline, and that this scarcity was met by pressure from European countries[729].

Since 1932, diplomats from the UK, France, Italy, Belgium and other countries pushed for a distribution of hard currency in values according to the volume of trade with those nations. Acevedo Álvarez (1934, pp. 152-160) argued that the government had to manage a delicate balance. On the one hand, it was reasonable to believe that those countries that generated the bulk of the hard currency for the country deserved to be able to export their products to Uruguay with the allocation of those amounts, and furthermore the country could not risk exposing itself

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[726] See United States Department of State, FRUS (1952, p. 644).
[727] See telegram from Cordell Hull to Leon Dominian, the Chargé in Uruguay, in United States Department of State, FRUS (1952, p. 650).
[728] See United States Department of State, FRUS (1952, pp. 650-657).
[729] See Ibid.

to retaliation from those countries to which the Uruguayan exporters were especially vulnerable. On the other hand, the value of the peso had to be defended, and the protectionist trends of the Uruguayan counterparts had to be prevented or softened.

In order to be more descriptive of the real situation, the solution was the allocation by decree of specific values to the UK (19 million pesos), France (4.3 million pesos), Italy (3.7 million pesos), Germany (5 million pesos), Belgium (2.3 million pesos) and the US (7 million pesos), to cover the bilateral foreign debt and trade. According to the Board of Trade, the quota for the financial year ending June 1933 was based upon the value of the purchases of Uruguayan goods by each foreign country for the preceding year ending June 1932. If Uruguayan exports to the country concerned fell below that figure, the quota would be decreased pro rata. If the purchases of Uruguayan goods by any country for the year ending June 1933 exceeded the value of the purchases for the preceding basic year, then the surplus would be allotted as to 100% to the needs of that country[730].

And the method which the BROU proposed to adopt for the establishment of individual national quotas was that a statistical account should be opened for each country conducting commercial transactions with Uruguay, which would be credited with:

i) the amount of exchange derived from Uruguayan exports to the country concerned;
ii) the amount represented by orders of payment in foreign currency received by institutions or persons of Uruguayan nationality or established in Uruguay from the inheritance of the foreign country concerned;
iii) the sums represented by transfers, credits, remittances etc., representing a credit in foreign currency to Uruguayan firms or institutions.

And debited with:

i) the amount represented by credits, transfers, remittances, drafts, etc., effected by foreign or Uruguayan firms or persons located in Uruguay;
ii) the amount corresponding to purchases made from the foreign country concerned;
iii) the amortization and interest services on the relevant Uruguayan foreign debts;
iv) the amount represented by dividends, debentures, etc., of the capital of the relevant foreign companies, institutions, or persons in Uruguay[731].

In short, the foreign exchange quota allocation was conditional on keeping the value of the Uruguayan exports of chilled and frozen beef to those countries during 1931-1932. If not, those values would be adjusted accordingly upwards or downwards[732].

Taking the case of the UK as an example, the allocation of the 19 million pesos was framed on the following principle: debt service payable to the UK to be met in full; requirements of British public utility companies to be met in full; requirements of British commerce to be met so far as

[730] See internal memorandum regarding the history of the Uruguayan exchange quota negotiations as related by Shell- Mex, not dated, 1933, in "Uruguay Exchange Restrictions", BT 11/151.
[731] See internal memorandum not dated regarding the history of the Uruguayan exchange quota negotiations as related by Shell- Mex, 1933, in "Uruguay Exchange Restrictions", BT 11/151.
[732] See Acevedo Álvarez (1934, pp. 152-160).

there was exchange left over after the above two categories had been dealt with[733]. However, this scheme created several problems because of the conflictive interests involved and the lack of exchange for commercial activities. The British complained and eventually claimed a 100% allotment of British pounds to British interests. In this regard, the Anglo-Uruguayan Trade Commission, constituted to advise on commercial questions between the two countries, pointed out that, for the basic year ending June 1932, Uruguay's exports to the UK were valued at 25 million pesos, and asked why the UK was only allotted 19 million pesos exchange. The answer was that, when framing the scheme of allocation by countries, the Uruguayan government contemplated the reservation of a certain sum from the total to which each country was strictly entitled in view of its purchases from Uruguay, to go to form a reserve to meet the service of the foreign debt, the financial requirements of the public utility companies and the purchase of raw materials of prime necessity[734]. The difference was also for the purpose of providing for the service of the special issue of gold bonds (designed to absorb accumulations of pesos which it was not possible to remit) and of making payment of goods necessarily purchased from countries buying little from Uruguay[735]. Another problem was the fight among British vested interests, especially of the petroleum company Shell-Mex's access to the 19 million pesos quota, to which the Chamber of Commerce objected on the ground that the petroleum imported by Shell-Mex was not a British product. To counter this argument, Shell-Mex Uruguay pointed out that it was a British company and that their imports were carried in British ships and financed almost entirely by British capital, from production, to delivery, to customer. They added that, for example, the raw materials employed in the manufacture of British textiles were produced outside the UK by non-British capital. While their own raw material was obtained with the help of British capital[736].

iii. Between the British and the Americans

Argentina, Brazil and Uruguay shared a strong dependence on the US and the UK. This assessment can be confirmed by the figures already mentioned in Chapter IX and reproduced in Table 80. From this table the stronger dependence of trade flows of Argentina and Uruguay on the UK is quite obvious, as well as the relatively much stronger dependence of Brazil on the US. This also adds to our discussion in Chapter IV about the importance of British and American investments, especially in the River Plate.

We have seen in general how the decisions taken in core countries affected ABU, but the subject of meat is a good example of the complex interrelation between ABU and core countries, not only because of the significance of the product itself, but also because of the abundance of documents obtained in our field trip to London that allows us to obtain a complete picture of the

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733 See note not signed not dated, 1933, in "Uruguay Exchange Restrictions", BT 11/151.
734 See internal memorandum not dated regarding the history of the Uruguayan exchange quota negotiations as related by Shell- Mex, 1933, in "Uruguay Exchange Restrictions", BT 11/151.
735 See minute of meeting of the Subcommittee on Exchange Restrictions in South America held at the Board of Trade on May 23rd 1933 in "Uruguay Exchange Restrictions", BT 11/151.
736 See internal memorandum not dated regarding the history of the Uruguayan exchange quota negotiations as related by Shell- Mex, 1933, in "Uruguay Exchange Restrictions", BT 11/151.

negotiations involved. At the Ottawa Conference of 1932 the British faced strong demands from its dominions to import foodstuffs from them instead of imports from ABU. However, we agree with Rock (1991, p. 21) that it was unlikely that the UK would put into effect the Empire's proposals since the Imperial suppliers appeared incapable of increasing production and exports fast enough to meet British demand. Furthermore, especially the imposition of restrictions on Argentine meat exports to the UK meant a growing risk of retaliation against British exports to this country and against British investments. Turning to our conceptual framework, Argentina and the UK had a strong complex interdependence, that on the Argentinean side included clear vulnerabilities, and in the UK side clear sensitivities. By contrast, given its size, Uruguay was not in any way a big concern to British interests. And also Brazil was low in British priorities.

Table 80 ABU: Share of exports to the US and the UK in 1928

	Argentina	Brazil	Uruguay
Share of exports to the US	8.3	45.4	10.4
Share of exports to the UK	28.7	3.4	22.6

Source: Calculated from Table 39, Table 42 and Table 43.

The Argentine government was very concerned about the way in which the Ottawa import restrictions would be managed. Imperial preferences had a damaging effect on key exports of Argentine meat, as well as wheat, butter and linseed exports. This situation forced Argentina to undertake negotiations with the UK. For that reason the Argentine Ambassador Mr. Malbrán was instructed to visit the President of the Board of Trade in January 1933. The Ambassador explained that the Argentine government was particularly disturbed by the news that the UK government was going to leave the administration of the import restrictions and the allocation of shipments to the private meat interests. The Argentine government had taken action intended to bring the producers more closely into association with the export trade. Thus, Argentina feared that two meat-packing plants which had entered the export trade (one being the Municipal Works at Buenos Aires which they proposed to nationalise and the other a meat-packing plant which was believed to receive financial support from the government) would not be fairly treated by the established houses[737]. Malbrán even used as a strategy of negotiation the argument that before Ottawa his government would have been prepared to denounce their treaties with other foreign countries in order to give preferential advantages to the UK, but since Ottawa his government was not prepared to do so[738]. And the British explained to the Ambassador that those arrangements were only temporary and that they intended to call a

[737] See "Anglo-Argentine Negotiations", pp. 1-2, signed by the Board of Trade in Memorandum prepared for the use of the Prince of Wales explaining the present position and the desiderata in connection with the forthcoming visit of the Argentine mission to the UK, and the pending tariff negotiations in "Argentine-UK Tariff Negotiations", dated January 1933, BT 11/165.
[738] See "Note on interdepartmental meeting held at the Board of Trade", dated 22nd December 1932 in "Interdepartmental meetings" in "Argentine-UK Tariff Negotiations", BT 11/166.

general Meat Conference in the course of the year 1933 at which the whole position would be reviewed in consultation with all the parties concerned[739].

But this explanation did not satisfy Argentina. Certainly, the British were looking to strengthen their bargaining power, seeking to compel Argentina to buy more British and fewer American goods. The British wanted to curb the advance of American interests, especially the presence of its meat-packing plants that threatened to capture a higher market share (e.g. Armour, Swift and Morris). In essence, it sought to correct the trading pattern that had arisen during the twenties when Argentina exported large volume of goods to the UK while continually increasing its imports from the US, leaving the UK with a growing trade deficit. In addition, during the early years of the depression, the British had also been irritated by the restraints on remittances by British companies in Argentina that arose from the exchange control and the depreciation of the peso. In relation to this, the British argued that there seemed to be a tendency in Argentina to overlook the exceptional advantages which the UK market had for so long offered and still offered to Argentine products, and the Argentine government did not at the moment seem to offer those reciprocal advantages which UK interests appeared to deserve. And therefore the British conveyed to Mr. Malbrán these arguments and the Argentine government put under special consideration the UK interests when it came to the allocation of sterling exchange[740].

By far the main bilateral negotiation of Argentina during the Great Depression was that relating the Roca-Runciman Treaty[741]. It was signed on May 1st 1933 by the Argentinean Vice-President Julio A. Roca and the President of the British Board of Trade Walter Runciman, and was followed in late September by a treaty protocol and an agreement on tariffs[742]. It was a complex and 'Omnibus' agreement that remains to this date very controversial. For that reason, it is worth analysing in depth. The Roca-Runciman Treaty was scheduled to be in force for three years, but it was renewed and extended in 1936 through the Malbrán-Eden Treaty. The treaty was negotiated in London by a commercial mission headed by, as mentioned, Julio Roca in return for the visit paid to Argentina by the Prince of Wales in 1931, which had the objective of ensuring the Argentine meat quota in the British market. Argentina had an especial interest in obtaining a 'national quota', and not a global quota[743] which would be shared with Brazil and Uruguay[744]. By securing this national quota, Argentina not only would avoid losing a key export

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739 See Ibid.

740 See "Anglo-Argentine Negotiations", pp. 5-6, signed by the Board of Trade in Memorandum prepared for the use of the Prince of Wales (…) in "Argentine-UK Tariff Negotiations", dated January 1933, BT 11/165.

741 It is important to note that the Roca-Runciman Treaty was an indication of the Argentine-British trade agreement of November 1929, derived from a commercial mission headed by D' Abernon, when threats of Imperial preferences already were used to obtain fundamentally unilateral Argentine concessions to the UK (Salera, 1941, pp. 64-68). The treaty was enacted in Argentina by Law 11693 published in the *Boletín Oficial* in May 8th 1933.

742 It is important to recall that the former agreement of this kind with the UK dated in 1825.

743 According to a memorandum from the River Plate House dated 5th November 1932 in "Interdepartmental meetings" in "Argentine-UK Tariff Negotiations", BT 11/166, as a result of Ottawa, a quota system had been adopted under which the 'South American' trade was given a 'global' quota.

744 See "Note on interdepartmental meeting held at the Board of Trade", dated 22nd December 1932 in "Interdepartmental meetings" in "Argentine-UK Tariff Negotiations", BT 11/166.

market, but also would renew the government's credibility among the diverse sectors associated with agricultural activities[745].

Picture 5 The signature of the Roca-Runciman Treaty

Source: *El Bicentenario* (1933, p. 493). Argentine Vice President Julio Roca (jr.) signs the treaty in the presence of British trade envoy Sir Walter Runciman (seated at right).

According to Article 1 of the treaty, the UK would not impose any restrictions on Argentine chilled beef imports that caused a reduction in quantities to less than what was imported in the quarter of the year ending on June 30th 1932 unless the UK, after consulting the Argentine government, needed to impose such restrictions in order to ensure the domestic remunerative price levels. In particular, in the second clause of this article the UK agreed not to cut back imports of chilled beef from Argentina by more than 10% of the volume imported in the year ending on June 30th 1932 - already agreed in the Ottawa Conference -, unless at the same time imports of chilled beef or frozen beef from the dominions were reduced to an equal percentage: a reduction of chilled beef below 90% of the imported quantity in the same base year[746]. Furthermore, the UK agreed not to impose restrictions on the imports of frozen beef and frozen mutton more than those specified in the Schedule H negotiated with Australia[747], as well as not to impose or increase duties on Argentine bacon, hams, extract of quebracho and grains such as wheat, linseed and maize. And the UK committed to not impose quotas[748] on imports from Argentina of wheat, maize, linseed, bran, wool in the grease, grease, tallow and extract of

[745] See Romero (2002, p. 70).
[746] See also Drummond (1975, p. 310).
[747] See the complete text of the Schedule H in "Ottawa Conference" in C.P. 298 (1932, pp. 35-36) or Prebisch, (1991, pp. 121-122).
[748] In this regard, according to a "Note of meeting of the Third Sub-Committee held at the Board of Trade (…) February 16th, 1933" in "Proceedings of Third Sub-committee", "Argentina-UK Trade Negotiations" in BT 11/173, the Argentine delegation preferred increases of taxes rather than further quantitative restrictions on animal products.

quebracho. However, since the UK did not import a large volume of these products, the treaty related principally to beef.

However, Argentina did not achieve much in terms of one of its main objectives in this negotiation: to increase the share of local producers in the control of exports to negotiate better terms with the meat-packing plants. On this issue, according to clause 3 of the protocol the treaty limited to 15% the share that could be handled by Argentine-owned meat-packing plants, among whom, the British feared, might be established a cooperative without profit motives. Thus, the UK imposed its conditions according to the terms negotiated in Ottawa and it only agreed not to cut imports of Argentine meat, fundamentally chilled beef[749] below certain levels of 1932 which were already low. And even worse, when the UK limited the share of Argentine companies in the meat trade, once more the UK was testing Argentine sovereignty and was making evident the economic dependence of Argentina. In this regard, Scalabrini Ortiz (1965, p. 168) affirms that thanks to this treaty the meat trade was confirmed as being under the absolute control of the UK. As a matter of fact, this legally binding instrument matched the reality of a market in which 85% of the meat exported to the UK was distributed at the discretion of the Board of Trade. And the North American threat was ruined because if they did not comply with the British policy, the UK could simply cut out the right of export for the North American meat-packing plants.

The British also obtained important concessions on merchandise exports and investments. Regarding exports, the British products regained the more favourable conditions that they had enjoyed before the depression. In the first place, Argentina agreed to grant to the UK a preferential tariff treatment reducing duties on almost 350 British imports to the level of 1930, before the Uriburu government's tariff increases. Moreover, it committed to refrain from imposing duties on goods such as coal[750] that had not been affected by the tariff increases[751] and not to impose on whisky produced in the UK higher internal taxes than those imposed on national and non-national spirits[752]. In the second place, according to Article 2 of the treaty, Argentina ensured that the exchange control would secure remittances in pounds sterling to the UK derived from the trade with this country, after deducting a reasonable annual sum to pay the public foreign debt (national, provincial and municipal). In addition, any remittances that remained 'blocked' in Argentina would be treated as interest-bearing loans (the already well-known Roca-Runciman Loan) after paying in cash an amount fixed between the governments of Argentina and the UK from the equivalent in pounds sterling of the departed 12 million pesos[753]. In this regard, the British ensured that no other foreign country would obtain better treatment than the UK[754]. As a consequence of this preferential treatment granted to the UK, the manufacturing opportunities from Japan, Germany and the US were blocked. For example,

[749] It is important to recall that by 1929 the 99% of Argentine chilled beef had as its destination the UK.
[750] See clause 6 of the protocol in *Boletín Oficial de la República Argentina* (1933).
[751] See Rock (1991, p. 22).
[752] See Diario Hoy (February 13th 2005, p. 4).
[753] See also Kindleberger (2002, p. 288).
[754] See "Note on interdepartmental meeting held at the Board of Trade", dated 21st April 1933 in "Interdepartmental meetings" in "Argentine-UK Tariff Negotiations", BT 11/166.

Japan could not settle its imports or obtain exchange by buying Argentine goods, and as a consequence the slogan 'buy from those who buy from us' did not work with that country[755]. Furthermore, importers of goods from the US not only had to face the tariffs created in 1930, but also had to buy expensive foreign exchange on the parallel market.

Another significant concession to the UK was the fact that the treaty specified in clause 1 of the protocol a 'benevolent treatment' for British companies that consisted of granting them favourable terms to acquire imports under the exchange control regulations[756]. This 'benevolent treatment' had as its main objective the rescuing of British firms from difficulties, such as the railways and urban transport companies. The railways were squeezed by high fixed costs, the general contraction of activities and the growing competition from automotive transport[757]. In this regard, according to figures from Prebisch (1991, p. 219), during the period 1928-1933 the railways' gross revenues were decreasing to the point that in 1933 they were 31.8% lower than in 1928 and 5.1% lower than the previous year. Something similar occurred with the Anglo tram company – also owner of the first underground line in the city- which became a victim of the taxi buses, faster and more efficient than the trolleys. In order to put into effect the agreement the *Corporación de Transporte de la Ciudad de Buenos Aires* (CTCBA - Transportation Corporation of the City of Buenos Aires -) was created by Law 12311 of 1936. This was a mixed-capital entity between the Argentine State and companies related to transport activities (representing tramway and underground interests) with the exception of the railways, specially the British ones. The creation of this company generated public indignation and did not achieve the objective of making taxi bus drivers members so that they could not be in competition. But, following the line of reasoning of Romero (2002, p. 71), in both cases the railways and urban transport companies had ceased to be profitable and had not made the necessary investments to maintain their market share. Thus, this 'preferential treatment' increased some monopoly privileges and delayed these companies' inevitable demise. This is why their boards started to consider the selling of the companies to the State as the most appealing exit strategy.

Without doubt, the Roca-Runciman Treaty deepened the dependence on London and meant a great victory for the British. In exchange for only maintaining the Argentine presence mainly in the British meat market, the UK was guaranteed the remittances from their old investments, as well as protection against future devaluation of the peso, preferential treatment to British goods exported to Argentina and control of a significant part of the disputed domestic market! Indeed, since the British also gained preferential access to scarce foreign exchange, they won what amounted to dominance in trade with Argentina, now protected by treaty, which they had enjoyed before 1914. Furthermore, as previously mentioned, this treaty struck US interests hard because importers of American goods not only had to face increased tariffs but also the

[755] See Scalabrini Ortiz (1965, p. 168).
[756] See also Rock (1991, p. 22).
[757] The latter was boosted by the systematic construction of roads that begun in 1928 (modern transport infrastructure) and vigorously maintained by Justo. Lorries took the most lucrative part of the freight business and at the same time encouraged the import of motor vehicles, parts and tires, all of North American origin (Romero, 2002, pp. 70-71).

exchange control's restrictions[758]. In this regard, following the line of reasoning of Díaz Alejandro (1970, p. 98), the signature of this treaty caused in general very harsh internal criticism of the concessions that Argentina granted to the UK because they were considered excessive and unnecessary for achieving Argentine export objectives. Furthermore, many people in Argentina blamed this result on the influence of cattle-owning interests and their prejudices against industry. In addition, an intense debate began about the activities of large British meat-packing plants which were beneficiaries of the treaty. In this respect, Lisandro de la Torre, a Progressive Democrat Senator, took over the investigation and tried to expose the irregularities surrounding the meat trade[759].

However, Raúl Prebisch argued that this treaty was a need more than a benefit for Argentina. The agreement was the only thing that could be done to protect Argentine exports from the disaster of the Great Depression. It was not a dynamic agreement, but a defensive one in the framework of a global economic contraction. Always, according to Prebisch, the Argentine government had to give to those who were buying Argentine products a certain favourable position in the Argentine market to facilitate sales to them[760]. However, his arguments do not justify why these concessions were not granted to other countries that also bought considerable quantities of Argentine products.

There were also strong political consequences of this treaty due to the terrible scandals around British companies making exorbitant profits by taking advantage of oligopolist and oligopsonist power. These sorts of accusations, sometimes as a result of the exacerbated nationalism, reached a dramatic point on July 23rd, 1935, when the Senator from Santa Fe Enzo Bordabehere (*demoprogresista*) was murdered on the premises of the *Senado de la Nación* (Senate) during a tense debate over the scandal of the meat trade. The shot was aimed at Lisandro de la Torre, who had denounced the irregularities a year earlier ("*1930/39 La década infame*", Cronista.com, 2010). Then, in January of 1937, because of the slow progress of the inquiry commission about the meat industry (a debate that ended abruptly and without resolution), Senator De la Torre resigned his seat and two years later he committed suicide. These dramatic events illustrate how the signature of the Roca-Runciman Treaty worsened the already deteriorating political situation of the country[761]. Incredibly, in 1936 the treaty was renewed and extended, in a move to protect British investments under pressure from competing companies. This extension and the creation of the transportation company CTCBA illustrate the influence of the British interests on the country.

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[758] See Rock (1991, p. 23).

[759] For example, in 1934 a British meat-packing plant attempted to smuggle out of the country (under the brand corned beef) records of its Argentine activities which had been subpoenaed by the Senate under law upheld by the Argentine Supreme Court (Díaz Alejandro, 1970, p. 61).

[760] See also González & Pollock (1991, p. 470).

[761] The political environment continued in chaos, unrest and violence predominated, and the elections were always marked by irregularities. In 1936, during the elections for national deputies, the UCR obtained a parliamentary majority in the *Cámara Baja* (deputies) after succeeding in Buenos Aires, Córdoba and Mendoza. However, in Buenos Aires, the fraud which the Conservatives described as 'patriotic fraud', gave victory to the candidate of the conservative formula, Manuel Fresco. This action was described by several authors as the 'most fraudulent in history' ("*1930/39 La década infame*", Cronista.com, 2010).

The Ottawa Agreements did have an impact on Brazilian exports, too. Before Ottawa, coffee was the only Brazilian export of importance that the British taxed, so that no duty was levied on meat, raw cotton, fruit, hides and skins and manganese ore[762]. Coffee ranked high as an offensive interest for the Brazilian negotiators, because of its importance for the economy and the high tariffs applied by major importing partners.

In the case of the UK, a mission headed by Lord D'Abernon indicated on September 1929 the British readiness to reduce or abandon the duty on coffee in exchange for concessions on the construction in British yards of ships to the value of £3million, the removal of the bunkering duty and the ratification of the Rio de Janeiro Improvement Company's contract of British capital, but the British failed to meet their commitment due to the opposition of the Treasury[763]. Coffee was also the most important bargaining chip in the negotiations with foreign powers, because it was the most likely product to barter with in order to save hard currency and reduce the coffee stocks. And they managed successfully to barter coffee for US wheat. There was also a proposal for an exchange of Brazilian coffee for British and German coal and eleven Italian aeroplanes[764]. Regarding this, Otto Niemeyer judged that for practical purposes Brazil could only barter with coffee, which was consumed mainly by the United States and, to a minor extent, by Europe, particularly Germany. Barter arrangements therefore meant concentration of Brazilian trade with those countries to the detriment of the UK, and consequently it was of very little use to British importers. He noted that the Brazilian-American barter arrangement merely meant buying from America and not from Argentina and that most of the coffee delivery could not be sold in America for a period of 18 months, meaning that those exports were an addition to current exports and not a part of them[765]. Regarding Germany, Niemeyer suggested that British diplomacy should do whatever possible to discourage the Brazilian government from entering into a proposed German-Brazilian arrangement in regard to coal and coffee[766].

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[762] See translation of an article from the November number of the Brazilian business review *0 Economiste*, attached to a Note dated December 9th 1930, signed by J. Garnett Lomax, Commercial Secretary to the British Embassy, in FO 371-15065, pp. 48-50.

[763] See note signed by Mr. P. Broad, no date, 1931, in FO 371-15060, p. 186.

[764] See The Financial Times, reported on October 8th 1930 that "according to the Börsen-Courier, an agreement in principle has been reached for an exchange of 500,000 ton of Ruhr coal for Brazilian coffee. The negotiations have been carried on between the Ruhr Coal Syndicate on the one hand and the Brazilian Government on the other, the coffee importers of Hamburg acting as intermediaries. It will be recalled that an exchange of 25,000,000 bushels of American wheat for 1,295,000 bags of Brazilian coffee was arranged a few days ago. The Börsen-Courier says it seems grotesque that in a world in which the mechanics of money and credit have been developed to a point of efficiency, should find itself forced back to the most primitive system of trade-barter", in FO 371-15065, p. 71. According to a Telegram dated October 12th 1931 regarding coal, the British Embassy informed that it "(…) has been approached by coffee exporters and British coal firms with regard to this proposal. It would be on the same lines as the recent agreement between the US and Brazil for the exchange of wheat and coffee. Press reports negotiations are proceeding with Ruhr syndicate. In order to meet this type of competition, competitive proposal for exchange of coal for meat or coffee should be initiated", in FO 371-15065, p. 67. Italian airplanes are mentioned in a telegram dated October 12th 1931, in FO 371-15065, p. 69.

[765] See note signed by Otto Niemeyer dated October 29th 1931, in FO 371-15065, p. 109.

[766] See note sent to Mr Picton Bagge and Sir Leith Ross, dated October 27th 1931, in FO 371-15065, p. 89.

Coffee interests were also defended by Brazilian diplomacy in multilateral forums. For example, the Brazilian delegation to the Monetary and Economic Conference of 1933 put forward a proposal to apply to coffee the procedure followed for the other important products. According to the Brazilian delegate, the country was suffering the fourth crisis of coffee. He explained that coffee was a very important product for Brazil, so much from the commercial point of view, because of the great number of people for which it provided important labour and because of the capital which was invested. Any plan of control must necessarily comprise: 1) the stabilization of production; 2) export control; and, 3) the regulation of prices. The problem of coffee was more a matter of consumption and distribution than of production, and Brazil was willing to agree on tariff reductions on imported food products in exchange for similar reductions in coffee imports abroad. The British delegation was among the most reluctant in face of the Brazilian proposals[767].

Although representations were made regarding coffee, bananas and meat, after Ottawa Brazilian concerns were raised strongly with regard to oranges, a fact that can be deduced from the representations of the Brazilian Embassy in London and the diplomatic correspondence of the British Embassy in Rio. Indeed, oranges were the second most important British import from Brazil[768], and the Ottawa Agreements provided, under the terms of the agreement between the UK and the Union of South Africa, that the duty on Brazilian oranges would be increased to 3/6d. per cwt[769] from April to November[770]. The Commercial Secretary to the Embassy warned about the agitation felt by Brazilian fruit exporters with respect to the orange trade to the UK. The exporters held that oranges were no longer able to be sold at a profit on the British market, because the proceeds of sale went in one way or another also entirely into the British market and because the duties imposed as a result of the Ottawa Agreements were an unfair and onerous burden[771]. The Embassy of Brazil also pointed out that the duties constituted a direct discrimination in favour of Spanish oranges, in view of the fact that the season for the latter does not correspond with the period April to November, whereas the season for Brazilian imports of oranges does[772]. The Brazilian press was even more direct. For example, the *Correio da Manhã* published that "it is really regrettable that the taxes created by the Ottawa Conference to protect the fictitious agricultural industries of British colonies, which cannot compete with the Argentine and Brazilian crops, have been devised to satisfy half a dozen strong concerns, owners of refrigerating plants in Australia, jute industrialists in India, fruit syndicates in South

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767 See *Société des Nation, 1933, Journal de la Conference Monetaire et Economique*, dated 7/17/1933.

768 See record of discussion with Mr. Lomax (Commercial Secretary at Rio de Janeiro) as to the possibility of commercial negotiations with Brazil, held at the Board of Trade on August 15th 1933, in BT 11/157.

769 Cwt. is the abbreviation of 'hundredweight', a measure equivalent to 100 pounds in the US and 112 pounds in the UK.

770 See note from the Foreign Office to the Secretary of the Board of Trade signed by Mr. Kelly on August 29th 1932, in BT 11/140.

771 See note from the British Embassy to His Majesty's Principal Secretary of State for Foreign Affairs, signature illegible, dated August 21st, in BT 11/140.

772 See note from the Foreign Office to the Secretary of the Board of Trade signed by Mr. Kelly on August 29th 1932, in BT 11/140.

Africa, etc.". The newspaper's article concluded that it was necessary to call for a boycott on all British products, and particularly those coming from British colonies[773].

Although the concern was expressed at the highest level by the Brazilian Minister for Foreign Affairs[774], most of the Brazilian complaints on other products were dismissed on similar grounds to oranges. In general, the UK considered that the field available for concessions was small since the larger part of its imports from Brazil, apart from raw cotton, consisted of meat and other foodstuffs, the duties on which were fixed by the Ottawa Agreements[775]. Furthermore, the majority of British exports to Brazil were subjected to duties incomparable with anything imposed in Great Britain[776]. Consequently, the only suitable concession that could be found was in respect to Brazil nuts which were subject to a 10% duty under the Import Duties Act, but that concession was almost meaningless[777]. The British also disregarded the Brazilian allegations that the duty on oranges constituted a discrimination in favour of the Spanish oranges and a violation of the most-favoured-nation principle under the terms of the Anglo-Brazilian commercial agreement of the September 11th 1931[778], because seasonal duties were common in the tariffs of a number of countries, including France, Belgium, Austria, Czechoslovakia, Germany, Poland and Uruguay[779]. And that stance prevailed even though the British were also aware that 90% of all Brazilian oranges exported were carried in British boats; that 30% of the wrappers were imported from England already printed; that about 50% of the wire and nails used in making the packing cases were supplied by British owned factories; that the oranges and many packing-houses were insured with British companies and that 90% of the telegrams regarding orange exportation were sent through British telegraph companies[780].

In the case of meat, Brazil urged that some concession in regard to the allocation of meat quotas should at least be accorded on the lines of those embodied in the Anglo-Argentine Trade Agreement, in order to assist Brazil in the establishment of a meat-packing plant (*frigorífico*) independent of the Meat Conference companies. In order to achieve this objective, the Brazilian government was anxious to secure a market by obtaining an undertaking that a percentage of import licences would be reserved for the output of the national factory. Among other arguments, Brazilians held that their chilled meat, although excellent, was considerably cheaper in price than meat from other countries and popular with the working classes; imports were not

[773] See article on the *Correio da Manhã*, August 10th 1933, signed by Felisberto C. Camargo: "Difficulties in exporting oranges to the United Kingdom", in BT 11/140.
[774] For example, according to a note from the British Embassy to His Majesty's Principal Secretary of State for Foreign Affairs, signature illegible, dated August 21st 1932, in BT 11/140: "the objection to the Ottawa agreements is strongly felt and on the 7th August last the Minister for Foreign Affairs tackled me on the subject at a small private dinner party (…)".
[775] See memo not signed, year 1932, in BT 11/140.
[776] See note from the British Embassy to His Majesty's Principal Secretary of State for Foreign Affairs, signature illegible, dated August 21st 1932, in BT 11/140.
[777] See memo not signed, year 1932, in BT 11/140.
[778] See note signed by Mr. T.G Jenkins regarding the view of the Brazilian Ambassador to London, dated September 3rd 1932, in BT 11/140.
[779] See note Nr. A2607/855/6 from the Foreign Office to the Ambassador in London, Raul Regis de Oliveira, dated 21st April 1933, in BT 11/140.
[780] See draft report prepared by the British Chamber of Commerce, which was not published in the Chamber´s Journal due to the opposition of the shipping firms.

detrimental to the British cattle breeder because they took place during the slack time for British meat (February to July); quantities were comparatively small considering the demands of the British market; the capital employed in the meat industry in Brazil was largely British; and the transport of meat was made exclusively by ships flying the British flag[781]. But the British were reluctant because that concession could only be made at the expense of quotas allotted to private firms already established in the business, which included the UK interests. Furthermore, the British calculated that if a bargain were to be concluded, say, on the basis of meat against coal, it might be difficult to meet criticism on behalf of, for example, the cotton textile industry which had suffered a more severe loss of trade in Brazil than even the coal industry[782]. In spite of its efforts to create an independent meat-packing plant, Brazil failed to follow the example of its smallest neighbour Uruguay.

The assessment of foreign analysts tended to conclude that industry was heavily protected in Brazil. For example Lord D'Abernon, whose mission was widely known, affirmed that the Brazilian industries had been established under the protection of one of the highest tariff walls in the world, and their development was a force which constantly operated to increase its severity[783]. Brazilians were also aware of this fact, and used to attribute the market access difficulties to other causes. For example, on the occasion of the signature of the commercial treaty with Sweden, the Brazilian Foreign Minister stated that "it is unfortunate that at the present time our markets do not offer the same possibilities of placing the excellent industrial products of Sweden, since the principal articles of export to Brazil, which are cement, printing paper, wood pulp for paper and electrical apparatus, meet with fierce competition here"[784].

Authors such as Abreu (1990, p. 77) consider that the US was the only country in a position to use its leverage on Brazilian foreign trade in order to force changes in its policies, but it chose not to do so. It could block the access of Brazilian coffee to the North American market, but under the guidance of a Department of State prone to a multilateral approach, never went beyond the threat. However, this was certainly not the view of British diplomacy, which did give credit to the power of persuasion of the Americans. For example, the British Ambassador to Brazil from 1930 to 1935, Sir W. Seeds, reported regarding the Brazilian exchange control that the US Ambassador presented a protest against the Brazilian scheme for dealing with federal state and municipal loans on the grounds that the US share would be disproportionately less than the British. He believed that the Brazilians were at the mercy of the US for dollars with which to obtain sterling, so that they could not react to serious pressure from Washington as the

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[781] Accompanying memorandum from the Brazilian Embassy titled "The suggested new duties on fruits and meat and their bearing on the Anglo-Brazilian trade", attached to the record of Conversation between Mr Craigie and the Brazilian Ambassador and Commercial Attaché on June 30th 1932, in BT 11/157.

[782] See opinion of Mr Shakle from the Board of Trade, in record of discussion with Mr. Lomax (Commercial Secretary at Rio de Janeiro) as to the possibility of commercial negotiations with Brazil, held at the Board of Trade on August 15th 1933, in BT 11/157.

[783] See translation of an article from the November number of the Brazilian business review "*0 Economiste*", attached to a Note dated December 9th 1930, signed by J. Garnett Lomax, Commercial Secretary to the British Embassy, in FO 371-15065, pp. 48-50.

[784] See speech read by Minister of Foreign Affairs Dr. Afranio de Mello Franco on the occasion of the signature of the commercial treaty with Sweden on October 27th 1931, in FO 371-15061, p. 263.

Brazilians did with other countries, such as the French[785]. In another example, a British public servant recalled that when President Roosevelt issued his invitation to Brazilian delegates to visit the US, the consequences were unfortunate, as the hosts, having got a weak Brazilian delegation to Washington, proceeded to bully them into signing a special agreement in regard to the American frozen credits. They were confronted with such threats as a tax on coffee and seizure of the proceeds of Brazilian imports into the US, and so alarming were the telegrams they addressed to their government that the latter capitulated and signed the agreement[786].

As already explained and in a similar way to Argentina, Uruguay was hurt by the Ottawa Agreements that favoured trade among members of the Commonwealth since 1932. To prevent this from happening, Uruguayan diplomacy attempted with very little success to negotiate better treatment for the country. The Uruguayan delegates to London explained in their representations that immediately before the Ottawa Conference, there had been a struggle between the supplying countries to consolidate their position in the UK market. During that time the Uruguayan government had no control over its exports and was unable to defend its interests. Uruguay was therefore in the least favourable position to take advantage of the UK quota policy. The basic year adopted in calculating the Uruguayan quota was very unfavourable, as it was for the case for Argentine meat exports. Taking frozen mutton as an example, Uruguay had exported more than 190,000 cwt. in 1930, but only 160,000 cwt. in 1932[787]. The government did not hide its annoyance. President Terra informed Butler Wright, Minister in Uruguay of the US Embassy in 1934, that he considered the results of the Ottawa Agreements during the Imperial Economic Conference very ‘unfortunate’ for Uruguay. Furthermore, Terra believed that the American packing interests in Uruguay were feeling the effects of the agreement and would soon feel them more severely. The President then observed that if that reaction on the exports of the country’s principal commodity continued, Uruguay would be ruined in five years[788].

Eventually, Uruguay achieved the objective of concluding a trade agreement with the UK, known as the Cosio-Hoare Agreement of 1935 that in a way mimics the Roca-Runciman agreement. The Anglo-Uruguayan agreement was negotiated at a disadvantage after the Ottawa Agreements, so that most of the conditions of that treaty were imposed by the UK. The idea of engaging in negotiations over this important agreement was communicated as early as 1932. A relevant argument for the Uruguayans was the significant deficit against Uruguay in the balance of payments -as differentiated from the balance of trade- due to the reduction of British purchases in Uruguay by almost 40% and the remittances by British interests[789]. Accordingly, there were debts which remained unpaid due to the fact that the UK purchases of Uruguayan

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[785] See report signed in Rio de Janeiro, dated November 15th 1933, in BT 11/157.
[786] See note of July 18th 1933, from the British Embassy, signature not legible, in BT 11/157.
[787] See U 3rd Minutes of a meeting held at the Board of Trade on Monday June 4th 1934 in “Uruguay-UK. Commercial Negotiations”, BT 11/294.
[788] See United States Department of State, FRUS (1952, p. 642).
[789] See note signed by Ambassador Cosio to the Parliamentary Secretary to the Board of Trade, Mr. E.L. Burgin, dated March 29th 1935 in “Uruguay-UK. Commercial Negotiations”, BT 11/294.

goods failed to produce the required amount of sterling holdings[790]. The basis proposed by the Uruguayan government for the conclusion of a commercial agreement with the UK included the offer of a definite scale of preferences to the British goods imported into Uruguay and the invitation to the UK government to put forward a specific list of British goods on which such preferences should be confirmed. But the British required further that the Uruguayan government would be prepared to give an assurance that they would affect the allotment of exchange in Uruguay in an equitable manner satisfactory to the British trade with Uruguay and to British capital invested in the country.

Eventually, the offer included tariff reductions in favour of all goods proceeding from the UK: 10% on goods at that time charged with customs duties up to 20%; 12.5% on goods charged over 20% and not exceeding 40%; and, 15% reduction on those charged over 40% (with an exception made for alcoholic beverages)[791]. And in return the Uruguayan government requested that the allotment of meat imports from Uruguay into the UK was upon a quinquennial basis determined on the five years prior to 1st January 1931, and furthermore that the quota so arranged was assigned to the direct control of the Uruguayan government[792].

The Uruguayan delegates tried to persuade their British counterparts of the benefits of the national meat-packing plant by reassuring that Uruguay would benefit British over American interests. The proposal was considered appealing since the Americans largely controlled the International Meat Combine and had secured a stranglehold over Uruguayan producers by, for example, restricting the output of the one Uruguayan government-owned meat-packing plant to 1,200 tons. In particular, the Uruguayan authorities defended the fact that the allotment of the distribution of the quota could be placed in their hands, so that they could gradually eliminate the American concerns. This measure would consequently promote the emancipation of the country from its financial and economic dependence on the US, which, Uruguayan delegates held, sold to Uruguay in the proportion of five to one of its purchases[793]. They also added that even though Uruguay could get the work done more cheaply by German firms, the works relating to the construction of the national meat-packing plant were at that time being obtained from British firms[794]. Besides, that plant built at the Port of Montevideo would not compete with the only British meat-packing plant (Vestey) that operated in a particular zone exporting through the Port of Fray Bentos in the River Uruguay, because that was outside the scope of the

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[790] See memorandum presented by the Uruguayan delegation at a Meeting held in the Board of Trade on August 1st 1934 in “Uruguay-UK. Commercial Negotiations”, BT 11/294.

[791] See note dated October 22nd 1932, signed by H.F.C., sent to the C.R.T department in “Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK” in FO A.5984/1864/46, BT 11/114.

[792] See note signed by Mr. D.V. Kelly from the Foreign Office dated December 1st 1932 to Pedro Cosio in “Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK” in FO A.5984/1864/46, BT 11/114.

[793] See note dated October 21st 1932 signed by Mr. Kelly to the Secretary of the Board of Trade in “Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK” in FO A.5984/1864/46, BT 11/114.

[794] See note dated December 14th 1932, signed by Sir Henry Fountain regarding at meeting with the Uruguayan Minister and the First Secretary to the Embassy, in “Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK” in FO A.5984/1864/46, BT 11/114.

Uruguayan government's plans. They further assured the British that any development of their national meat-packing plant would be at the expense of the American owned plants and not all of those the British owned in the country[795].

But the British evaluated internally, as with the case of Argentina that the Uruguayan government had not appreciated the position and its proposals were useless as a basis of discussion[796]. Although some of the British officials argued in classified documents dated in 1932 that the negotiations with Uruguay should proceed *pari passu* with the Argentine negotiations[797], in others it was clearly stated that negotiations with Uruguay were secondary, and founded this assessment in the fact that exports from the UK to Argentina in 1929 reached 29 million pounds and to Uruguay only represented 3.75 million pounds. As it was impossible to conclude tariff arrangements with all foreign countries at once, the British desired certainly to start with countries which for one reason or another were of chief importance, e.g. Argentina, and consequently the minor South American countries had to wait[798]. Ultimately, for the UK the most that Uruguay could get would be a guarantee of continuation of the 'fair' treatment that it was receiving[799].

However, the Board of Trade did not lose the chance to take advantage of the Uruguayan hurry to secure the British market. Although British officials considered that it was undesirable to encourage the Uruguayans to believe that the UK could come to any early commercial arrangements, as there seemed to be some chance of Uruguay offering the UK concessions, therefore it would not be convenient to discourage their authorities from considering the matter in advance. And so, the British Ambassador to Montevideo was instructed to say that although it would be some little time before actual negotiations regarding the future commercial relations between the two countries, he would be glad to learn that the question was under examination from the Uruguayan side and that there was reason to hope that the Uruguayan government would ultimately be prepared to offer the UK substantial advantages in the shape of reduced duties on British goods in return for what the UK would be able to offer them in the shape of a market for its produce[800].

During the negotiations in 1934 there were also considerations of the Uruguayan market share. The British delegates pointed out then that there were three meat-exporting countries (viz., Uruguay, Brazil and Chile) with which, at that time, the UK had no trade agreements and whose meat exports could therefore be subjected to further restrictions. It was true that the UK had

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[795] See private memorandum dated October 22nd 1932, from the Uruguayan Embassy to London sent to Mr. Craigie at the Foreign Office, in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114.
[796] See memorandum not signed, not dated, 1932, in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114.
[797] See memorandum not signed, not dated 1932 in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114, 1932
[798] See internal memorandum of the Board of Trade dated May 27th 1932 in "Uruguay-UK. Commercial Negotiations", BT 11/294.
[799] See minutes of meeting of the Subcommittee on Exchange Restrictions in South America held at the Board of Trade on May 23rd 1933 in "Uruguay Exchange Restrictions", BT 11/151.
[800] See internal memorandum of the Board of Trade dated May 27th 1932 in "Uruguay-UK. Commercial Negotiations", BT 11/294.

given assurances to Uruguay that during these negotiations the conditions governing the importation of Uruguayan meat would not be modified to Uruguay's disadvantage; such assurances were inspired by the hope that the negotiations would result in the accord of counter-concessions by Uruguay in the domain especially of exchange control and tariffs. The UK regarded an agreement which secured for Uruguay its percentage of the permitted total of meat imports, based on the 'Ottawa year', as a very substantial concession to Uruguay. Very careful consideration was given to the Uruguayan desiderata, but the UK saw no possibility of meeting the Uruguayan government's request for an increase in the percentage of meats of all kinds imported from Uruguay. As regarded the second Uruguayan request, that a larger percentage share of Uruguay's meat should be allocated to the national meat-packing plant, the problem was one of some difficulty. Nevertheless, if the Uruguayan government attached great importance to the matter, it would explore the possibility of a modest addition to the 22.5% of that time[801].

Eventually, the Uruguayan diplomats realized that the UK government would be unable to increase Uruguay's meat quotas and that the only course possible was for Uruguay to remain content with the 'status-quo' in the matter of its meat exports to the UK, which the British were at that time prepared to grant in exchange for the fulfilment by Uruguay of certain conditions[802].

iv. Global, hemispheric and regional trade negotiations

Regarding the neighbourhood, the conflicting past weighed heavily in the prospects for a more cooperative approach among ABU. Indeed, it was difficult to believe that during the thirties Brazil and Argentina could manage deep integration projects. It is important to take into account that both countries inherited the competence of the Portuguese and the Spanish Empires. Even the creation of Uruguay as a buffer state between both giants, not only was influenced by the British strategy for preventing Argentina, Brazil or both from controlling the access to the River Plate and major rivers inside the South American Sub-Continent, but also to prevent wars between the two countries. Whatever the intensions of diplomats at the time, the bilateral relationship between the countries was at least difficult and tarnished by distrust. For the Brazilian military, the Argentine path to an arms race constituted a threat to national security.

The episode of the war between Bolivia and Paraguay from 1932 to 1935 (*Guerra del Chaco*) and the alleged support of Argentina to the Paraguayans was in the eyes of Brazilian policymakers an attempt by Argentina to secure favourable access to the rich Bolivian natural resources, mainly petroleum, and to consolidate its hegemony in the continent. The fact that Argentina at the time was the richest country in the continent, the perception that Brazil was surrounded by hostile former Spanish colonies and the fear that the great powers, including the US, Germany and Japan wanted to exploit the extensive Brazilian natural resources, fuelled a defensive sentiment of vulnerability among the Brazilian authorities and the conviction that the

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801 See 22nd minutes of a Meeting held at the Board of Trade on Wednesday, August 1st 1934 in "Uruguay-UK. Commercial Negotiations", BT 11/294.
802 See note signed by Ambassador Cosio to the Parliamentary Secretary to the Board of Trade, Dr. E.L. Burgin, dated March 29th 1935 in "Uruguay-UK. Commercial Negotiations", BT 11/294.

army should be updated, for which the economy should grow in a more independent way. For these reasons, Brazil had to concentrate on reducing its foreign dependence as a way to protect the country from foreign interference and to foster its capability to take its rightful place on the South American stage. The selected strategy for that endeavour involved the industrialization of the country and the expansion of foreign trade, with the support of a renewed state interventionism. In a way, the industrialization became a matter of national security, and the iron and steel industry was in Vargas' view the main symbol of a fully independent Brazil[803]. Thus, the regional context did not contribute to a deeper integration of Brazil with its neighbours and on the contrary deepened nationalistic policies.

At a regional level, ABU participated in the Tripartite Economic Conference in Montevideo in 1931[804] that resulted in some modest advances but opened the door to an increase in reciprocal trade negotiations between these countries. The main decisions taken at the Conference were that each member country should create a system of control of national meat production and trade with a view to developing a common policy for the three countries. Furthermore, an agreement for a concerted study on the control of the livestock and meat trade of the three countries was also reported[805]. They also tried to coordinate a common attitude to the export disposal of their meat products, as well as the possibility of negotiating trade-barter agreements, possibly of an exclusive character[806]. Although the Conference laid great emphasis on the urgent need to put these resolutions into effect, a few months later the proposals for coordinated action foundered as the delegations could not reach concrete agreement. They could only agree to develop techniques for controlling the meat trade independently with the aim of subsequent harmonization of the economic interests of these countries. In this regard, it is important to point out that Uruguay had established a national meat-packing plant, but failed to achieve full state supervision of the Uruguayan meat trade, while Brazil produced no convincing administrative machinery at all. The impression from the meetings at this Conference is that the real enthusiasts for tripartite control were the Argentineans who hoped to market their meat in the other two countries and to curb Brazilian and Uruguayan progress in the British market. However, with hopes of a common policy rapidly fading, Argentina decided on unilateral action to combat the worsening crisis of the stock-raising economy[807].

The British diplomacy evaluated this conference as irrelevant, since the delegates had their first and apparently their only meeting on 4th November. They adopted two resolutions. The first one established that representations should exert pressure on the British government for the assignment to each country of its own particular quota for the importation of meat and that each should arrange for its distribution. Secondly, a special organization for the study and report on

[803] See for example Hilton (1977, pp. 35-46).
[804] See Ministerio de Relaciones Exteriores de Uruguay (1947, p. LXXXIV). As a background to this conference was the proposal of the Foreign Minister of Chile, Mr. Planet, which involved a Conference of Latin American States to look into joint economic action and to make progress in consideration of a customs union. The Conference practically had no results (Chalmers, 1953, p. 87).
[805] See Gravil (1970, p. 162).
[806] See Chalmers (1953, p. 112).
[807] See Gravil (1970, p. 162).

the production and commerce of meat should be created, having Montevideo as its centre. However, from the point of view of the British this conference only served as further publicity for the Uruguayan Minister of Foreign Affairs Mr. Blanco, the author of it, and after all the interests concerned were not altogether mutual, those of Uruguay being minute when compared to the Argentine ones[808]. Thus, the conference only produced modest results, an indication of the general failure of regional cooperation, in line with the worldwide context of a lack of cooperation.

As Chalmers (1953, p. 88) reports, by that time ABU were planning the negotiation of tariff treaties with various overseas countries for the main purpose of securing or ensuring favourable tariff treatment for their export staples in those markets. And, in that context, by the end of 1931 these countries started conversations in order to achieve bilateral agreements for the facilitation of trade with each other. The sponsors were confident of the results because of the limited scope of the proposed agreements, and the common interests shared by these three neighbouring countries[809]. However, in spite of the diplomatic efforts of ABU, there was not much progress in bilateral negotiations between them until 1933 due partly to political difficulties and trade discrepancies. For example, Brazil which according to Madrid (1999) was the second largest importer of Argentine wheat and the main exporter of yerba mate and rice to that country[810], in August 1931 signed a barter agreement to exchange coffee for wheat with the US. This agreement between the Grain Stabilisation Corporation of Chicago and the Brazilian government was encouraged by, on the one hand, the restrictions that the Argentine government imposed on Brazilian yerba mate and rice exports[811] and on the other hand, the need to relieve the Brazilian exchange rate market for an extended time[812].

In October 1933 a trade agreement between Brazil and Uruguay was signed, which was ratified in 1935. It provided for an interchange of goods in border trade and experimented with reciprocal duty-free imports of certain commodities from each other, the list of which would be reviewed periodically. The agreement included free access for cattle (bovine, ovine and swine), birds, legumes, forage, vegetables, eggs, maize, butter, cheeses and cream, among others; and duty free quotas of 10,000 tons of wheat or wheat flour; 4,000 tons of potatoes; 8,000 tons of processed pine wood; and, 200,000 heads of bovine cattle for slaughter house or wintering, when crossing the border in both directions. Later, in 1935, other products were granted free tariff access to Uruguay, such as Brazilian fruits (except oranges and tangerines that received

[808] See note Nr. 153 signed by R.C. Michell to Mr. John Simon dated November 7th 1932 in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114.
[809] See Chalmers (1953, p.112).
[810] By 1930, 98% of the rice that Argentina consumed had as its provenance Brazil (Madrid, 1999, p. 12).
[811] Since August 1930, the Argentine government did not recognize the yerba mate as an essential article anymore and it abolished the preference of 30% previously granted to Brazil. After that, in December 1931 Argentina prohibited the import of yerba mate and moreover placed it in a regime of quotas. Even more, in the same year Argentina imposed duties on Brazilian rice, 0.02 pesos per kilo for rice with skin and 0.04 pesos per kilo for rice without skin. All were measures taken in order to protect the local industry (Ibid., pp. 7, 11-13).
[812] See Ibid., p. 12.

50% of the tariff) and peanuts[813]. After this agreement between Brazil and Uruguay, Argentina and Brazil also signed a trade agreement in the framework of the official visit of President Justo to Rio de Janeiro, which was also ratified in 1935[814]. It established a considerable measure of free trade, as it applied reciprocal duty-free imports of certain commodities from each other, as in the case of the Brazil-Uruguay negotiation. Then, a similar trade agreement was signed between Argentina and Uruguay in 1935, which contemplated reductions or waivers of duties by each country on selected export product[815].

In particular, according to Rapoport (2003, p. 225) in this period the most outstanding characteristic of Argentine foreign policy in regional matters was the series of negotiations and bilateral agreements with Brazil and Chile[816], that suggest a better understanding with neighbouring countries, with a strong history of rivalries[817].

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[813] See Ministerio de Relaciones Exteriores de Uruguay (1947, p. 65).

[814] Actually, there were several agreements. In October 1933 the foreign ministers of both countries signed various agreements: Trade and Navigation Agreement, Agreement for the Prevention and Repression of the Smuggling and Agreement of Extradition, among others. "Agustín P. Justo visita Brasil y es recibido por el presidente Getúlio Vargas" (1933, p. 494) in *El Bicentenario*.

[815] See Chalmers (1953, pp. 87-88, 119-120). The relations of Argentina and Uruguay during this period were not free of conflict. In 1932 in Argentina a coup against the government of General Uriburu failed, some of whose leaders took refuge in Uruguayan territory, where they continued with their activities. For this reason, the Argentine Ambassador José María Cantilo presented to the Uruguayan Foreign Ministry Juan Carlos Blanco a warning about the advisability of policing the coast to prevent the activity of the emigrants. In particular, on July 7th, 1932, Cantilo warned President Gabriel Terra of Uruguay that when the eastern war cruiser "Uruguay" sailed to participate in the celebration of Argentina's independence, an Argentine ex-army chief General Toranzo had come aboard-who was a fugitive trying to overthrow the national government, and was received warmly by the Uruguayan officials. Thus, in response to these warnings on July 13th Cantilo received a communication from the Uruguayan Foreign Minister, which stated that the attitude of the Argentine authorities to inspect the cruiser "Uruguay", visiting Buenos Aires to greet the Nation of Argentina, was an affront to national dignity and this military unit bore the Uruguayan flag. Consequently, the Uruguayan government decided to cut diplomatic relations with Argentina and withdraw its Ambassador from Buenos Aires. And in the same day, the Argentine government issued a decree calling for the sudden rupture of diplomatic relations. The attitude of the Uruguayan government, said the Argentine government, added to repeated violations of the duties arising out of the treaty of Montevideo International Criminal Law by allowing the seditious activities of Argentine political refugees fleeing to Uruguay. For these reasons, the Argentine government decreed: a) dismissing as unfounded the reasons invoked by the Uruguayan government to cut diplomatic relations with Argentina; b) cutting diplomatic relations with the Uruguayan government and surrendering their passports to its ambassador in Buenos Aires, and c) requesting the British government to take charge temporarily of Argentine interests in Uruguay. However, when Uruguay received clarification from the Argentine government about what happened to the warship eastern "Uruguay", in September of that year the Uruguayan authorities decided to restore diplomatic relations with Buenos Aires and proposed this to Argentina. The Argentine government accepted the Uruguayan proposal and both governments declared diplomatic relations restored and reinstated in their posts the ambassadors of both countries (Ruiz Moreno, 2000).

[816] In this regard, according to the *Boletín Oficial* printed in Buenos Aires dated November 9th 1933 from Direction of Customs and Ports in "Notes on application of the concession to foreign countries", in the application of the most-favoured-nation clause, it declared that the rebates and exemptions from payment of duty accorded to certain Chilean products should be extended to include products of a like nature of British, Italian and French origin (BT 11/225, 1933). Even, according to BT 11/215 (1933) the British maintained that the purchase of Chilean coal for use in Argentina violated the spirit of the commercial agreement which Vice-President Roca had recently reached with UK.

[817] Beyond economic relations, Argentina had a strong presence in promoting the peace and the high profile of its diplomacy under the leadership of the Minister of Foreign Affairs, Carlos Saavedra Lamas. When General Justo became President of Argentina in 1932, he appointed Saavedra Lamas as Minister of Foreign Affairs. In

On a hemispheric level, the Conference of the Latin American States, convened in 1931, failed to coordinate joint economic actions, such as the creation of a customs union. However, the relations with the US started to improve. Argentina, for example, signed an agreement with the US, marking a turnaround in the previously cold relationship with that country[818]. In 1933 there was an invitation from the US to certain countries of Latin America (Argentina, Brazil, Colombia and Cuba) to enter into exploratory discussions to study if a basis could be developed for reciprocal tariff agreements, which marked another new trail in trade policy on the American Continent[819]. This new encompassing policy is not a surprise since Franklin D. Roosevelt assumed the presidency with the aim of inaugurating a new era in American foreign relations with regard to Latin America, known as the 'Good Neighbour' policy.

The VII Inter-American Conference in Montevideo at the end of 1933 is remembered for the participation of the US President Franklin D. Roosevelt and the Secretary of State Cordell Hull, who promoted the newly declared 'Good Neighbour' policy, in opposition to the recent history of US armed intervention in inter-American affairs[820]. At the Conference, the US representative, Secretary of State Cordell Hull, presented a resolution that proposed the reduction of customs barriers by negotiating reciprocal bilateral treaties, the principle of equal treatment and the inclusion in the treaties of the most-favoured-nation clause, and Argentina pledged to support that economic resolution[821].

Argentina, Brazil and Uruguay also participated in the failed international efforts to contain the worldwide protectionist waves. An example of this is their role in the multilateral efforts for international cooperation during the World Monetary and Economic Conference in London in June 1933.

Argentina was in the charge of the 'Sub-commission of Coordination of the Production and Sales', so that it held an important role in a turbulent world. The Argentine position at the

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this post for six years, Saavedra Lamas brought international prestige to Argentina. He played an important role in every South American diplomatic issue of the middle thirties, induced Argentina to re-join the League of Nations, and represented Argentina at virtually every international meeting of consequence during this period. His work in ending the Chaco War between Paraguay and Bolivia (1932-1935) had not only local significance but general international importance as well. When he took over the foreign office, he immediately engaged in a series of moves to lay the diplomatic groundwork for a negotiated settlement of this dispute. In 1932 he initiated at Washington the Declaration of August 3rd which put the American states on record as refusing to recognize any territorial change in the Hemisphere brought about by force. Next, he drew up a Treaty of Non-Aggression and Conciliation which was signed by six South American countries in October, 1933, and by all of the American countries at the Seventh Pan-American Conference at Montevideo two months later. Meanwhile, in 1934, Saavedra Lamas presented the South American Anti-War Pact to the League of Nations where it was well received and signed by eleven countries. Acclaimed for all of these efforts, he was elected President of the Assembly of the League of Nations in 1936. In that year he was awarded the Nobel Peace Prize and he also received the Grand Cross of the Legion of Honour of France and analogous honours from ten other countries ("Carlos Saavedra Lamas-Biography" in Nobelprize.org).

[818] See Rapoport (2003, p. 225).

[819] See Chalmers (1953, p. 120). In order to obtain more detailed information from preliminary discussions respecting a trade agreement between US and Argentina, see United States Department of State, FRUS, (1951).

[820] The convention was signed by 19 states. The acceptance of three of the signatories was subject to minor reservations. Those states were Brazil, Peru and the US.

[821] See Rapoport (2003, p. 227).

Conference can be traced through the statements of its members, who acted under the heading of great personalities such as the adviser Raúl Prebisch. According to Le Breton's[822] statement from *Société des Nations*[823](1933), Argentina defended the stabilization of tariffs, expressed openness to make future reductions on them and reiterated the need to avoid political preferences and regional discrimination. Furthermore, Argentina considered that the imposition of quotas, prohibitions or embargos only generated artificial production, confusion and disorganization for international trade. Regarding the problem of agricultural overproduction, it was shared among nations. Argentina argued that due to the demands in wartime, it increased its production, but the European countries did the same based on their growing nationalism, so that all these countries were responsible for the general overproduction. In addition to this, Teodoro Becu[824] stated that it was not an equitable situation that some countries claimed for regularization of production and exports if those importing countries were not prepared to considerably reduce or to suspend restrictions that contributed to the strangulation of international trade. On the other hand, the former Minister of Finance Ernesto Hueyo[825] described two important world trends that the Argentine government could perceive: the excess of economic nationalism as the chief origin of the economic restrictions, prompting an excess of production, and the growing formation of monopolies. Furthermore, a key element was the fact that Argentina did not agree with coordination measures only based on developing industries independent of the international production. In addition, he argued that the exchange control in place in Argentina was a consequence of the slump in the value of its exports and was aimed at avoiding speculation. He concluded that it was not fair to say that the decrease of imports in Argentina was due to those controls. Finally, the Ambassador of the Argentine Republic to the UK, Manuel Malbrán, requested cooperation from creditor countries in facilitating the exports from debtor countries in order to be able to face their obligations with those countries. Thus, after this exposition of arguments by Argentina's representatives in the Conference, in our opinion it is possible to conclude that the excess of nationalism reflected in the defence of the interests of each participant, which made impossible the cooperation and coordination of measures among them, was the main cause of the failure of this Conference.

Moreover Uruguayan delegates attended the Conference of London, with the chief negotiator being the Ambassador to the UK Pedro Cosio, later Minister of Finance under the Terra regime. At that opportunity the Ambassador pointed out that the solution for the global monetary and economic problems required a greater degree of collective responsibility and a more liberal world. He stated that the country, until then, had served its foreign debts and had tried to ease

[822] Tomas A. Le Breton was the head of the Argentine delegation, former Minister of Agriculture, Ambassador of the Argentine Republic in France (Société des Nations, 1933, p. 8).

[823] Argentina joined the League of Nations in January 1920 once the Treaty of Versailles was ratified during Yrigoyen's first term. But, due to the refusal of the victorious nations of the war to accept Argentina's position that all sovereign states were part of this organization without modification of discriminatory nature (universalist position on the principle that 'victory does not give rights'), Argentina left the organization in December of the same year.

[824] Teodoro Becu was member of the Honorary Commission for the National Sales Tax and Legal Adviser of the Banco de la Provincia de Buenos Aires (Société des Nations, 1933, p. 8).

[825] Ernesto Hueyo was the former Minister of Finance and member of the Faculty of Economic Sciences (Ibid.).

the difficulties of exchange that impeded trade and the settlement of corporate bonds. But the currency had lost 60% of its gold value and the burden of external debt had increased by 100%, just in the middle of an economic juncture that forced the government to reduce domestic spending. Thus, Cosio asked: "how long will Uruguay continue to sacrifice?" and responded to himself that that was impossible to say[826]. The fact is that Uruguay was not really a player in those negotiations, and anyway there was a lack of willingness among the big powers to find a coordinated response to the global crash.

The other international Conference worth mentioning is the one that ended with the adoption of the International Wheat Agreement concluded in August 1933. Although this agreement resulted in another failure for international cooperation, as Rowe (1965, p. 152) argues, it was historically important because it was the first commodity control scheme in which importing as well as exporting countries[827] were associated, including the US. The wheat-importing countries had all been attempting to counteract the great fall in wheat prices by maintaining their domestic prices and with that purpose they essentially insulated their wheat industries from the rest of the world. The traditionally protectionist countries -France, Germany and Italy- were especially successful in expanding their domestic production in order to decrease their need for imported wheat. From the exporters' point of view, it seemed that the lower the price they accepted for their wheat, despite the costly efforts of some of them, especially the US, to keep the price at a reasonable level, the greater were the efforts of their customers to avoid buying; or at least to see that prices did not fall, and so bring about the increased demand which the exporters so desired. The International Wheat Agreement was signed by exporting and importing countries. In principle, this was a triumph for international commercial negotiation at that period, given the failure of the Economic Conference. The exporters agreed to accept a schedule of export quotas beginning with the season then opening, and to reduce their acreage for the 1934-1935 crop by 15%. And the importing countries undertook not to increase their wheat acreages further, and to reduce their tariffs when the world price had risen to a certain level. However, in the winter of 1933-1934 Argentina, which showed no disposition to enter into any substantial undertakings[828], harvested an extraordinary crop, and during 1934 deliberately exceeded its export quota. In the summer of 1934 the US and Canadian crops were very small, stocks would clearly be reduced, and prices began to rise. The result was that the agreement was tacitly ignored by all parties[829].

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[826] See the *Journal de la Conférence Monétaire et Économique* (Société des Nations, June 23th 1933, pp. 14-15).
[827] Parties to the Agreement were Argentina, Australia, Austria, Belgium, Bulgaria, Canada, Czechoslovakia, France, Germany, Greece, Hungary, Italy, Poland, Rumania, Spain, Sweden, Switzerland the US, the USSR, the UK and Yugoslavia. Several of these signed with reservations (Taylor & Taylor, 1943, p. 118).
[828] See "International Wheat Agreement. Memorandum by the President of the Board of Trade" in C.P. 154, 1934, p. 2.
[829] See Rowe (1965, pp. 151-152).

v. Conclusion

As we addressed in Chapter II, there are structural constraints or structural barriers in the world that slow the economic growth of developing countries and are at the root of their underdevelopment. As the Latin American structuralism predicates, the industrialized countries organize world trade according to their national interests, while the rest of the world, including Latin America, constitutes a heterogeneous group exporting its foodstuffs and raw materials to the 'centre'. Originally, the development in the periphery depended on the export of those sorts of goods. Later, industry started to grow, but its primary export specialization conditioned development. A country begins by producing simple consumer goods and only gradually progresses to the production of more technologically complex products, e.g. consumer durables, intermediate goods and eventually certain capital goods. In order to bring about these changes, however, it is imperative to change the structure of peripheral countries by means of a process of industrialization that can spread technical progress. As we have seen in previous chapters, ABU acted more by the pressure of the circumstances than by planned policies as a set of protectionist measures. These policies were nevertheless in line with events elsewhere. The world closed within borders and ABU had to follow that path. The result was an incipient process of import substitution industrialization that deepened during the thirties and was later rationalized in the Latin American structuralism.

The Great Depression was also a time of changing hegemony. The power of the UK was being surpassed by the US, and as a matter of fact the transition period was a sort of power vacuum aggravated by the global downturn. The US was still placing itself as a benevolent leader and did not exert to a full extent its power. However, the UK and the US struggled to control the availability of money to lend, for what purpose and under which conditions. They sought to control credit, and to exert structural financial power, using Susan Strange's expression. The power vacuum that was left by the Great Depression and the transition of hegemony shocked the structure of the international political economy that was built by the UK and that had conditioned the way in which other actors' political institutions, economic enterprises and states had to operate.

In this changing framework, Immanuel Wallerstein attributes to a particular group of semi-peripheral states a special role in the capitalist world-economy, especially at a time of world economic downturn. Up to some extent ABU attempted with different degrees of success to make use of this increased freedom at the expense of core countries. For example, they discriminated in the allocation of foreign currency to pay commercial debts and loans among countries, and enacted more protectionist tariffs and non-tariff barriers. However, these measures did not change the basics of the interdependence patterns that linked them to the world-system.

In this chapter we have seen that in a context of global crisis, the foreign trade and production levels were seriously affected by the decisions of the developed countries that traded with ABU. For the past eighty years Argentina and Uruguay had prospered largely on account of their close European connection. The case of Brazil is similar, although the links with the US were stronger. With the outbreak of the crisis, Argentina and Uruguay had an informal dependence with their most important customer, the UK, with whom they essentially traded meats, wool and grains[830]. ABU were also a prominent market for British coal, manufactured goods and capital exports. As a result of this asymmetric interdependence, the UK had a dominant position in trade negotiations with Argentina and Uruguay vis-à-vis other core powers. The US was their main supplier before the depression, mainly for manufactured goods such as vehicles and their parts. However, it was clear that the competitive nature of US agricultural production was a stumbling block in trade negotiations with Argentina and Uruguay. For that reason, as mentioned before, both countries presented persistent deficits with the US and surpluses with the UK.

Neither Argentina, nor Brazil, nor Uruguay could avoid the most negative effects of the trade policies of key commercial partners. The representations made by ABU show clearly the different capabilities of these countries to obtain concessions based on mutual interconnectedness. The case of Argentina is clear. Even though Argentina implemented defensive policies, it could not prevent the UK from favouring its dominions by means of the Imperial tariffs. Argentina was vulnerable to UK trade policies, especially in the politically sensitive meat sector. However, the UK was also sensitive to the need to keep secured its investments in the River Plate, so that it also was ready to negotiate a settlement, knowing that it would do so from a position of relative strength. The result of the negotiation was, of course, more favourable to British interests. Argentina could not escape from the nature of its commercial links to a world system that still assigned a strong leverage to British diplomacy.

In the case of Uruguay, even though the kind of trade and investment flows with regard to the UK were similar to Argentina, it was a minor power ranked lower in priorities of British foreign policy as became clear from the documents that we managed to review from the National Archives in London. The various representations made in London and in Montevideo eventually ended with the Cosio-Hoare commercial treaty with the UK in 1935, but this was later and followed a similar logic to the Roca-Runciman Treaty of 1933. Beyond the trade negotiations, Uruguay tried to enact laws to allow for trade and capital restricting measures of different sorts against core countries with protectionist aims, but not surprisingly those were mostly not applied due to the fear of stronger retaliation.

The case of Brazil is different because it was more vulnerable to the US than any other country, but the latter lacked the political willingness of British diplomacy to impose solutions. Only a few semi-peripheral countries are able to translate that condition in the world-system hierarchy into a real shift in economic position at any given moment in history. The history of the twentieth century shows that Brazil has been a semi-peripheral country during the twentieth century and up to the present. However, the special context of global downturn and power vacuum during the Great Depression allowed Brazil to make a better use of that position in the world-system. Since the thirties it achieved a degree of industrialization and international standing remarkably different as compared with the former semi-agrarian and deeply underdeveloped position. It did it also by using an extremely protective policy. The comparison

[830] See also Fodor et al. (1973, p. 11).

with its neighbours gives credit to this allegation, as tariffs could reach a maximum of 300% in Brazil, while in Uruguay they reached 48% and in Argentina certain key products were in the range of 5%-35%, with some exceptions[831]. This outcome, of course, would have not been possible if its internal market had not been so big and of such high growth, as compared with Argentina, and of course Uruguay.

In any case, although this thesis does not address long-term trends, the evidence suggests that the patterns of dependence mutated. However, the foundations of those patterns did not dramatically change. The world-system kept running, and in the long-run only produced a change of hierarchy which was positive for Brazil, and negative for Argentina. The commercial patterns of ABU show that the original dependence on primary exports to the core countries did not change significantly during our period of analysis, although the composition among staples in the export basket changed in some cases. Argentina, Brazil and Uruguay also kept asking for new loans from the same international financiers during this period.

In general the governments directed their efforts to protecting as much as possible the main agricultural activities from the depression, thus helping the main pressure groups behind those activities. In general also, the new regimes inaugurated in ABU during the thirties tended to protect those interests, although they also increasingly tried to protect the urban industrialization that introduced new or reconverted former agricultural pressure groups within states. The trade and sectoral policies were functional to these objectives. ABU failed to coordinate more cooperative regional positions, although they achieved some bilateral treaties that facilitated trade.

The conclusion of this chapter is that taking into account the strong links of Argentina and Uruguay with the UK and the relative autonomy of Brazil, the latter was less vulnerable to the changes of policies of the main commercial partners. Nevertheless, the world-system still prevailed and limited the options of the governments.

[831] E.g. soft felt hats, woollen with an *ad valorem* tariff of 144.4% in 1927 (Díaz Alejandro, 1967, p. 88).

XIII. A link to the present, the Great Depression vs. the Financial Crisis of 2008

In this last chapter, we find it useful to make a link to our contemporary experience, so that we can obtain a better perception of the real magnitude of the Great Depression. We already made a connection in sections of Chapter III and Chapter IV, but that was from a more statistical point of view. In this chapter, we focus on the differences between the Great Depression and the Financial Crisis of 2008 using a more qualitative approach.

When the Financial Crisis of 2008 deepened and its shockwaves were transmitted through highly globalized commercial and financial linkages, every country in the world felt its consequences. Certainly, the least we can say now is that it has been a 'great' recession which marked the end of the 2003-2007 cycle. It was the most expansive in the world economy in forty years, and possibly the beginning of a lost decade of low and erratic growth worldwide, especially in the developed world. The outbreak of the international crisis during the second half of 2008 brought memories of the thirties. Actually, both crises broke out in the US in a context of intense speculation, with the burst of an asset price bubble and from there spread on to other sectors and countries, resulting in a global financial system crisis that was fuelled by the lack of financial regulation and the irrationality of markets seeking profits regardless of the costs and moral hazards at stake, as well as the economic instability in Europe.

Nowadays, these economic pathologies are aggravated by a financial system that is markedly different from the thirties, because the volume of transactions is much greater, the international interconnectedness of financial entities is deeper and the opacity of the system has reached levels never seen before. However, as we have seen, the gold standard's 'Midas touch' that paralyzed the world economy during the early thirties is nowadays only a matter of historical research. As Temin (1993) argues, the economic downturn of the thirties was transmitted internationally by a gold standard ideology, a mentality which entailed that external balance was the priority and that the speculation beneath the booming stock market in New York was dangerous. This mentality meant difficult choices for governments. In line with Irwin (2012), a complicated trilemma of economic policies existed in maintaining the gold standard parity, independent monetary policy, and open trade when severe protectionism was applied worldwide.

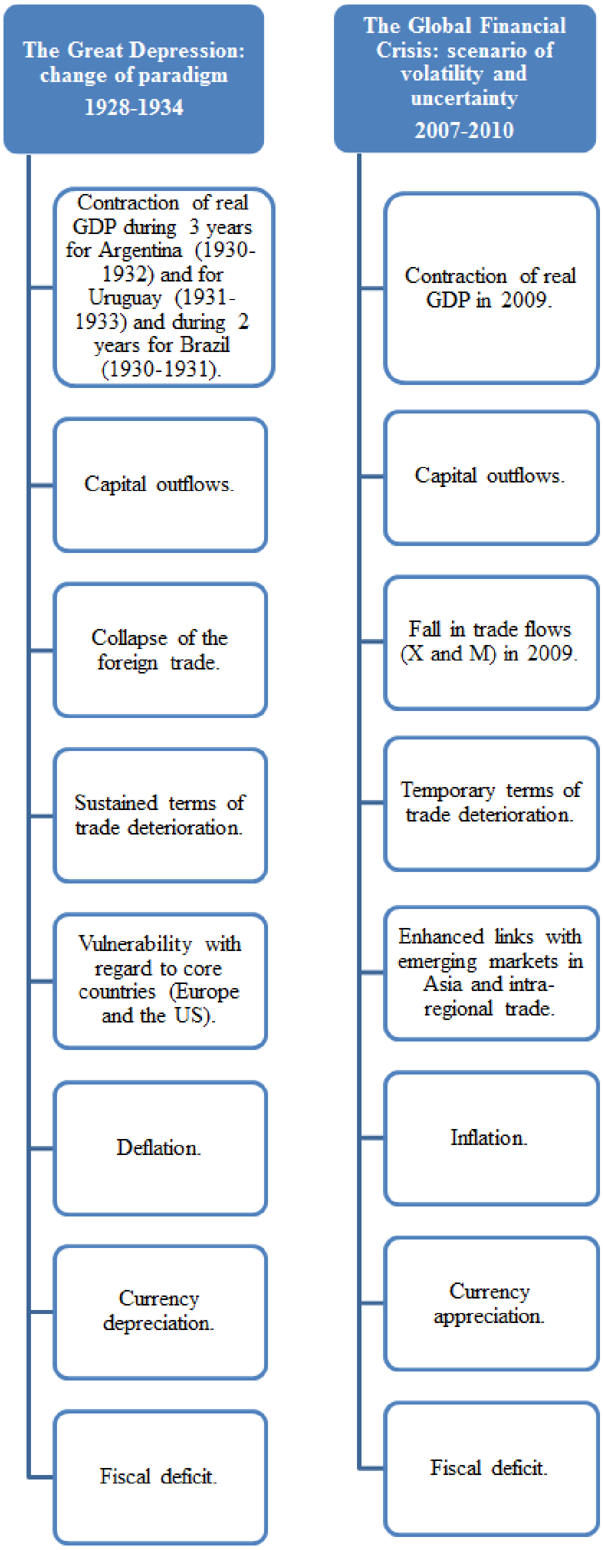
By contrast, the state of knowledge and the intellectual framework are clearly different now. In the antipodes of the gold standard orthodoxy, as Eichengreen & Irwin (2009b) assert, the message for today would be 'to avoid protectionism, stimulate'. But, even though in the present day there is no open trade war, the expression 'beggar thy neighbour' sounds old fashioned and restrictive trade policies are considered destructive and counterproductive, we witness a 'new protectionism'. Or, as Baldwin & Evenett (2009) state, there is a 'murky protectionism', reflected, for example, in stimulus packages that provide for the allocation of spending to domestic producers.

However, during the first half of the thirties the Keynesian theory was not still totally developed. Fiscal stimulus was neither well understood nor generally accepted and, in fact, 'stimulus' meant monetary stimulus translated in currency expansion that could cause serious inflation. Thus, fiscal or monetary expansions were practically prohibited words and for that reason, whenever countries needed to implement expansionary measures, they tended not to confess them. Nowadays, when we refer to 'stimulating the economy' that means also fiscal stimulus that in principle is more beneficial in terms of less incentive to trading partners to respond in a protectionist way. Nevertheless, policies in one country tend to affect others in the interconnected world of today, whereas also integrated markets play a key role, so that countries more than ever need to coordinate their fiscal and monetary measures to prevent the sort of negative global outcomes of the thirties.

In Latin America, unlike the interwar period, during 2003-2007 there was a relieving combination of financial boom, rising commodity prices, high level of remittances from migrant workers and the steady buoyancy of the biggest Asian economies, a situation that translated into unprecedented economic growth. As a consequence, most of the countries including ABU had achieved a reasonable level of foreign reserves and a lower external debt, so that they were better positioned at the outbreak of the crisis. As far as the transmission to the region is concerned, the first phase of the crisis was felt in the third quarter of 2007, when the abundant funding fell. However, the region managed to isolate itself from the financial crisis, and therefore there were no significant or long lasting runs on currencies or debt crisis as in the past. In opposition, during the twenties commodity prices were under pressure from overproduction after the First World War and plunged frequently. In this context, since 1928 Latin America experienced the hardships produced by the sudden outflow of foreign capital loans that had previously allowed them to meet payment imbalances and to develop industries, as well as infrastructure. As the 'dance of the millions' ended, international reserves came under pressure and currency runs were frequent, so that devaluations and exchange controls were unavoidable. Also the high external indebtedness became excessive for many countries, so that by 1931 sovereign debt and municipal defaults were widespread. Indeed, all these factors can explain why the contraction was so serious during the Great Depression.

Our analysis suggests that the current downturn has not been far reaching in ABU. Therefore, even though the crisis after 2008 can be characterized as 'global', it cannot be described as a depression for these three countries during the period under analysis. However, that being said, we are aware that at the time of writing this work the crisis had not ended yet, it only entered into a new stage of slowing demand, as the Financial Crisis of 2008 turned into a sovereign debt crisis in Europe in 2011, with the potential of rebounding in China and other emerging markets, including ABU. Without prejudice to this, in Figure 25 we mirror the main characteristics of the impact of both crises on ABU, which in general terms corresponds to the Latin American experience.

Figure 25 ABU: Comparison of the impact



For our period of analysis 2007-2010 and even though it is not possible to rule out future wave shocks, we have to conclude that the contraction or the slowing down of the growth of real GDP of ABU was evident only in 2009 and consequently that the Great Depression was stronger in magnitude and longer lasting. Here it is interesting to note that the evidence gathered in our research tends to point out that during the thirties Uruguay was the country hardest hit by the Great Depression and Brazil was the one suffering a lesser impact, while during the Financial Crisis of 2008 the scenario was quite the opposite. This argument confirms our hypothesis that although ABU were highly vulnerable to the Great Depression, the smallest country was the most vulnerable of all.

In addition, in both episodes ABU suffered capital outflows and decreased access to financial system (financial contagion), as well as a high degree of uncertainty. However, the contraction of the figures of foreign trade, then and now, demonstrates the continuous validity of the historical great dependence of the region on commodity prices. Indeed, the real transmission belt was the most important in both compared crises, a feature evidenced by the reduced external demand and changes in relative prices of exports, both of which resulted in a terms of trade deterioration. While only in 2009 the large economies of Argentina and Brazil had export contractions of around 20% and Uruguay 9.5% in relation to the previous year; by 2010 the levels of 2007 had already been surpassed.

By contrast, during the thirties ABU's foreign trade collapsed in the range 30%-40%, without reaching pre-crisis levels by 1934. In this regard a key factor was the difference in the contraction of international commodity prices. While by 1932 those prices were in the range of 50%-70% below 1928 levels, in 2009 they fell by 15%-30% against the previous year. Moreover, practically there was no average contraction during the whole period of 2007-2010. Thus, the importance of the real transmission during both events is demonstrated by the positive correlation between the slump in real GDPs and the foreign trade drop verified for each country. Regarding this, the case of Brazil during the thirties is a paradigmatic example of vulnerability to a single staple, because the Great Depression amplified the pre-existing structural flaws of the coffee policy, creating a perfect storm of overproduction and deteriorating market conditions that altogether made foreign receipts collapse, along with the broader economy.

In Chapter IV we presented calculations of the Herfindahl-Hirschmann index (HHI) for the periods 1928-1934 and 2007-2010. During the latter we found that ABU display a lower concentration in terms of export products and destination markets, and this evidence is stronger in the case of Brazil, somewhat less for Argentina and in the case of Uruguay the concentration has not changed much. As for the composition of those exports, we detected that these countries have had important changes in the structure of their export basket, although the natural resource intensive goods -mainly foodstuffs and primary commodities- are still important and even determinant as a source of vulnerability after eighty years.

In this regard, according to Prebisch's thinking, it is demonstrated that the great inequalities between countries at the centre producing manufactures and these countries producing basic commodities at the periphery are at the root of their relative underdevelopment. Throughout the thirties most of the main export products of ABU were agricultural, but now energy and mining products are also significant in the export basket. That is a key element because, as warned by ECLAC (2009b), in 2009 the mining and petroleum goods were among those hardest hit by the contraction. And for the largest economy, Brazil, it certainly nowadays produces relatively more industrial goods than in the past. By contrast, Uruguay, with its narrow internal market but advantageous geographical position, is the country that changed less significantly the composition of its mostly agricultural export produce, although now the addition to its basket of soya and its by-products and pulp of wood have invigorated its economy. Moreover, and although in this regard the situation is changing fast, Uruguay was still dependent on imports of energy for our period of analysis, so that the evolution of international prices of petroleum and natural gas has a strong impact on its balance of payments. Because of this, the contraction of energy prices in 2009 was paradoxically a positive element that contributed to softening the cycle in that country. Using Díaz Alejandro's well known expression, the 'commodity lottery' is still playing a key role in the economic fate of ABU, but nevertheless they are nowadays less vulnerable than in the past because their export basket is more diversified.

With regard to destination markets, ABU used to be much more dependent on countries that played the leading role in the Great Depression. The UK, the US and Germany were among ABU's main trading partners during that period and that fact explains why the transmission of the contraction was so efficient. Meanwhile, nowadays ABU are more dependent on the region (e.g. Mercosur, Chile, Peru, Colombia, etc.) and the Asian emerging markets (e.g. China). The UK, a major trading partner during the thirties, represented in 2009 a market share in ABU of no more than 3% and was not even ranked among the main trading partners. Even the US, at the epicentre of the Financial Crisis of 2008, lost relative presence in these countries, along with Germany.

Indeed, until 2010 China was gradually acquiring the role of 'locomotive' in the region from the US. It is clear that the sustained Chinese demand of exports from the region had a shock-absorbing effect when the crisis spread to ABU from the US and Europe. As Steneri (2011) argues, the increasing weight of China in the region has had macroeconomic implications of various types. Firstly, it has prompted the appreciation of the real exchange rate determined by a growing demand. Secondly, it has entailed a change in the foreign trade structure, skewing towards the export of foodstuffs and natural resources. Thirdly, it has promoted a process of deindustrialization because of the difficulties in competing with Chinese production in a wide range of goods ranging from light industry to sophisticated industrial segments, such as vehicles and automotive spare parts. Moreover, the relative advantages offered by the Asian business environment, along with a lack of competitiveness, mean a real challenge. Even for the biggest Latin American economies a real danger is the migration of industries to Asia as happened before with several developed countries, including the US. Nowadays, the region, directly or indirectly, specializes in exporting raw materials, while a significant share of its imports are final goods of Chinese origin. Thus, using some of the concepts of Prebisch's theory and Wallerstein's analysis, these changes prompted by China have undermined the opportunities for development of the region via diversification and industrialization of their export baskets. Therefore the role of the State to counteract this trend with the suitable policies has turned into a key element. Definitely, China is the raising star among semi-peripheral countries that have been able to translate that condition into a better position in the world-system hierarchy.

ABU have diversified market destinations but depend more on the region and Asian countries; therefore the UK and the US no longer have the same power of cycle transmission to ABU as during the interwar period. This reduced vulnerability in relation to these particular markets may explain in part why the transmission of the crisis from the traditional core countries has not been so strong to ABU. With no doubt, the structural trend is that countries such as China and India are consolidating an important role in ABU in the fields of production, international trade, foreign direct investment and international reserve holdings, along with a gradual internationalization of their companies. Thus, the outcome of the Financial Crisis of 2008 in ABU, unlike during the thirties, can be linked to the sustained growth in China. Recalling Wallerstein's analysis, it is possible to assert that while the three economies continue to be vulnerable to certain destination markets and Brazil has achieved a better positioning in the world-system, the semi-periphery of the thirties have shifted somehow eastwards towards a sort of Chinese-dependence of the Latin American region. These developing countries have suffered structural crises because of the changes in the world-system as a common feature of the historical process of capitalist development. It is important to recall how the world-system has extended geographically and intensified economically, and the hegemon status has passed from the UK to the US in the nineteenth century and nowadays from the US to a more multipolar world.

Certainly, we have three different macroeconomic realities during 2008-2010. Argentina with a worrying inflation level; Brazil with high interest rates and an overvalued local currency; and Uruguay, a small country in the middle of two big countries with macroeconomic stability at risk, interested in reducing the impact of the asymmetries within Mercosur. As a response to the downturn, these countries applied expansionary or countercyclical policies in nature that can be referred to as lessons learnt from the Great Depression. The absence of the gold standard ideology or other major monetary constraint facilitated the acceptance of temporary fiscal deficits and monetary easing since the very beginning of the crisis. For example, on the monetary side, they injected liquidity to boost the demand and reduced interest rates. On the fiscal side, they boosted public investments and implemented tax reductions. Also, from 2007 to 2010 ABU have had flexible exchange rate regimes which have given more freedom of action, so that the balances of payments could adjust promptly to external shocks. ABU did not suffer deflation as in the thirties, but by contrast the rising inflation has been a matter of concern, a reason why countries such as Brazil and Uruguay kept a system of inflation targets and remained vigilant on that variable. Furthermore, the context of competitive devaluations that marked the thirties did not occur and by contrast, the strong initial depreciation of the currencies of ABU during 2009 did not reverse the general trend of the real appreciation seen during the period of analysis. However, in the case of Argentina, that initial leeway turned into economic distress after our period of analysis that resulted in the adoption of exchange control, and the problem of rising inflation was spreading to Uruguay, too.

At the beginning of the thirties these countries were quick to depart from the gold standard rationale and the orthodox thinking. Here an important observation is that the abandonment of that rationale was fuelled by the regime changes in the three countries. Even though it is not possible to prove a direct link between the effects of the Great Depression and the coups that put Uriburu into office in Argentina in 1930, Vargas in Brazil in 1930 and Terra in Uruguay in 1933, it seems clear that the new regimes were prone to enact more flexible policies as a matter of political survival. As active countries, they applied a combination of the so-called orthodox measures especially in the fiscal field, along with others that were by the time considered heterodox, although there was also a fundamental lack of coordination of fiscal and monetary policies. The main idea behind the policy reasoning was not to implement an expansionary or contractive policy. Instead, the priorities of governments were the consolidation of power and the improvement of the economic conditions in the framework of a worldwide depression.

Frequently governments resorted to policy improvisation, so that ‘trial and error’ policy experiments and ‘learning by doing’ prevailed in a context of frustration because of the tough circumstances. Immediately after the first impact, in an orthodox way, ABU reduced public spending and applied tax increases in order to balance the budget because the fiscal deficits had reached a point that it was necessary to introduce harsh adjustments, especially in the case of Uruguay. Also Argentina implemented a substantial budgetary reform during Uriburu’s government that signalled the starting point of a more realistically-minded management of government finance. However, saving the specificities of each country, ABU began also to apply heterodox policies to achieve the recovery. For example, these countries departed from the gold standard and introduced radical changes in monetary regimes, devalued their currencies, imposed exchange controls and increased tariffs for fiscal and protectionist reasons which encouraged import substitution activities. And in addition Brazil and Uruguay defaulted on the foreign debt. It is even possible to say that these countries implemented ‘Keynesian policies before Keynes’, including public investments to boost demand (e.g. public infrastructure and housing).

In particular, although Argentina kept pegged to orthodoxy with regard to the timely payment of its foreign debt, it did turn into a real ‘laboratory of policies’. In 1931 the Argentine government permitted rediscount operations at the Currency Board which prompted monetary expansion; in 1932 authorized the Patriotic Loan, whose monetization had an expansionary effect on public spending; and, introduced the income tax as a heterodox element of fiscal policy. In 1933, among many other measures, the government signed the Roca-Runciman Treaty with the UK in order to secure its share in the British meat market and initiated the creation of new institutions such as the regulatory boards to put into effect price intervention schemes. Later, in 1935, the Central Bank (BCRA) was created.

The case of Brazil is special because of the importance of the coffee economy, for which the coffee *defesa* scheme was clearly a ‘program for boosting the national income’ and a sort of countercyclical policy. The accumulation of stock piles had the effect of increasing the net investments in the country, counterbalancing the fall of the private investment and preventing the economy from falling harder during the Great Depression.

In the case of Uruguay, it is important to highlight that its foreign trade policy was marked by its complex multiple exchange rate system after the introduction of the exchange control in 1931, the introduction of the premiums for exports and the closeness with the German and Italian governments. The increase of public investments and the expansionary credit policy of the BROU since 1935 thanks to the Revaluation Law and the creation of state monopolies were also distinctive landmarks for this country.

After our historical country-specific research, we believe that the constraints imposed by the international system and its patterns of dependence, the heterodox policies implemented by those governments during the thirties contributed to a reduced impact of the crisis on them; especially if one takes into account the positive results of the expansionary policies applied during the Financial Crisis of 2008. According to ECLAC (2009) the exit of the recent crisis was easier thanks to a set of countercyclical policies that effectively counteracted external shocks. During the thirties, the experience of most peripheral countries, including ABU, is that recovery was faster than in core countries and linked to the quick resort to aforementioned isolationist policies, such as the imposition or increase of tariffs, devaluations and exchange controls, as well as defaults in the cases of Brazil and Uruguay. Nowadays, the recovery has also been fast and in this case there have been endogenous strengths that softened the cycle. ABU not only entered the crisis better positioned than during the Great Depression, but also the aggregate demand and the volume of world trade recovered quickly, supported by high commodity prices due to a steady demand from Asian countries. However, that recovery for ABU was at the expense of international competitiveness. Especially for Brazil and Uruguay, there was a profound appreciation of their local currencies during 2008-2010 that rendered their exports increasingly expensive in international markets.

One key aspect that we find different is the role of cooperation. Today, unlike then, there are multiple regimes of international cooperation and coordination at both regional (e.g. Mercosur) and multilateral (e.g. WTO) levels, most of them created after the Second World War. Even with their limitations, these organizations spread awareness about the risks involved with the national responses that could easily evolve into predatory practices of the Great Depression type. During the Financial Crisis of 2008 the most relevant initiative to coordinate actions addressing the financial collapse was the G20, in which Argentina and Brazil participate as full members, but not Uruguay. Indeed, the twenty most powerful countries gathered in a Summit in September 2009 to seek international cooperation in times of crisis, resembling in a way the efforts of the failed World Monetary and Economic Conference of 1933 in London. In general terms, the G20 group called for major reforms to promote greater balance in the global economy. Although the G20 was partly successful in preventing the governments from engaging large-scale use of restrictive measures on trade and investment as in the thirties, it could not totally avoid the use of tariffs and especially non-tariff instruments that have hindered trade flows further.

Beyond this macro level, there is also a substantial degree of regional cooperation. During the thirties, Argentina and Brazil were more enemies in geopolitical terms than economic partners. The hypothesis of conflict was always present in the military sphere of both countries, and the international alliances were divergent. In the middle, Uruguay always took the advantage of those rivalries to accommodate itself to the requirements of the insurmountable bigger neighbours, knowing that any possible development of its industrial production depended on the preferential access to those markets. Nowadays, these three countries, along with Paraguay and Venezuela are full members of the Common Market of the South (Mercosur) which constitutes a key element in terms of structural patterns of trade and investments, as well as deliberate national policy to pursue development goals. That being said, the analysis carried out in this thesis tends to point out some similarities in the policies applied nowadays. However, those similarities cannot be attributed to the existence of Mercosur, since there was no coordination of the fiscal, monetary and investment policies. With regard to trade policies, ABU basically protected their economies with increases in the external common tariff, as well as mutually agreed waivers on a definite number of customs lines per country, normally targeting imported products competitive with local industry. Unlike in the thirties when the tariff tool was more important, nowadays import licenses and antidumping measures are preferred (non-tariff barriers), along with financial support to the worst-hit exporting sectors. This kind of trade policy, especially after 2010, has at times strained the commercial relationship among Mercosur's partners.

In Annex III of this thesis we confront the reactions of the governments in both events. As it is possible to appreciate in that table, following the lessons from the Great Depression, the governments of ABU implemented policies expeditiously, although in a measured way to avoid major macroeconomic imbalances. One big difference is that at the end of the twenties decision makers were constrained by the gold-exchange standard orthodoxy. However, when the crisis spread among developed countries, ABU were among the first countries in abandoning the gold standard logic. And therefore Argentina closed its Currency Board and Brazil closed its *Caixa de Estabilização*. ABU also imposed exchange controls in a scenario of strong currency depreciation and capital flight amid a currency war. By contrast, managed floating exchange rates prevailed in ABU during 2007-2010, by which central banks intervened with open market operations and liquidity injections in foreign currency to smooth the exchange rate variability, so that the economy was able to adapt and absorb unfavourable external shocks without causing material traumas to the economic process. In line with Sevares (2009, p. 31), it is important to highlight that during that period Argentina and Brazil had different schemes of floating exchange rates: Argentina sought a competitive exchange rate, which contributed to the recovery of growth and the expansion of the local industry, but at the cost of high inflation and diminished competitiveness against its trading partners. Meanwhile, Brazil had a floating system that did not prevent the appreciation of the real, fostered capital inflows and brought slower growth.

Of the three, only Argentina imposed exchange control since October 2011 and embarked on a policy of discouraging capital flows to tax havens and offshore banks. Brazil kept exchange markets relatively open but introduced a tax on capital inflows to reduce their magnitude and Uruguay remained mostly unchanged in its mostly open market for foreign capital. The strong inflow of capital resulted in a major appreciation of the Brazilian and Uruguayan currencies, and as a matter of fact became a subject of debate. Indeed, the excessive monetary expansion in developed countries that did not exist during the Great Depression resulted in a strong appreciation of the Brazilian real and other currencies as a collateral effect. The real was one of the preferred destinations for global investors seeking return on investment, as Brazil offered high interest rates and developed countries were at historic lows. As a consequence, by 2011 the real appreciated strongly, negatively affecting the industrial sector and Brazilian exports. The Central Bank changed its monetary policy, intervening heavily in the foreign exchange market, which has pushed the exchange rate, and interest rates also have been aggressively cut.

Certainly, the policies applied by ABU in reaction to the Financial Crisis of 2008 were mostly expansionary. However, by 1929-1930 the governments kept high interest rates, contracted public expenditure and increased or created taxes to balance the budget. But, fortunately, these three countries were also quick to implement policies considered heterodox during the Great Depression, for example, as mentioned the suspension of the gold standard and the imposition of exchange control. They also implemented monetary emissions, although with different timing. Moreover, firstly Argentina and secondly Uruguay started to implement more expansionary fiscal policies by the end of our period of analysis in an attempt to boost public investment and to support the agricultural sector, reducing the tax burden. The case of Brazil was a clear example of active policies given the countercyclical effect of the coffee *defesa* policy. Brazil and Uruguay also suspended the payment of the foreign debt in the first week of September 1931, a key difference with Argentina which kept paying in full.

During 2007-2010, ABU acted even quicker. Probably as lessons from the thirties, ABU understood the importance of the monetary and fiscal expansion in times of crisis and the coordination between both policies, and did not hesitate to implement them. They injected liquidity into the economy, reduced interest rates, applied tax cuts and benefits to the most affected sectors, increased public investment and introduced measures to improve spending distribution. However, although there has been consensus in the region in using countercyclical fiscal policies, it is worth noting that for the smallest country of the three, Uruguay, there are constraints that limit the margin to adopt those policies, so that the implementation of pro-cyclical policies prevails. For example, pensions are indexed to wages, and therefore at the peak of the cycle, wages tend to rise, retirements and pensions also rise and accordingly government spending rises, too.

In relation to trade policies, as contrasted in the Annex III of this thesis, the new protectionism, also called by academics ‘murky protectionism’, is different from the tariff wall of the thirties. Countries worldwide tend to avoid direct violation of WTO obligations and prefer to protect the national industries from competitive foreign suppliers by means of import licenses, certificates of origin and antidumping measures, export subsidies, sanitary and phytosanitary barriers, and stimulus packages labelled as ‘export financing and support’ that provides for the allocation of spending to domestic producers, among other measures. During 2007-2010 ABU were not disconnected from this reality. Argentina enacted a package of heterodox policies that held at the borders or delayed procedures for most of its imports (e.g. books, medicines, dolls, etc.), and Brazil resorted to licenses and antidumping investigations. Those policies also affected neighbouring countries and Mercosur's partners. During the thirties the protectionism was more stringent based on the increase of tariffs, the discretionary allocation of foreign exchange, and retaliations, all guided by the logic of 'buy from those who buy from us', with a key element being the trade balance with partner countries.

The outcome of this comparison is that the worldwide contraction was milder in 2007-2010 because governments acted promptly. ABU were not the exception. The three countries enjoyed during the Financial Crisis of 2008 a greater margin of manoeuvre than during the Great Depression and they swiftly applied measures to counteract the negative effects of the external shock. This was possible because when the shockwave hit, there was a favourable combination of sound macroeconomic fundamentals, higher international foreign reserves, better understanding of the Keynesian rationale and fundamentally the contraction of foreign trade was not long lasting and was preceded by a period of booming commodities prices that provided an extra cushion.

Although it is not possible to state that active public juncture policies were determinant, it is clear that they contributed to softening the contraction. According to the recent experience and without prejudice to the constraints imposed by the international system and its patterns of dependence, the heterodox policies implemented by ABU's governments during the thirties contributed to a reduced impact of the crisis on them. The quick resort to exchange controls and currency devaluations of ABU, as well as the default on the foreign debt in Brazil and Uruguay, among other measures, gave some more room to counteract the downturn. An unintended consequence is that these countries started to rethink their economic model and implemented more protectionist policies which lasted many years and that eventually led to the progress of import substitution industrialization. A change of paradigm so strong is missing nowadays, at least for the time being.

To sum up our findings, beyond the unavoidable transmission of the contraction through the international trade and the financial contagion to ABU after the collapse of Lehman Brothers, the absence of a monetary constraint such as the gold standard and the better knowledge of the advantages and risks of Keynesian economics contributed to the decision making process. That led to the application of a more structured package of policies by the governments that during the thirties would have been labelled as 'heterodox'. In the case of ABU there was also a sound public financial position and a more diversified export basket and destinations when the hardships arrived, which allowed an extra margin of manoeuvre. At the end of the twenties, those features were absent, so that the initial reaction was generally pro-cyclical.

However, they managed to implement soon enough heterodox policies, although normally after a swift change of political regimes. Certainly, unlike the Financial Crisis of 2008, although it is too early to predict the long-term outcome, the experience of the Great Depression eventually contributed to a change of paradigm in ideological, social and economic terms that had profound long lasting effects in Latin American intellectuals and researchers and led to the construction dependency theory. A new era of interventionism was starting in ABU in which, as the structuralist theory proposed, the State defended ‘new born industry’ in a more inward-oriented development as a tool to achieve an improvement in income distribution and the construction of a more equitable balance in international economic relations.

XIV. Endgame: concluding remarks

In our introductory chapter in which we include the focus of our work we outlined a concept of complex vulnerability built on four pillars: the transmission channels of a crisis, the comprehensive concepts of 'power' and 'interdependence', the analysis of the gold standard ideology and the policies implemented by governments. We also added in our conceptual framework the notions of core and semi-periphery from Immanuel Wallerstein's world-system analysis in order to shape and enlighten our wide definition of vulnerability. We designed our thesis according to these elements, so that our chapters correspond to the elements included in Figure 1 of the Introduction of this research.

Regarding the transmission of the crisis, in Chapter III we described in general how the transmission of the Great Depression to the world was carried out through trade and capital channels, and in Chapter IX we deepened our analysis of the transmission to ABU through the trade channel. In Chapter X we described the meaning of the gold standard for the world and for ABU. In Chapter XI we analysed the national policies adopted by ABU to curb the negative effects of the Great Depression. In Chapter XII we further analysed the trade policies and the diplomatic efforts of ABU governments to manage the patterns of interdependence that limited countries' options in the world-system. And, finally in Chapter XIII we made a link to our recent experience during the Financial Crisis of 2008 to make more general conclusions relevant for today's decision makers.

In this last concluding chapter, we summarize our findings and we give shape to the concept of complex vulnerability that we committed to constructing in our conceptual framework and give an answer to our research hypothesis that *Argentina, Brazil and Uruguay were highly vulnerable to the Great Depression, and among them the smallest country was the most vulnerable of all*.

i. A summary of the transmission belts of the Great Depression (1928-1934)

As a summary of the context in which ABU had to fight the Great Depression, in Figure 26 we illustrate and summarize the main external factors analysed in this thesis in chapters III and IV.

These factors prompted economic contraction, fiscal crisis and political unrest in Argentina, Brazil and Uruguay.

By 1928 the boom in the stock market before the Wall Street crash led to excess demand for credit and a rise in international interest rates. As a consequence, the cost of holding inventories and reducing demand increased for many of the primary products exported by Latin America. The interest rates upswing boosted additional pressure on Latin America through the capital market when the more attractive rates of return offered in London, Paris and New York prompted a significant capital flight. As during the previous decades many Latin American countries became strongly dependent on the American and British investments and loans. The drought of capital flowing from those countries not only reduced the expansion of the private sector, but also fostered strong imbalances in fiscal accounts and limited the ability of governments to apply counterbalancing policies. But, the stock market crash in October 1929 provoked a chain of events in the main markets supplied by Latin America. The contraction in the value of financial assets reduced consumer demand through the so-called wealth effect. Loan defaults led to a squeeze on new credit and monetary contraction. The whole financial system came under severe pressure. The contraction of global demand was a natural consequence of the transmission channels that linked core with peripheral and semi-peripheral countries. Many economies were negatively affected as trade contracted, levels of industrial production plunged, retail sales fell and unemployment rose.

The description about the transmission of the Great Depression could easily be applied to other events in history, because the underlying transmission mechanisms tend to operate similarly from one crisis to another. However, these similarities do hide important differences. Specifically during the thirties, for many core countries the gold standard was a dogma that was built in an increasing asymmetry between countries experiencing balance of payments deficits and surpluses. The adjustment mechanism for a deficit country was deflation rather than devaluation. In turn, the former induced the contraction of economic activity through several channels. That includes increasing real wages, real interest rates and the financial position of borrowers deteriorating. Further, the gold standard was a big constraint for governments in the face of upward outflows of gold, and especially when the gold and foreign reserves became dangerously scarce.

The position of Latin American countries within the world-system was also especially vulnerable. Exports were strongly concentrated during the period 1913-1928 in approximately eleven main products: petroleum, coffee, maize, sugar, meat (bovine or ovine), wheat, flour, copper, cotton, wool and hides. Thus, those countries were highly vulnerable to what Díaz Alejandro (2000) called the ‘commodity lottery’. As early as 1925 many commodities were already showing a declining performance. Some countries accumulated stocks to keep prices high in products such as coffee and linseed, and also the good performance of crops in Europe and other producing areas contributed to the decline of prices. However, in some cases such as cotton, gold, silver and petroleum, price behaviour was more generous. But in general, the price contraction of key crops hit hard Latin American countries, including ABU.

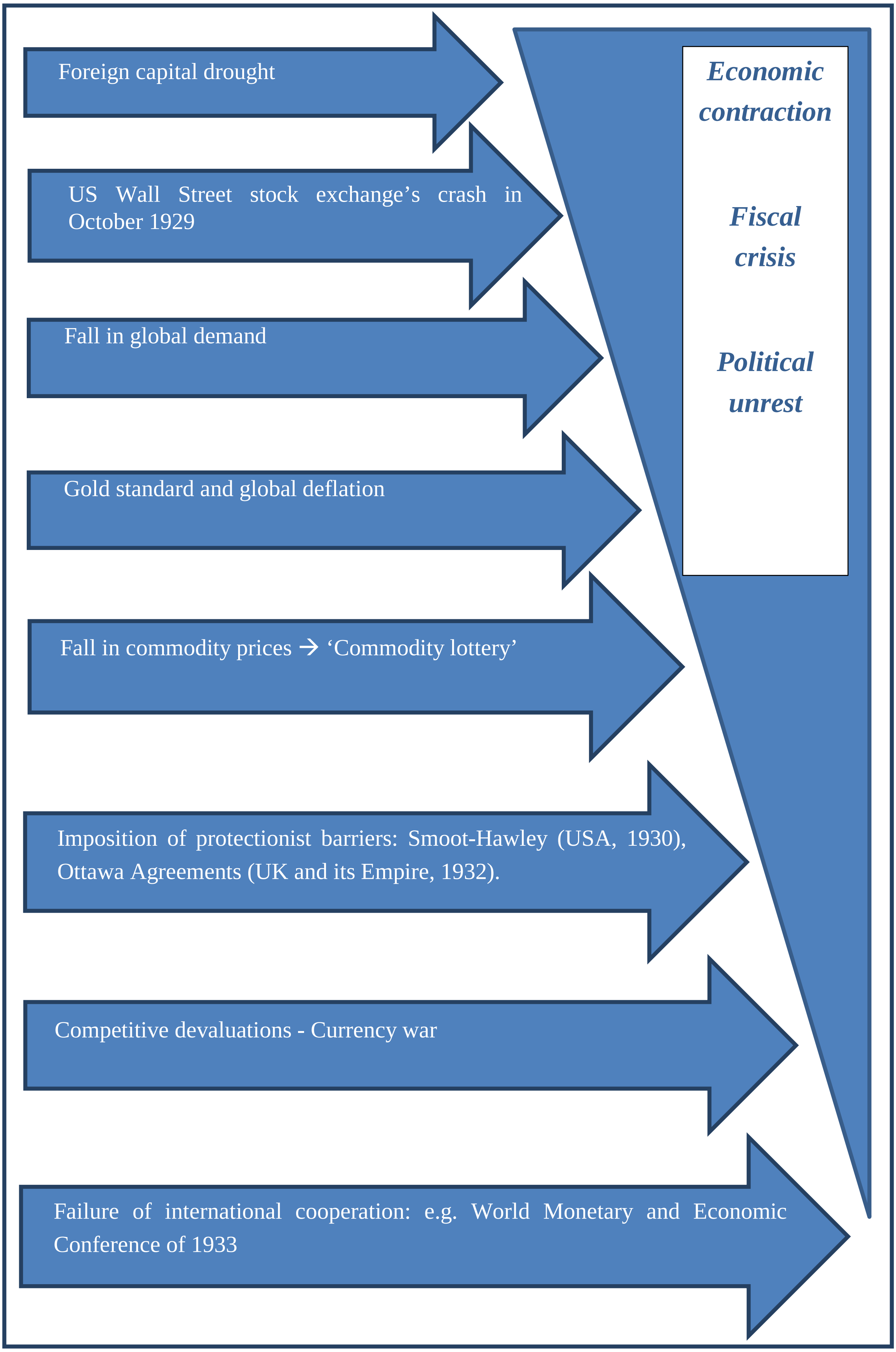
'Beggar thy neighbour' policies, including competitive devaluations and protectionist measures that meant to protect the domestic industry from foreign competition became commonplace policies worldwide. Trade policies hit Latin American countries hard. The Tariff Act of 1930 increased import duties in the US and negatively affected imports from Latin America. Also, and probably with a stronger impact on ABU, the Imperial preferences granted by the UK in 1932 in the framework of the Ottawa Agreements that channelled trade flows into its self-contained colonial bloc were strongly felt. That was due to the significant dependence of ABU on the British market, especially in the case of the Argentine and Uruguayan meat sectors. Moreover, the loose exchange rate policies added to the trade restricting measures in compromising economic performance. The UK departed from the gold standard and the pound sterling depreciated in 1930; the US devalued in 1933. They were not the exception. Countries started to devalue their currencies, so that reserve gains were reserve losses for countries still on gold. During September-October 1931 exchange controls were imposed by several countries such as Argentina, Austria, Bolivia, Colombia, Czechoslovakia, Greece, Germany, Iceland, Uruguay, Yugoslavia and many others. The gold standard went unavoidably into oblivion and by 1936 no country used it as a policy.

This panorama of crisis was exacerbated by the lack of cooperation among countries and central banks. The uncoordinated monetary policies of the US and France that deepened the vacuum of total world gold reserves, the hike of interest rates in the US during the unfolding crash of October 1929, and the failure of the World Economic Conference of London 1933 to curb the protectionist wave are all examples of the failure in reaching international agreements on how to face the global contraction. Policymakers were unable to agree on a concerted response to the economic crisis due to different national interests.

To sum up, most countries in the world had to face a fall in export prices in a context of global deflation, a contraction of global demand, abrupt changes in monetary policy and financial conditions of main trading partners, currency war and the protectionist barriers imposed by developed countries that could not be properly addressed by the international community. Economic contraction, fiscal crisis and political unrest were the unavoidable consequences worldwide.

However, even though these elements of strain are present one way or another in each country, the similarities hide important differences that we have addressed through this thesis for Argentina, Brazil and Uruguay. These differences also entail different vulnerabilities that we seek to summarize and highlight in this ending chapter, and allow us to conclude about the complex concept of vulnerability. But, in order to achieve conclusions from our work, we need to firstly address each country individually, and then to move to a general conclusion that builds on the complex concept of vulnerability that we outlined in our introductory chapter.

Figure 26: External factors and internal effects in Argentina, Brazil and Uruguay



ii. The ex-ante economic vulnerabilities of Argentina, Brazil and Uruguay

After this description of the main external factors of the Great Depression, we believe that it is necessary to make a connection with our hypothesis regarding country vulnerability. A dictionary definition would define something vulnerable as capable of being easily hurt or harmed or open to attack, harm, or damage. As we have seen in the introductory chapter, vulnerability can also be defined as an actor's liability to suffer costs imposed by external events even after policies have been altered[832] or the simple unavailability of a policy option that would protect an actor from any future costs generated by the given external event[833]. If a researcher places himself ex ante a major event as the Great Depression or any other economic crisis, he or she needs to consider the relevant variables available at the time to make an assessment about the relative vulnerability of a certain economy. Taking into account the kind of economic data available for the end of the twenties, this researcher could look at some of the elements analysed in this thesis such as the market and product concentration of the foreign trade, availability of foreign reserves, the existence of countercyclical policies that could smooth the cycle, the exchange regime and the fiscal structure of the country, among others. Once all these elements are assessed and compared, the researcher can reach conclusions about how much a country can be vulnerable to a crisis.

In our thesis we have considered some of these elements and we summarize them in Table 81. In it we assign an ordinal ranking of the magnitude of the contraction of main economic indicators of the three countries, from 1 (the highest value of the variable of the three countries) to 3 (the lowest), according to the results and conclusions reached in relevant chapters.

Table 81 Ordinal ranking of the contraction of main economic indicators

	Argentina	Brazil	Uruguay
Market destination concentration (HHI 1928)	2	1	3
Product concentration (HHI 1928)	3	1	2
The fiscal bottleneck	1	2	3
Availability of foreign reserves	2	1	3
Reduced internal market	3	2	1

If we concentrate on the market concentration, we have seen in Chapter III that all Latin American countries were highly vulnerable to the trade transmission channel, especially to the 'commodity lottery' and the hostile commercial and sectoral policies applied by developed

832 See Keohane & Nye (1988, p. 13).
833 See Jones (1995, pp. 6-8).

countries. Further, in Chapter IV we have shown that according to the Herfindahl-Hirschmann index (HHI) calculated for 1928 the Brazilian trade structure was the most concentrated both in terms of product and market destinations due to the high share of coffee (almost 70%) in its exports and the fact that 45% of its exports were directed to the US. This outcome suggests that Brazil was the most vulnerable to a trade shock of the three. Meanwhile, Argentine export basket was more diversified, but in terms of market destinations the Uruguayan foreign trade was surprisingly the least concentrated of the three. However, according to these results, regarding product concentration Uruguay was more vulnerable than Argentina.

Continuing with our analysis, we found in chapters IX and X that, again surprisingly, Uruguay had the less exposed fiscal structure to falling trade receipts due to a fiscal structure less dependent on foreign trade taxes, while the case of Argentina is the most vulnerable from this point of view. Something similar could be said with regard to the availability of foreign reserves that gave governments a cushion to face the negative flow of gold and foreign currency. In this respect, it is important to remember that the Brazilian foreign reserves were the most reduced as compared with the country's import needs, and again in this aspect Uruguay was the best positioned.

Finally, it could be also argued that the size of the internal markets also mattered due to its relation with the exposure of economic activity to foreign trade. In relation to this, from Chapter IV it is possible to conclude that the Argentine internal market was the biggest according to its high GDP and GDP per capita, followed by Brazil. Of course, the internal market of Uruguay was comparatively marginal, so that this country was from this perspective the most exposed to the foreign turbulence.

To sum up, it is interesting that our aforementioned researcher, founded on some of these elements, would have to reckon that the smallest country was not necessarily the most vulnerable one. Uruguay was well positioned regarding market destination concentration of the foreign trade, presented the soundest fiscal structure, had relatively higher foreign reserves and depended less on exports to the US. It is true that its internal market was limited and that its diplomacy had not many instruments at its disposal to support its national interest vis-à-vis major world or even regional powers. Nevertheless, if the balance of the already mentioned indicators is considered, there is a reasonable doubt about Uruguay's relative vulnerability.

iii. Complex vulnerabilities for Argentina, Brazil and Uruguay

In the previous section we have put ourselves in the shoes of a researcher who limits his assessment of vulnerability of ABU according to some economic variables linked to the transmission channels of the crisis and concluded that the smallest country, Uruguay, was not necessarily the most vulnerable of the three. However, in our research we proposed to deepen the analysis by building a concept of complex vulnerability taking into account what really happened. In this section, we describe and summarize the interaction of the domestic economic, political and social vulnerabilities singled out in our research for 1928-1934. We contrast that preliminary evaluation of vulnerability with the real outcome of the economic contraction, and also introduce the other elements of our research framework: gold standard ideology, policies, and power and interdependence. The conjunction of these elements with external factors prompted an important economic dislocation that affected the whole countries. However, a closer look at the events, as always in life, gives us a much richer and more complicated picture of the contribution of these elements to the complex concept of vulnerability we sought to construct.

For that task we base this text on our findings from Chapter IX to Chapter XII and divide those results according to a general reasoning presented in our introductory chapter and conceptual framework. In order to facilitate the comprehension of the remainder of this text, we illustrate for each country in Figure 27, Figure 28 and Figure 29 the complex vulnerability in a similar way as Figure 1, included in p. 14 in the Introduction. We also include in Annex I for the benefit of the reader and as a summary of our historical research, three tables containing timelines of events and policies applied by each of our case countries during the Great Depression. And in Annex II we also present a table that contrasts the main policies applied by ABU and that we analysed in detail in this thesis.

Argentina

In Argentina the transmission of the crisis from the core was straightforward. By 1929 Argentina was an exporting country of primary products without a formal plan of industrialization. It was strongly dependent on the UK and Western European markets, and its first supplier was the US. Moreover, British and American investments were very important in the country, and the loans flowing from those countries were a significant source of stability for the financial institutions and for the fiscal balance of national and local governments. The collapse of agricultural prices, as well as the drought of foreign capital inevitably disrupted economic activity and prompted social instability. Thus, in this context, to a large extent this country imported the crisis from abroad, transmitted via its balance of payments.

Although the HHI has shown that the Argentine export basket was more diversified, this country was nevertheless highly vulnerable to the trade transmission channel, especially by the 'commodity lottery' and the hostile commercial and sectoral policies applied by developed countries. It was particularly hit by the falling receipts of wool, cattle hides and grain products (wheat, maize and linseed) rather than others (e.g. chilled beef). As we have analysed in Chapter IX, by 1932 Argentine exports in current dollars had a contraction of more than 60% relative to 1928. Indeed, this country suffered a disaster from the fall in international prices, globally depressed demand and overproduction, to which Argentina contributed as well. Other events increasingly caused the panorama to deteriorate, and added to these market vulnerabilities. The existence of foot-and-mouth disease in live animals in some zones of Argentina was used as the perfect excuse for American protectionism, a country that banned meat imports from the region in 1926. This added to bad harvests because of the unfavourable weather conditions and the appearance of locusts in 1933 that prompted a decrease in the volume of exports. By contrast, there were also times of good weather that boosted world overproduction. For example, in 1932, the worst year for Argentine foreign trade in terms of current dollars, the production of wheat increased and continued increasing until 1933.

The vulnerability through the trade channel connects with another indicator that reveals the national vulnerability: as seen in Chapter IX almost 56% of the fiscal revenue came from taxes linked to foreign trade. This weakness of the fiscal accounts made the fight against the crisis more difficult for authorities just when the government had troubles with the consolidated government deficit which represented around 4% of GDP by 1930. The government had a loss in revenues due to reductions in customs and port taxes, as well as import duties of around 30% during the period 1928-1932. Even the strong depreciation of the peso by around 35-40% against the pound and the dollar in 1931 could not outbalance the loss of government revenues heavily dependent on foreign trade taxes. Nevertheless, it is important to highlight that Argentina had a rapid recovery. In this regard, when by 1934 international prices started on a path of growth and after the implementation of important economic policies in the country, the Argentine economy also began its recovery, shown by the increase of its GDP.

The first responses of the conservative Argentine government during the early years of the Great Depression (1930-1931) were highly orthodox. The fiscal policy was in fact focused on, first of all, reductions in public expenditure, and then application of more taxes to balance the budget. The government committed to service the foreign debt, to eliminate the trade deficit, to stop the inflation and to check the fiscal deficit. It is interesting to point out that the situation was quite similar in Uruguay, which had to cut operative expenses in ministries, increase existing taxes (e.g. fuels), and create others (e.g. public servant wages). And by contrast to the cases of Brazil and Uruguay, the situation was further aggravated in Argentina due to the political decision of not defaulting on the increasing foreign debt as most countries did during this period. This was indeed another source of vulnerability specific to Argentina from the policy point of view. It is not the same to default on foreign debt when most countries are following the same path, than to do it in isolation, exposed alone to the reaction of the international financial community, as it has just happened nowadays after the freezing of payments of Argentine restructuring debt by a New York tribunal as a consequence of the default of 2001.

However, using a well-known Díaz Alejandro expression, in Chapter XI we have shown that Argentina was an ‘active country’ during the interwar period because of its leadership in policy experiments, a condition that it shares with other large economies in Latin America, such as Brazil, Colombia and Mexico. Indeed, Argentina constituted a truthful ‘laboratory of policies’.During President Uriburu’s term, and then under President Justo after 1932, Argentina started a path of oligarchic restoration that developed in parallel to a continued and deepening process of government interventionism. Against an important section of public opinion, the government adopted defensive policies based on state intervention and the end of *laissez-faire*, e.g. imposition of exchange control, price intervention schemes and increase of tariffs. The economy started to close and an incipient import substitution for industrialization process rooted in the decision making process. The governmental control was an instrument that would have far-reaching consequences for Argentine life and would for many decades change the role that the government had in the economy. That is why the experience of an open economy under a fixed exchange rate regime, such as Argentina during the Great Depression constitutes an ideal historical research laboratory to study economic vulnerabilities derived from macroeconomic fundamentals and policy choice.

Even before the coup of 1930, the country implemented a series of economic policies that by that time were considered heterodox. A good example of this is that Argentina was one of the first countries to suspend the gold standard in December 1929, allowing the economy to disconnect its monetary policy from the strong fluctuations of the balance of payments. Moreover, after the closure of the Currency Board in 1929 that avoided an external drain and the banking panic, other policy experiments were the rediscount operations in 1931 and the conversion of the domestic public debt in 1933. The introduction of the *impuesto al rédito* (income tax) in 1932 with the chief objective of generating more revenues for the State and the authorization by the government of an *empréstito patriótico* (Patriotic Loan), were both heterodox elements added to the fiscal policy. Also the creation of new institutions such as the regulatory boards that acted as supporting organs of price intervention schemes (e.g. the imposition of minimum prices for wheat, maize and linseed) and the *Banco Central de la República Argentina* (BCRA, Central Bank of the Argentine Republic) can be considered key heterodox policies at the time. The main idea behind these policies was to encourage growth and to reconcile economic efficiency with income distribution.

It is worth noting that it was not an easy task for policymakers to find the best policies from the point of view of 'economic efficiency' when there was a need to fight against the vulnerabilities of the country. In general terms, in line with the government's desires in the sense of oligarchic restoration, the policies implemented during the period of analysis caused an income distribution favourable to the owners of the relatively most abundant factor of production (e.g. land) and therefore strengthened the position of the traditional elite. But sometimes policies that diverted meat and grain exports towards domestic consumption were also supported by urban masses that spent a high share of their budgets on these commodities. In general it can be argued that these policies reduced the vulnerability of the country, as they tackled the dependence of the fiscal structure on the foreign trade, dealt with the downfall of the key crops prices with specific regulatory boards and kept aligned the key and potentially politically disrupting land owning classes. Nevertheless, these policies would have long-term negative effects due to the permanence of economic disrupting exchange control and excess of interventionism in the economy.

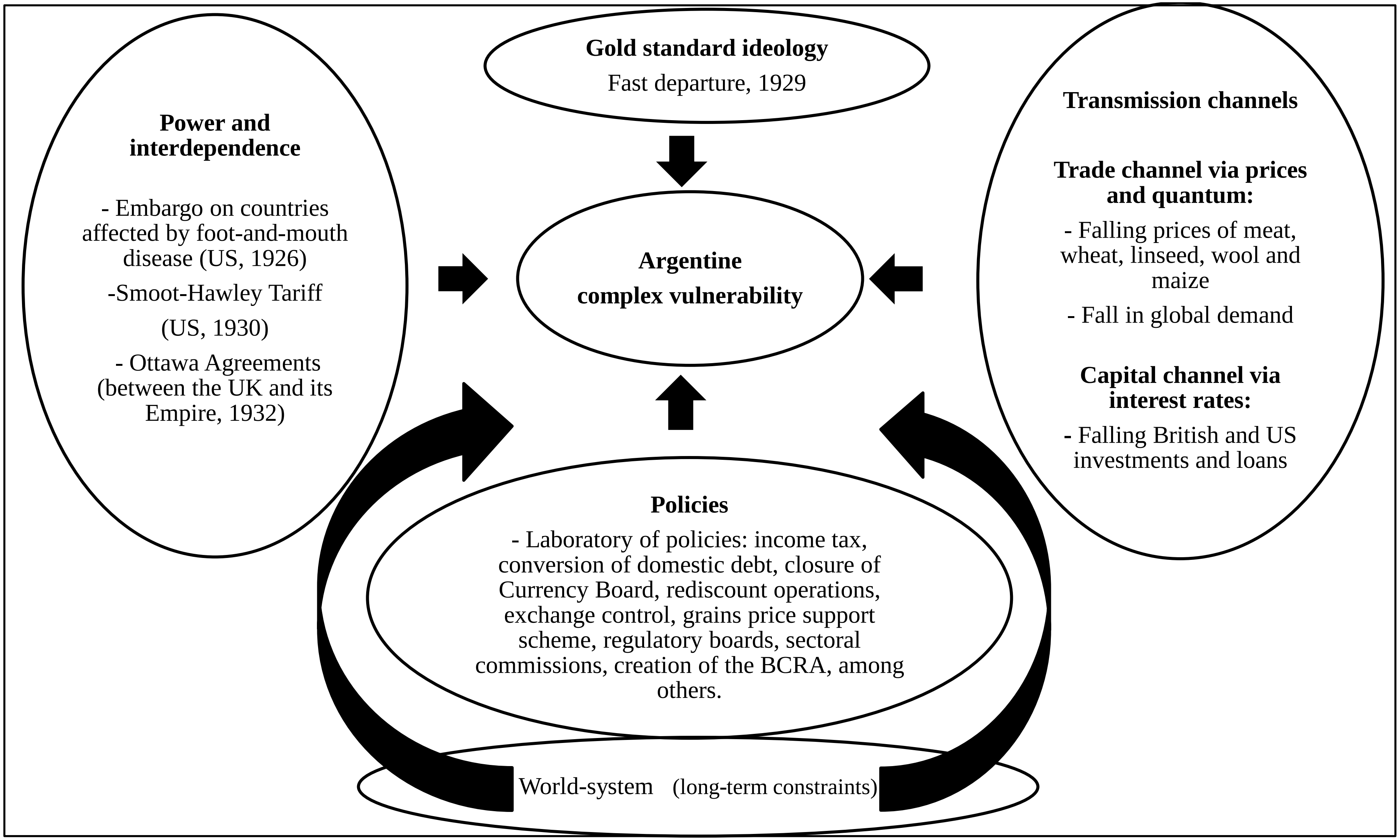
Regarding power and interdependence, Argentina was negatively affected by the US Smoot-Hawley tariff of 1930 but it was more affected still by the Ottawa Agreements signed between its best customer, the UK, and its Empire. And in response to these agreements that granted commercial preferences to the UK's Empire, direct competitors of Argentina, the Argentine government sought a trade agreement with the UK. Finally, on May 1st 1933 the Roca-Runciman Treaty was signed: the most obvious example of the asymmetric Anglo-Argentine relationship. The treaty deepened the dependence on London and meant a great victory for the British. In other words, in exchange for only maintaining the Argentine presence mainly in the British meat market, the UK was guaranteed the remittances from their old investments, as well as protection against future devaluation of the peso, beneficial treatment in the allotment of foreign exchange for remittances and trade, stability for its coal exports to Argentina, preferential treatment to British goods exported to this country, control of a significant part of the disputed domestic market and retaining the power of its meat-packing plants in the control of exports vis-à-vis local producers! Indeed, since the British also gained preferential access to scarce foreign exchange, they regained what amounted to dominance in trade with Argentina, a position that the UK had enjoyed before 1914, but which was now protected by treaty. The UK committed to not impose quotas on imports from Argentina of wheat, maize, linseed, bran, wool in the grease, grease, tallow and extract of quebracho. However, since the UK did not import a large volume of these products, the treaty related principally to beef. In any case, it is nevertheless fair to say that Argentina securedcontinuing access for Argentine products to the British market that eventually contributed to reducing the country's vulnerability through the trade channel.

As a summary, in Figure 27 we illustrate the four elements that constitute our concept of complex vulnerability applied for the case of Argentina. Although the first impact on this country was the disruption of the foreign capital inflows, it was deeply affected through the trade transmission channel. That was especially due to the falling prices of wool, cattle hides and grain products, in an important context of of the slump in global demand. The comparatively high dependence of the fiscal revenue on foreign trade prompted additional weakness. The decision of not defaulting in its foreign debt is probably the most risky orthodox policy applied by this country that in a way augmented its fiscal vulnerability. However, regarding policies, in spite of the strong orthodox stance of the first years, Argentina enacted innovative heterodox policies for the time that reduced the country's vulnerability. Such policies were the suspension of the gold standard in December 1929, the imposition of exchange control in 1931, the introduction of the income tax in 1932, the Patriotic Loan of 1932, the creation of the regulatory boards during 1933-1934 and the creation of the Central Bank of the Argentine Republic in 1935, among others. Nevertheless, for this period it is not possible to say that Argentina managed to detach from the predominant patterns of dependence that linked it with the British, of which the Roca-Runciman Treaty of 1933 is a clear example.

Brazil

The transmission of the crisis to the Brazilian economy was not different from other Latin American countries hit by external factors already illustrated in Figure 26. It started a year before the crash of October 1929. As Brazil was fully engaged in the process of monetary stabilization, the national production depended heavily on foreign credit. But the capital had disappeared, attracted by high yields offered in the North. The sudden drain of foreign capital deeply affected an economy that during the twenties had resorted to foreign loans to support its growth, as well as the finances of federal, state and municipal governments.

Figure 27 Diagram of forces affecting Argentina during the Great Depression (1928-1934)



Further, the case of Brazil is different from other countries due to coffee, which not only contracted because of the external shock, but also because of the endogenously generated unprecedented stock accumulation explained by natural and manmade conditions. The falling coffee receipts, along with the aforementioned reduction of capital inflows, hit the balance of payments through export price reductions of coffee that were not compensated for by an increase in export volumes. In this regard, it is important to remember that according to our calculations of the HHI in Chapter IV the Brazilian foreign trade structure was the most concentrated in terms of country and product destinations among the three countries, suggesting that Brazil was the most vulnerable of the three to a trade shock. However, actual figures show that the Brazilian trade contraction was less significant than in Argentina. Up to some extent the contraction was compensated for with more cotton exports at the end of the period. In the balance, although Brazil was a priori the most vulnerable to the swings of coffee prices, it did not fall so much as Argentina in 1930, and recovered steadily during 1933-1934.

Regarding the allegiance to the gold standard, the case of Brazil has a different tinge because the Luís administration made a stronger commitment to that system than did Argentina or Uruguay. There was an internally-grown solid conviction among the ruling classes during the twenties that supported the pledge of the Luís administration to the gold standard system, even with the evidence of the deteriorating economic situation and the falling foreign reserves. However, this stubbornness can be explained not necessarily by a hard commitment for that system, but because of political reasons. The government needed to secure the transition to president-elect Prestes and could not afford imposing unpopular or potentially disruptive economic measures. This explains why the Brazilian government just allowed the foreign reserves to fly away. Even *de facto* President Vargas kept this stance during the first months in office for similar reasons: to secure the grip of power of the new government. In any case, the crisis forced authorities to establish exchange control and to devalue the local currency in May 1931.

In relation to policies, the collapse of foreign trade in Brazil during the Great Depression put into question the model of international insertion of the country. The government struggled to keep in balance the demands of the agro exporting oligarchy, prone to an open economy and the rising urban and industrial elites. The first Vargas administration had to put in place, in the same way as in Argentina and Uruguay, orthodox objectives such as financial austerity, budget rigidity, debt control and monetary tightening. All these policies combined are necessarily pro cyclical; so that the recovery was more difficult and delayed. But within Brazilian policies, the *defesa* scheme settled after the Taubaté Agreement of 1906 was the most prominent, because it was aimed to safeguard the main source of revenues for the economy from the sudden flooding of Brazilian coffee in the world markets. This policy entailed two contradicting forces. On the one hand, it involved short-term strong vulnerabilities because the government could not completely control the excessive size of the crop, the diving worldwide demand and the low availability of domestic liquidity in the banking system that compromise its viability in the long-term. The possibility that a negative external shock would spread to the real economy by means of the gold standard was doomed to be amplified if the coffee sector was affected by the perfect storm of deteriorating market conditions and the overproduction from unprecedented favourable weather conditions. This perception of vulnerability contributed to a strong belief among the elites that the federal government in the end would intervene as a lender of last resort whenever São Paulo and other producing states could not keep the coffee stocks in line with lucrative prices. Furthermore, the need to secure the support of the powerful landed coffee classes, along with the social implications in terms of political instability arising from collapse of the coffee economy, prevented the authorities from deciding on the abrupt ending of the coffee policy.

On the other hand, during the worst time of our period of analysis the coffee *defesa* scheme managed to support the national income as a sort of anti-cyclical policy. This also explains why Brazil started to grow again as early as 1933. The demand was supported by expansionary fiscal policies, through the acquisition of coffee due to be destroyed because the accumulation of stock piles had the effect of increasing the net investments in the country. Neither Argentina nor Uruguay had at their disposal such a complex and prominent countercyclical policy to smooth the economic contraction mechanism for their staples.

Beyond the coffee policy, during the first year of the revolution the Vargas government was more occupied in consolidating its power after the fall of the First Republic than in the outline of a comprehensive economic program for industrialization. Thus, its immediate aim was to secure the proper functioning of the economy as it was before the revolution, just in order not to end the same way as the Luís administration did. But there were other heterodox policies worth mentioning. Similarly to Uruguay, Brazil eventually defaulted on its foreign debt and discriminated with its scarce foreign currency between countries. The combination of currency devaluation, increased foreign trade taxes and exchange control punished imported commodities, favouring local products. It also deepened the processes of adopting protectionist measures for the benefit of the national industry. The stronger importation of capital goods during the twenties allowed industry to expand in line with the internal demand. The creation of the Ministry of Education and Public Health and the Ministry of Labour, Industry and Commerce in 1930, as well as the creation of a labour union under the control of the government in 1931, can be interpreted as necessary steps to strengthen the workers' capabilities needed for an industrialized society. Other measures such as the suppression of interstate taxes in 1931 contributed to fostering business activities within the country. Thus, a new phase of industrialization replaced the mono-producer growth model, hand in hand with the process of import substitution. It did it also by using an extremely protective trade policy. If we compare Brazil with its neighbours in this respect, while in this country tariffs could reach a maximum of 300%, in Uruguay they reached 48% and in Argentina certain key products were in the range 5%-35%, with some exceptions. In the long run, these policies, along with advantage of having a big and growing internal market, improved the position of Brazil in the world-system hierarchy and reduced the country's vulnerability.

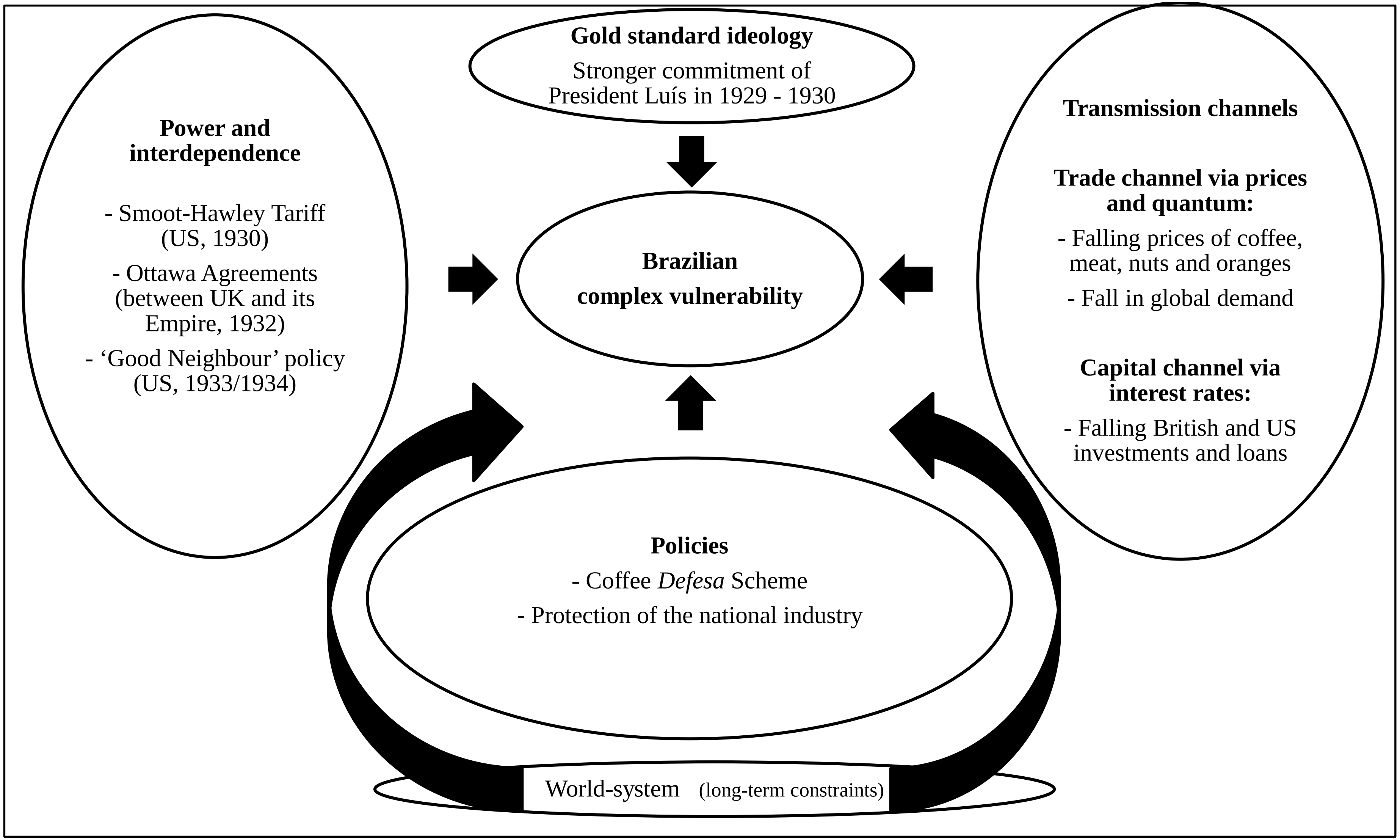
Regarding the patterns of interdependence, the vulnerabilities of Brazil were similar to other countries following the gold standard rationale, but with the addition of being particularly vulnerable to the market conditions of one crop, coffee, and its demand in one key market, the US, as well as the fragile internal political situation. However, the thirties was a period of hegemonic shift from the UK to the US. As Wallerstein's analysis goes, this shift was accompanied by accommodating US diplomacy willing to skip short-term interests in order to gain hearts and souls in its undeniable rising position in the world-system. Thus, the US lacked the political willingness of British diplomacy to impose solutions. This fact gave Brazil a unique opportunity to leverage its position in the world-system. Only a few semi-peripheral countries are able to translate that condition in the world-system hierarchy into a real shift in economic position at any given moment in history. Although beyond our period of analysis, it is possible to say that the history of the twentieth century shows that Brazil as a semi-peripheral country managed to take a better use of that position in the world-system. The special context of global downturn and power vacuum during the thirties helped Brazil in that regard. Since then it achieved a degree of industrialization and international standing remarkably different as compared with the semi-agrarian and deeply underdeveloped position of the nineteenth century and first decades of the twentieth.

As a summary, in Figure 28 we illustrate the forces at work for Brazil according to our concept of complex vulnerability. In this country the trade contraction was less important than in Argentina and Uruguay due to many factors, of which it is worth mentioning that the coffee *defesa* scheme managed to support national income as a type of anti-cyclical policy that in spite of the short- term collapse of 1929-1930, helped during this period the performance of the economy. However, policies such as the late departure from the gold standard system and the highly orthodox policies of the last year of the Luís administration had the opposite effect, especially at the beginning of the crisis. The authorities also were driven by political considerations linked to the weakness of the First Republic and the revolution of Vargas of 1930. This period is marked also for a new phase of industrialization built in a highly protectionist environment. Brazil's position in the world-system was helped by an accommodating US diplomacy willing to confirm its hegemony.

Uruguay

The impact of the Great Depression represents a genuine landmark in Uruguayan political history. Even though the crisis that Uruguay had to face could be categorized as moderate if compared with, for example, the US; the slump of the Uruguayan economy during the period 1931-1933 was one of the worst recorded in local history.

Figure 28 Diagram of forces affecting Brazil during the Great Depression (1928-1934)



As in other countries, the GDP slump in this country was deeply influenced by the falling demand from the core countries, the protectionist measures taken by key trading partners (trade war), and the currency depreciation. As a matter of fact, recalling our analysis of the HHI, although Uruguay was not the country with the most concentrated trade structure in terms of product, it did end up more affected through the trade channel than the HHI told us a priori. Indeed, the bulk of the negative effects of the Great Depression came one year later than in Argentina and Brazil, but they were devastating. When the crisis hit, every external variable conspired against Uruguay. An imbalance of payments combined with a significant terms of trade deterioration, economic contraction and fiscal deficit were the measurable indicators of the Uruguayan Great Depression. Indeed, given its regional location and economic ties with Argentina and Brazil, and its dependence on a few foreign markets, Uruguay could not escape similar hardships to its bigger neighbours after the outbreak of the crisis. Moreover, Uruguay was in a much more uncomfortable situation than its neighbours. Its narrow internal market determined that the economy depended fully on external markets, and in addition its exports were deeply concentrated on meat and meat by-products, mostly exported to the UK. As the authorities explained, Uruguay was a country "which depended solely on its meat trade for its existence"[834]. Thus, the closure of key markets, such as the UK because of the Ottawa Agreements and the US because of the foot-and-mouth disease, as well as natural disasters such as locusts and drought, all contributed to the trade collapse.

Regarding policies, our period of analysis is remembered because of the policy measures that at first seemed temporary but ultimately lasted for decades and marked a clear change of the model of international insertion of the country. When the drain of foreign capital added to the plunging exports and the inability to prevent the peso from depreciating, the natural reaction of the government was not different from other countries worldwide: exchange control, devaluation and moratorium on the payment of the foreign debt. In commercial terms, this global crisis meant for Uruguay the end of an era of export-led growth, as the economy began to close. After all, protectionism reigned worldwide and Uruguay was not the exception. But probably the most important legacy of the Great Depression in Uruguay is the consolidation of a long-term path of government interventionism, first led by the National Administration Council (CNA) since 1931, and later by President Terra's *de facto* government after 1933. This period constitutes for Uruguay a landmark, even as compared with the old *batllista* policies of the first two decades of the twentieth century.

In any case, the main package of policies applied by Uruguay was, on the one hand, in 1931, when the country started to feel the impact of the Great Depression and the depreciation of the

[834] See note Nr. 154 signed by R.C. Michell to Mr John Simon dated November 9th, 1932, regarding a meeting with the manager of the BROU, Mr. Morató, with representatives of the Uruguayan British chambers of commerce, the Uruguayan banks, the Bank of London and South America Limited, the two agricultural federations, the Uruguayan chilled meat factory and the foreign chilled meat companies, in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114.

pound sterling after the suspension of the gold standard by the UK, and on the other hand in 1933-1934, after the US dollar devaluation. Among the measures taken by the CNA, the exchange control introduced in 1931 and institutionalized by Terra's regime after 1933 favoured exporters – often of value added goods-, restricted imports abruptly and boosted the domestic market. This situation was mirrored in the increase of industrial production. For many countries the exchange control was used as a tool in a negative juncture, not only to save hard currency, but also as a source of revenues for the public sector in times of fiscal trouble. However, for Uruguay this policy became almost permanent for fifty-four years. Certainly, it is remarkable that most political parties did not question the convenience of keeping the exchange control for so long. Nevertheless, the introduction of a dual exchange rate system in 1934 had a beneficial effect in relation to tourism and services, and the flow of capital remained mostly unconstrained and beyond government intervention. Thus, the existence of a free market worked as an anchor against fiscal irresponsibility and political unrest.

The management of the value of the peso had important political implications. As the economic life of the country circulated around activities related to cattle farming, there was a growing discontent among the landowner elites over the country's competitiveness and the way the government was handling the crisis. The cattle farmers, who defended a stagnant sector suffering from drought, diseases and the slump in international prices, demanded a stronger depreciation of the peso to keep the competitiveness of the Uruguayan produce high. But the CNA's policies were closer to the emerging industrial economy. Thus, this clash between the cattle farmers and the CNA prompted internal political turmoil built on the shortcomings of the institutional framework that enshrined a potential clash between the CNA and the presidency over the conduct of the economic affairs of the country. As the CNA was in charge of the economic policy, the President could not respond by enacting policies of its own. Whenever the economic situation deteriorated, the President blamed the CNA for its perceived inaction to face it. That is why in Uruguay the international economic hardship translated easily into internal social and political turmoil, marked by the coup of incumbent President Gabriel Terra in 1933 against the CNA and later the accommodating constitutional reform of 1934, all events that marked Uruguayan history.

Nevertheless, the new government had to take into account the claims of industrialists for stronger protection against foreign competition and cheaper and easier access to intermediate and capital goods. With the creation of two strategic public monopolistic companies, ANCAP in 1931 (petroleum) and CONAPROLE in 1935 (dairy products), the national industry gained ground in the national economy. Furthermore, industry managed to increase its output and relative importance among the economic activities and its dynamism contributed to consolidating the country's economic recovery. The strong dependence of this sector on energy inputs, technology and certain foreign raw materials prompted stronger state interventionism with the aim of saving foreign currency, prioritizing its expenditures and promoting industrial activity. Also, Uruguay managed to create its own national meat-packing plant, *Frigorífico Nacional*. But, it did not develop as expected due to problems of scale, commercialization bottlenecks and the control of the North American trust over the prices paid to the livestock farmers, distribution channels and marketing conditions. However, there was no room in Uruguay for industrial policies of the sort adopted in Brazil and later in Argentina. For the small market scale of the Uruguayan economy, those policies would probably have been costlier in terms of efficiency. Nevertheless, the executive decreed fiscal benefits for those national industries that expanded their scale or the new investments that settled in the country. As a result, in 1936 the textile industry, like in Argentina, became one of the main drivers of Uruguayan exports. However, measures of this kind that favoured the industrial sector were a source of dissatisfaction for the rural sector that had to cope with the stagnation of the cattle farming related activities. That is why the Revaluation Law was put in place in 1935 as a non-declared currency devaluation to boost agricultural exports. The revenues derived from this measure made it possible to grant premiums for exports, a reduction of property tax and improvements in education, among other measures.

Regarding the patterns of power and interdependence, similarly to Argentina, the British protectionist trade policies also deeply affected the Uruguayan economy. Furthermore, as we have seen in documents obtained from the National Archives at Kew, Richmond, England, Uruguay was low in British diplomatic priorities and the Uruguayan officials in many representations made in London and Montevideo were not able to persuade the British counterparts in the same way as the Argentineans did to pursue trade negotiations as fast as the economic context required. However, the Cosio-Hoare Agreement with the UK signed in 1935 followed the example of the Roca-Runciman Treaty signed with Argentina in 1933, and both show the importance of British influence on the River Plate at the time. But the fact is that this outcome was delayed for three years since the Imperial preferences were implemented in 1932 and at least as detrimental as in the case of Argentina. Uruguay also tried to distort trade and capital flows by means of interventionist measures, but those were mostly not applied due to the fear of retaliation from core countries.

As a summary and similarly to the other two cases we illustrate in Figure 4 the main elements that constitute the complex vulnerability of Uruguay. The bulk of the negative effects of the Great Depression came to Uruguay one year later than in Argentina and Brazil. Its internal market was limited and its economy deeply dependent on meat and meat by-product exports, mostly exported to the UK. Exchange control, devaluation and moratorium on the payment of the foreign debt were all unavoidable measures that added to a path of growing government trade protectionism and interventionism in the economy signalled by an increasing number of public monopolies. More in Uruguay than in its neighbours, the management of the value of the peso was a strongly debated issue because it determined the balance between the powerful cattle farmers and the government. However, the limited size of the country determined that there was no room in Uruguay for industrial policies of the sort adopted in bigger countries. The patterns of dependence were similar to Argentina regarding the British, although its diplomatic leverage was significantly lower, befitting a semi-peripheral country very low in the hierarchy of the world-system. From the political point of view, the tensions within the government translated into an exacerbated questioning of the CNA that eventually led to the coup of President Terra of 1933. Afterwards, under the new regime, the capitalist land owning sector was benefited by some measures from the government, although the long-term path of increasing state interventionism would hold for many decades.

iv. The need for a complex vulnerability approach

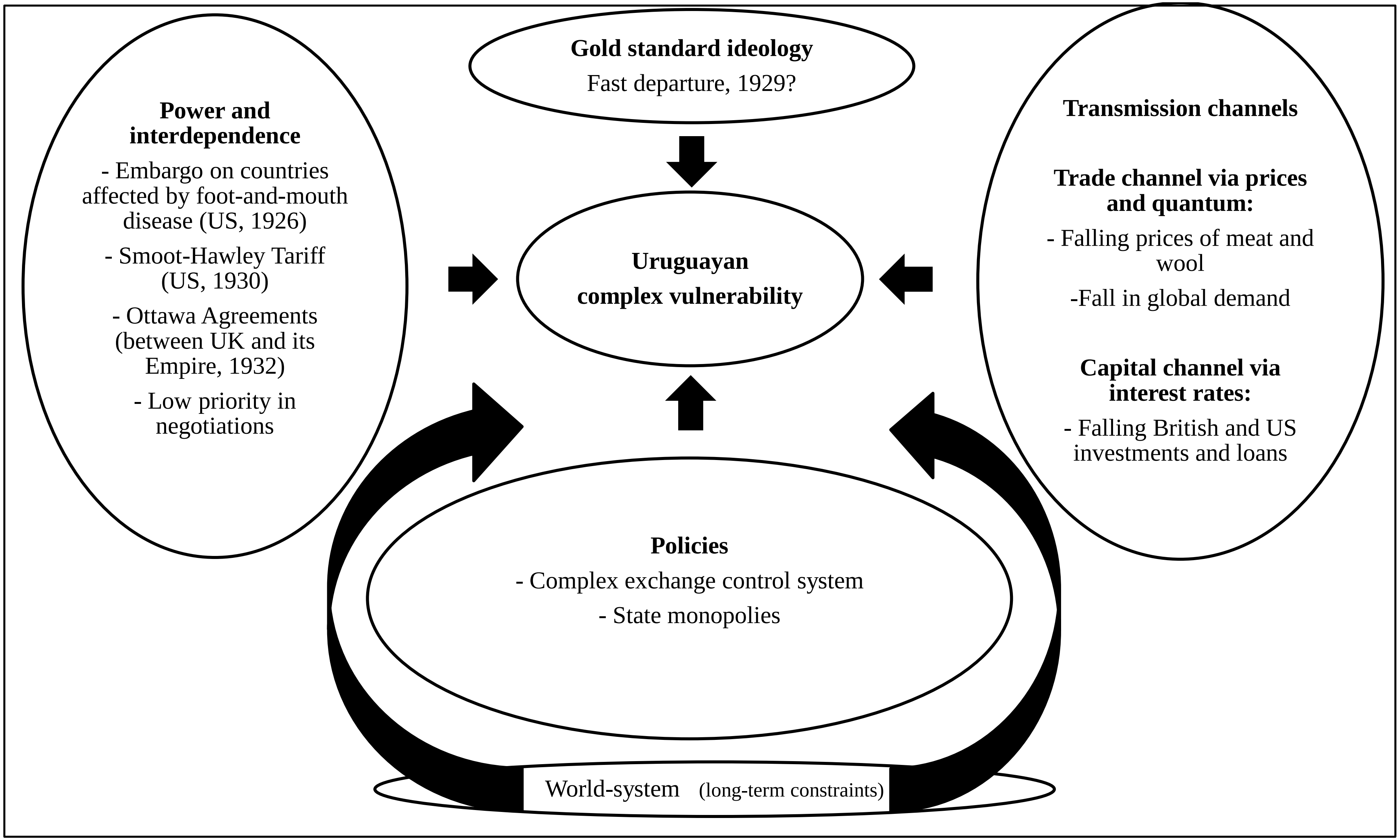
In the previous section we have summarized the findings of our text and constructed a picture about how our concept of complex vulnerability is suitable for the experience of each of our three case countries during 1928-1934. In order to be more descriptive and analytical, we finalize our research in a more comparative way, which enriches our academic contribution.

We start with the transmission of the Great Depression from core to ABU that we mainly analysed in Chapter IX, and for that purpose we summarize in Table 82 the results regarding transmission. We assign an ordinal ranking of the magnitude of the contraction of selected economic indicators, from 1 (the highest value of the variable of the three countries) to 3 (the lowest). Although in some items the evaluation necessarily includes a subjective component, in all the cases there is a foundation in the research contained in our thirteen previous chapters.

In general, it can be said that Uruguay suffered a strong depression, Argentina reached a depression and Brazil suffered a strong recession. Regarding the sectoral behaviour, either using the industry or landing activities GDP, we find that the crisis in Brazil was milder as compared with the other two countries. Uruguay was the hardest hit, but the contraction arrived later and lasted longer. This country also shows the strongest variability of sectoral GDP, suggesting a stronger impact and exposure to foreign flows. Also, it can be said that the two countries with a stronger industrial basis, Argentina and Brazil, benefited from an early recovery of industrial activity. In both larger countries, some industrial sectors grew during 1931-1934, compensating in this way for the contraction of other sectors.

Trade was the main transmission channel of this crisis, and the vulnerabilities spread into the economies, which fuelled other structural vulnerabilities of each of them. For example, the vulnerabilities related to trade were amplified due to the fact that the governments of ABU were strongly dependent on the income from the foreign trade. Wherever a tax system is strongly dependent on custom taxes, government finances are particularly vulnerable to the contraction of trade. Recalling our conclusions of Chapter IX, beyond the mechanical transmission of the crisis through trade, the most vulnerable of the three from the fiscal point of view was Argentina because of its high dependence on the foreign trade taxes. By contrast, the case of Uruguay shows the soundest fiscal structure, both in terms of share of fiscal dependence on foreign trade taxes and the ratio of fiscal deficit to total revenues. However, in spite of its better starting position, the government figures unavoidably suffered. Further, the strong expenditure cuts and tax increases in this country are consistent with the collapse of foreign trade. Brazil was the country in which the fiscal revenues suffered the most, although it is important to keep in mind that the deterioration of 1932 is more a consequence of the costs associated with suppressing the revolution of São Paulo than a direct effect of the Great Depression.

Figure 29 Diagram of forces affecting Uruguay during the Great Depression (1928-1934)



From our analysis we conclude that the economies of ABU contracted as a consequence of the transmission of the crisis from the North through trade and capital flows. In particular, the actual experience shows that most of the agricultural prices relevant for Argentina were also relevant for Uruguay and to a lesser extent to Brazil. The fall of prices of beef, cattle hides, wheat and maize in Argentina, beef and wool in Uruguay and coffee in Brazil seen during 1928-1932 was transferred through the trade channel. Moreover, protectionist trade policies such as the Smoot-Hawley tariff enacted in June 1930 in the US and the Imperial preferences applied by the UK in 1932, among others, were specially felt during 1930-1933, and hit ABU evenly.

And in spite of the initial *ex ante* assessment about the perceived relatively lesser vulnerability of Uruguay of our hypothetical researcher in Section ii who only took into account the degree of trade concentration, fiscal structure and level of foreign reserves in 1928; the actual *ex post* contraction of 1928-1934 suggests the opposite. The greater Uruguayan fall of trade is consistent with a long lasting and stronger contraction of economic activity. In particular, the fall in commodity prices hit hard the Uruguayan key agricultural sectors, a feature that is particularly revealed by the contraction in 1931 of the cattle farming GDP in that country. The small market and the lack of strong autonomous industrial basis or services meant that the foreign-induced contraction of trade impacted Main Street hard.

However, this outcome, suggesting a stronger vulnerability of Uruguay, is still inconsistent with its *ex ante* perceived soundest economic foundations. Something similar but in the opposite direction could be said about the case of Brazil. Thus, in order to explain why Uruguay actually was the most vulnerable of the three countries or Brazil the lesser, it is necessary to follow an eclectic approach and to incorporate other elements from political economy to the analysis.

Table 82 ABU: Ordinal ranking of transmission channels and effects

	Argentina	Brazil	Uruguay
Collapse of the GDP	2	3	1
Extension of the Great Depression	1	2	1
Fall of industry GDP	2	3	1
Fall of landing activities GDP	2	3	1
The collapse of trade	2	3	1
Ratio of fiscal deficit to government revenues	1	2	3
Fall of fiscal revenues	2	1	3

Following our reasoning of the introductory chapter, conceptual framework and the country focused analysis of our previous section, we move to address the other forces affecting ABU during the Great Depression. In Table 83 we present some elements that illustrate the ordinal ranking of the gold standard. Indeed, in every historical event, it is important to take into account the ideology predominant among decision makers. Consequently, for our period of analysis, an assessment of the researcher about the real commitment of such persons to the gold standard ideology that predominated during the twenties is important in order to incorporate that element to the evaluation about the relative vulnerability of a country during the Great Depression. In the context of the contradiction between that ideology that dictated a strong commitment to deflationary forces, and the need to avert the economic depression, ABU had to individually make hard choices, that nevertheless show a remarkable coincidence in timing and content. One of them was the early departure from the gold standard system during 1929-1930, a move that in a way was validated later by the departure of the UK (1931), the US (1933) and other major players until 1936 and confirms that in spite of the official discourse, the commitment to the gold standard was at best weak.

However, there are nuances. While Argentina suspended the Currency Board in December 1929 and in Uruguay there was a debate about its return to the system after 1914, Brazil waited until November 1930 to suspend the gold standard. It is possible to say that in a way Argentina and Uruguay were more open to the idea of departing from the gold standard logic because of their strong view about safekeeping the stock of international reserves and a dose of pragmatism facing the revealed severity of the crisis. Nevertheless this decision in the case of Uruguay does not necessarily mean a complete departure from the idea of linking the issue of currency with gold holdings, especially before 1931. By contrast, Brazil eventually followed suspending the gold standard only when its foreign reserves were depleted. This explains why in our view Brazil was relatively more vulnerable vis-à-vis Argentina and Uruguay when the Great Depression arrived because of the stronger commitment of President Luís' government to the gold standard. The monetary behaviour of Brazil and to a lesser extent Uruguay suggests that both countries suffered monetary contraction that contributed to exacerbating the downturn at the time the Great Depression arrived, an assessment that is also in line with the expected behaviour of countries already influenced by the gold standard. Here, it is important to point out that even though Uruguay was not committed to the gold standard, it was committed to gold, as the BROU's issue function was legally constrained by the gold holdings.

In any case, the three countries were in the first group of countries to suspend for good the gold standard. And within Irwin's (2012) trilemma of the gold standard mentioned in Chapter X, each of our case countries decided to impose exchange control systems. The combined effect of both decisions was a diminished pressure of the deflationary forces of the gold standard that contributed to a faster recovery of the economies and also provided governments with extra revenues. Indeed, on the one hand, the exchange controls allowed the governments to use the foreign currency as a non-tariff mechanism, so that they could handle foreign trade; and, on the other hand, to obtain fiscal revenues by profiting from the differences between buying and selling rates in the official markets. Those extra funds allowed either the financing of additional sectoral policies or the addressing of the growing fiscal deficits. The imposition of the exchange controls was firstly introduced in January 1930 by Brazil and lasted until November of that year. Later by decree of September 30th, 1931, a new permanent system was established. In Uruguay, a more permanent arrangement was enacted by law on May 29th, 1931, although it was only operative in

September of that year. And in Argentina the exchange control was enacted by decree on October 10th, 1931. Consequently it is possible to say that all three countries had put in place permanent arrangements by October 1931, but important backgrounds were the Brazilian temporary system of 1930 and the Uruguayan Law of May 1931. In this regard, it is relevant to point out that even though Brazil hesitated to leave the gold standard in 1930, it was swift following the example of Germany, for example, which officially kept with the gold standard, but introduced exchange control.

The imposition of exchange controls was also accompanied by a strong depreciation of local currencies. In particular, the Uruguayan peso shows the most prominent loss of value against the US dollar, a feature that is in line with our previous assessment regarding the stronger exposure of the country to foreign trade fluctuations and the lack of a stronger internal market. The Brazilian and Argentine currencies also depreciated strongly, especially the former in 1931, but during the period 1928-1934 on average both reached a similar variation.

As a consequence, from the point of view of the ideology of the time, it is possible to say that Brazil was the most vulnerable country of the three due to the relatively stronger commitment of president Luís to the gold standard. Also Uruguay was vulnerable because its inability to pursue expansive monetary policy.

Table 83 ABU: Ordinal ranking of gold standard ideology related issues

	Argentina	**Brazil**	**Uruguay**
Departure of the Gold Standard	1 12/29	2 11/30	1 12/29
Exchange control	3 Decree 10/10/31	1 Temporary 1/30 Permanent Decree 30/9/31	2 9/31 Law 29/5/31
Devaluation	3	2	1
Depletion of foreign reserves	2	1	3
Freedom of monetary policy	1	3	2

Now, it is adequate to move to the analysis of the policies followed by ABU, our second element of the concept of complex vulnerability. In Table 84 we illustrate the ordinal ranking of policies in a similar way to previous tables. Argentina was the most vulnerable of the three from the point of view of the foreign debt due to its commitment to keep paying it, in spite of the fact that the Argentine revenues were the most dependent on the foreign trade taxes and consequently its revenues were severely hit by the falling prices of key commodities. It was a decision taken almost in isolation, as most countries worldwide chose to default.

All three countries were strongly interventionist, as they applied heterodox policies in order to diminish the negative effects of the Great Depression. Among those policies the already mentioned early departure from the gold standard ideology was part of that package. However, if we try to measure the degree of state interventionism on the economies, comparing the three countries, the results would not be conclusive. But it is relevant to make some comments. The most representative interventionist measure of the Brazilian case is the coffee *defesa* scheme, in Argentina the use of regulatory boards and in Uruguay the creation of state owned monopolies. In particular, in chapters VI and XI we analysed how Brazil counted on its coffee *defesa* scheme that willingly or not had the positive effect of smoothing the cycle. Argentina also had some price support scheme in order to protect key staples (grains) by 1933-1936. Even in Uruguay, in spite of having very limited resources to enact such measures, there was an attempt at intervening in the commercialization of certain grains (maize and wheat) during 1928-1930. In this respect, both Brazil and Argentina had at their disposal more resources to apply such policies. In addition, ABU also became strongly protectionist countries. However, of the three, Brazil presents the highest tariffs and the most directed policies to the protection of national industry, for example to the textile industry.

In Chapter VIII we have seen that all three countries presented political tensions that linked one way or the other with the struggle of the agricultural activities and the newly rising industrial sector, and the respective social classes that came from them. All the three countries witnessed coups and political high intensity struggles, although probably the case of Brazil is the one showing the most dramatic shift of institutional foundations: firstly with the collapse of the First Republic and later in 1932 with the civil war with the State of São Paulo.

With this background, it seems that the country most lacking in resources to apply heterodox policies, Uruguay, was in this regard the most vulnerable. However, it managed to create strong state monopolies in key services, although with varying results. For example, it is doubtful whether the state owned meat-packing plant created in 1928 changed the reality of a market still dominated by British and American interests.

Table 84 ABU: Ordinal ranking of policies

	Argentina	**Brazil**	**Uruguay**
Suspension of the payment of foreign debt	2	1 (1/9/31) Decree 7/10/31	1 (7/9/31)
Countercyclical policies	2	1	3

The last element in our quest for a better understanding of the concept of vulnerability is the influence of power and interdependence among nations illustrated in Table 85. As we have shown in detail in this thesis, the foreign trade and production levels of ABU were deeply influenced by the decisions of the developed countries that traded with them due to the strong dependence on the exports of coffee, meats, wool and grains. ABU were also a prominent market for British coal, manufactured goods and capital exports. As a result of this asymmetric interdependence, the UK had a dominant position in trade negotiations with Argentina and Uruguay vis-à-vis other core powers. By contrast, the competitive nature of US agricultural production made trade negotiations and flows with Argentina and Uruguay less dynamic. For that reason, both countries presented persistent deficits with the US and surpluses with the UK.

Regarding the patterns of dependence, we have seen in Chapter XII that there was an important difference between on the one hand Argentina and Uruguay which depended more on the British interests, and on the other Brazil, which depended more on the US market. With the US the epicentre of the Great Depression, it could be argued that in this regard the *ex-ante* Great Depression relative vulnerability of Brazil was higher due to this fact. Moreover, the fact that the previous closure of the US market to the Argentine and Uruguayan meats during the twenties due to the foot-and-mouth disease had already made that market less relevant at the time the wave of the crisis reached the River Plate, so that most of the trade contraction for these countries would have to come from other places than the US. Furthermore, even though none of the three countries were highly ranked in the international arena ruled by core powers, the Argentine Republic could be said to have enjoyed at that time a higher hierarchy in the international world-system.

As we have shown from documents obtained from London and Washington, the diplomacies of Argentina, Brazil and Uruguay were active in trying to minimize the damage of core countries' policies, but also clearly show the different capabilities of these countries to obtain concessions based on mutual interconnectedness. Their success was nevertheless limited, especially in the case of the UK Imperial tariffs that benefited direct competitors from the Commonwealth. Although Argentina could not escape the nature of its commercial links to the world that meant a strong leverage for British diplomacy, the UK was sensitive due to the need to protect its important investments, so that they also needed a settlement. The complex interdependence between the British and Argentineans explains the higher priority of Argentina in British diplomacy and the relatively higher leverage of the former to negotiate a better positioning regarding protectionist trade British policies. This explains the outcome of the Roca-Runciman Treaty between Argentina and the UK in 1933. Uruguay also reached an agreement, but only in 1935, too late to curb the effects of the Great Depression, a foreseeable outcome due to the low position of Uruguay in the world-system.

The statistical evidence in the Brazilian case suggests that even though the perceived *ex ante* trade vulnerability was higher, it did not translate in full into actual trade contraction, because the main destination of its coffee, the US, did not use its leverage as much as it could to turn Brazilian policies around. By contrast, the other two neighbours were highly dependent on the British market, and the UK government was more committed to exerting its leverage during commercial negotiations. The conclusion of this is that Uruguay was the most vulnerable country to the policies of the time due to its scarce resources to persuade foreign powers and its low position in the international hierarchy of the world-system. On the opposite front were Argentina and Brazil, although for different reasons, the former because of its better positioning in the world-system, and the latter due to the indifference of the US.

Table 85 ABU: Ordinal ranking of power and interdependence

	Argentina	**Brazil**	**Uruguay**
Dependence on the US	3	1	2
Dependence on the UK	1	3	2
Lack of international hierarchy	3	2	1

Finally, we need to analyse the relationship between complex vulnerability and the world-system. Beyond trading relations, the twenties and the thirties was a time of changing hegemony in the world-system and that change allowed for some increased degrees of freedom to semi-peripheral states willing to improve their hierarchy in that system. Indeed, the power of the UK was being surpassed by the US, not only in terms of military and diplomatic resources, but also in terms of the control of the main financial flows worldwide. However, the Americans were still in the process of gaining the souls and minds of lesser powers, especially in their Latin American backyard. The US did not exert at that time the kind of pressure of the British were willing to exert to protect what was left of their Empire, knowing its weakness. In this changing context, even though Immanuel Wallerstein's analysis can be questioned in multiple aspects, it includes the appealing notion that there is a particular group of semi-peripheral states with a chance to play an improving role in the capitalist world-economy, especially at times of world economic downturn. As our analysis has been eclectic in nature, this notion is in our view not inconsistent with Kindleberger's analysis of hegemony and his reference to the power vacuum left by the change of hegemony during the thirties, which is also helpful to illustrate the role of ABU in the world-system.

Up to some extent these countries attempted with different degrees of success to make use of these increased degrees of freedom at the expense of core countries due to the change of hegemony and the economic collapse. Protectionist policies, including discrimination in the allotment of scarce foreign assets and non-tariff barriers, willingly or not, boosted the development of new industries and changed the paradigm of international insertion of all these countries. Although these measures did not change the foundations of the interdependence patterns that linked them to the world-system and its basic structure containing peripheral, semi-peripheral and core countries, they paved the way for a transformation of the economies to more industry-oriented ones.

Regarding the most recent experience of ABU, over time the three countries attempted to improve their position in the world-system, but the one that used more advantageously its size and the vacuum left by the changing hegemony was Brazil. As we have seen in Chapter IV, it is decisively the country that achieved a stronger industrial basis with a more diversified export basket, and an improved positioning in the world-system. The latter can be seen in Brazil's leading role in groups such as the BRICS or the G20, and its serious aspiration to hold a permanent seat in the Security Council of the United Nations. And regarding our analysis of Chapter XIII, it is fair to say that the three countries nowadays are prepared to apply counter-balancing policies in times of crisis, so that at least in this regard they are less vulnerable than during the thirties. Moreover, although the mechanisms of transmission are operating similarly as eighty years ago, the vulnerabilities evidenced by the transmission channel have shifted to other world powers, notably China.

The main conclusion regarding the transmission of the crisis is that even though Uruguay held important stock of foreign reserves, the government finances were a priori less dependent on foreign trade taxes and its exports were not the most concentrated if compared with its neighbours, this country was nevertheless the most vulnerable of the three if a concept of complex vulnerability as the proposed in this thesis is applied. Most of our analysis points in this direction.

In relation to the transmission of the crisis, we have seen that the trade and economic contractions arrived late to Uruguay, but both were strongest there. Thus, soundest economic fundamentals were not enough to prevent a hard landing. Those could delay the collapse, but not prevent it. Moreover, the other three elements that constitute our concept of complex vulnerability approach clearly reveal the difficulties of Uruguay during the Great Depression. In spite of the abandonment of the gold standard, its institutional framework was designed and its decision makers were influenced by the idea of linking the money supply to the gold holdings, limiting the role of monetary policy. This stance was not a result of the allegiance to the gold standard ideology, but a sort of a conviction regarding a gold stock ideology with similar, although smoothened pro-cyclical effect. Regarding policies, beyond the exchange control and suspension of the payment of the foreign debt, the government lacked resources available to Argentina and Brazil to apply counterbalancing policies to smooth the cycle in key economic sectors and as a consequence it was more difficult for the government to curb the crisis. And with respect to patterns of power and interdependence, Uruguay was not a priority for major or even regional powers, so that it could not negotiate effectively, or in a timely manner, better access for its key staples in times of hardship. Finally, in spite of its strategic position in a semi-peripheral region, Uruguay was less capable of improving its hierarchy in the world-system as compared with Brazil, for example.

Beyond the four pillars of the complex vulnerability analysed in this thesis, other factors to explain the performance of Uruguay during the Great Depression such as the limited internal market and relatively less important industrial activity can be pointed out as possible additional elements to consider influencing that outcome. It might be worth including them in future research, possibly as new constituting elements of a more useful concept of complex vulnerability.

Our research leads us to confirm our hypothesis that Argentina, Brazil and Uruguay were highly vulnerable to the Great Depression, and among them, the smallest country was the most vulnerable of all.

Annex I Timelines

Figure 30 Chronology of an announced crisis in Argentina

1929 - 1930

- Lord D'Abernon heads a British commercial mission for Argentina in his visit to several South American countries (included Uruguay and Brazil) (August 1929).
- 'Great Crash' in NY Wall Street (October 1929).
- Depreciation of the peso relative to gold (November 1929).
- Suspension of the gold standard (December 1929). Inconvertible paper currency. Floating exchange rate of paper to gold pesos. Gold flows at the Conversion Office limited to fiscal uses (payment of government foreign debt). Conversion Office continues to exchange gold pesos for paper pesos at new par (2.27) for these transactions.
- US imposes the Smoot-Hawley tariff (June 1930).
- Uriburu's coup -Revolution of 1930- on September 6th, 1930. Hipólito Yrigoyen is deposed and the General José Félix Uriburu assumes the position of provisional President.

1931 - 1932

- Uriburu annuls the elections of the Province of Buenos Aires because of the overwhelming victory of the radicals. It was the first clear evidence of electoral fraud (April 1931).
- Conversion Office starts to rediscount commercial papers. Enrique Uriburu with the advice of Prebisch puts in practice the Law of 1914 (April 1931).
- Discharge of government employees and cut of 10% public wages and increase of taxes (1931).
- Increase of 10% on import tariffs, among other trade restrictions (April 1931).
- UK suspends gold standard and its currency depreciates (September 1931).
- Imposition of the 'tax on transactions' (October, 1931).
- Imposition of exchange control (October 1931).
- Tripartite Economic Conference Argentina-Brazil-Uruguay (1931).
- Preparations of the project for the creation of the Central Bank are started. Then, this project has the support of the British expert Otto Niemeyer (1931).
- Agustín P. Justo assumes the position of President and Julio A. Roca the position of vice-President (February 1932).
- Imposition of the 'income tax' (April 1932).
- '*Empréstito patriótico*' (Patriotic Loan, May 1932).
- Ottawa Agreements between UK and its Empire (September 1932).

1933 - 1934

- US suspends gold standard, devalues its currency and imposes exchange control (March-April 1933).
- Roca-Runciman Treaty: bilateral negotiations UK-Argentina (May 1933).
- World Monetary and Economic Conference in London (June 1933).
- World Wheat Conference (August 1933).
- Argentina and Brazil sign a trade agreement, among other agreements (October 1933)
- In August 1933, Federico Pinedo is chosen Minister of Finance and immediately he starts to work with Raúl Prebisch as adviser (the known formula: 'brain trust') designing a 'National Economic Action Plan' of November, 1933.
- Conversion of the domestic public debt (1933).
- Reform of the exchange control system introduced in 1931 (November 1933).
- Creation of JRG, JNC, commisions, among others (1933-1934)
- Creation of the National Commission to fight against the locusts (1933).
- 'Brain trust': presentation of six projects, among which were the creation of the Central Bank, the creation of the Institute for Mobilizing bank Investments (IMIB) and the Banking Law (1934).

Figure 31 Brazilian timeline of the Great Depression

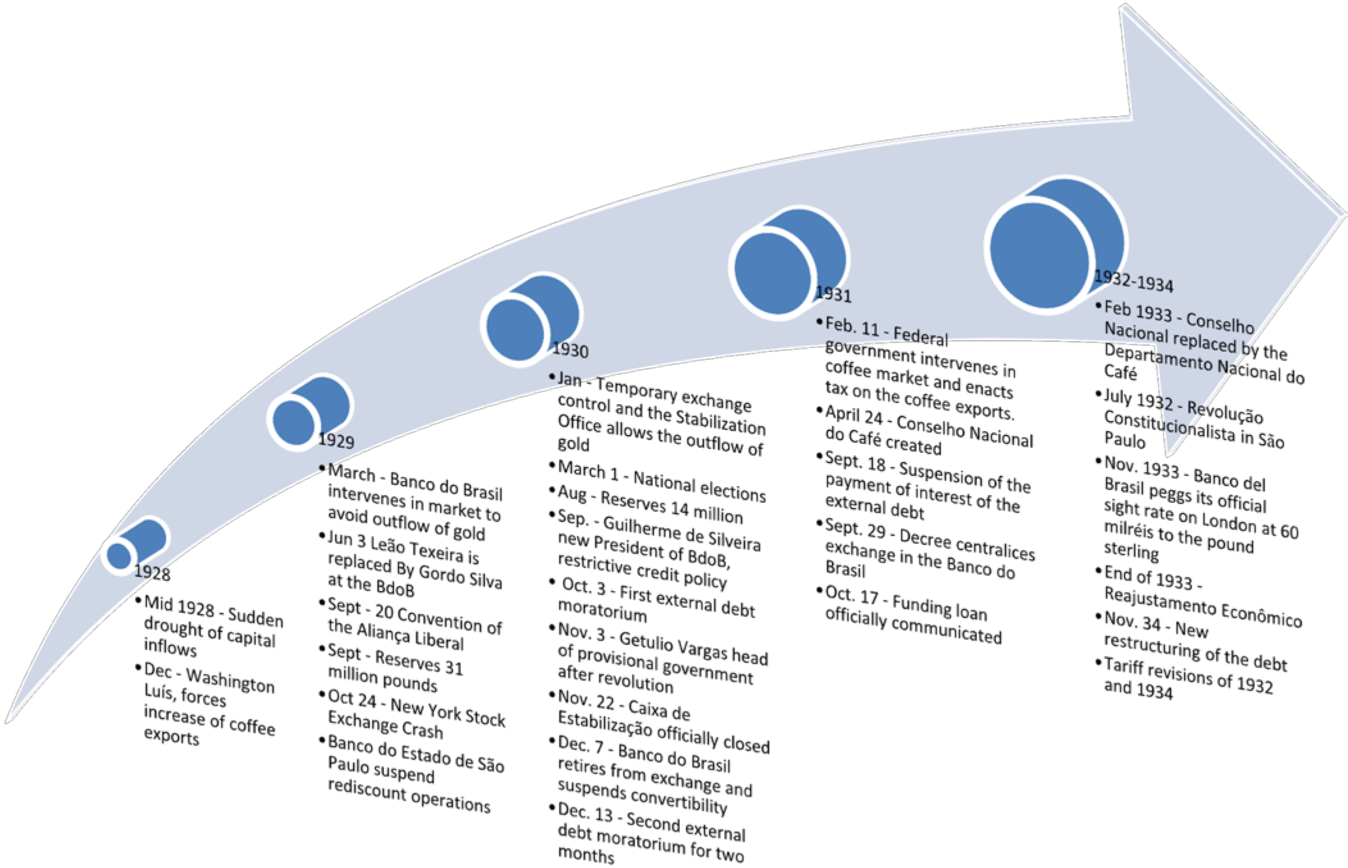
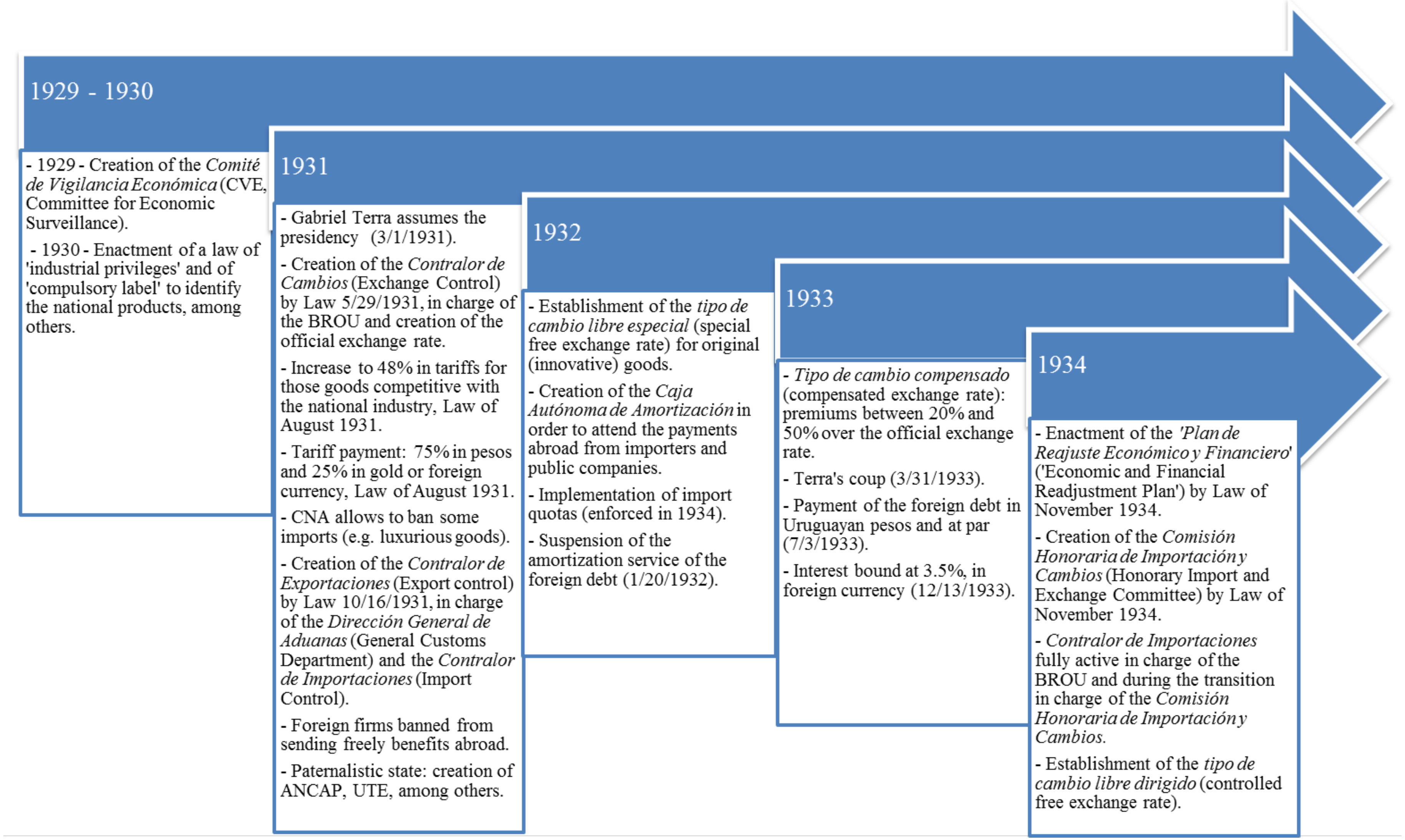


Figure 32 The timeline of the Great Depression in Uruguay



Annex II Comparison of ABU's policies during the Great Depression

Table 86 Comparison of the reactions of the ABU governments to the Great Depression

	Argentina	Brazil	Uruguay
Trade policy	- Tariff increases (e.g. duty-free articles such as fuel oil, printed books, machinery and spare parts, certain heavy chemicals, special industrial sewing machines, eggs, dried beans and pulses, and pleasure boats, were to pay 5%-25% from April 1931), 'temporary' surtax of 10% *ad valorem* on practically all classes of dutiable goods in September 1931 and import prohibitions (e.g. yerba mate in December 1931). - Tariff exemptions to some countries in 1931 (UK, Brazil, etc.) on foodstuffs, wood (e.g. South American white pine lumber) and machinery. - Tariffs revision in 1931-1932.	- Tariff increases (e.g. duties on cotton yarns practically reached prohibitive levels, duties increase on jute and hemp and duties on other similar national products such as paper goods reached 300% *ad valorem* in 1932). Introduction of a system of import licensing and import prohibitions (e.g. flour imports prohibited for 18 months in connection with the large-scale barter coffee – wheat with the US in 1931). - Tariff reductions on several foreign products not considered as directly competitive or regarded as necessary to the economic life of the country (e.g. on textiles -raw cotton and corded cotton threads in January 1931 - and on equipment needed for the production of rubber products, alcohol, cellulose, among others in 1934), tariff elimination on capital goods required for the production of cement, canned foods, glass, tires, etc. in 1932/1934, and application of tariffs which included a drawback clause for total or partial exemption of the taxes over raw materials incorporated in products for	- Tariff increases (Law of August 6th, 1931 allowed tariff increase from 31% to 48% for goods competitive with the national industry). An increase of 25% on the official customs import values in 1932 and 40% for store haberdasheries, upholsteries and electricity goods in 1933, imposition of new duties on automobiles (which later was doubled), alcohol, cigarettes, spirits, fuels and bananas, consular fees increased to 2% *ad valorem* on tariffs, CNA allowed to apply import prohibitions (e.g. luxurious goods in August 1931) and implementation of import quotas (law enacted in 1932 and enforced in 1934). - Tariff exemptions: several commodities demanded by industry and essential goods used by the lower classes were waived from this regime (e.g. tariff exemptions on machinery, spare parts, raw materials and industrial inputs). - Tariff reductions: reduction of 10% on the official customs import value for coal and

	- 'Beggar thy neighbour' and competitive devaluation. - 'Buy from those who buy from us'. - Retaliations against some countries (e.g. against Brazil with the imposition of duties on rice and imposition of sanitary regulations on apples imported from the US in 1931). - Increase of bilateralism, e.g. Roca-Runciman Treaty between Argentina and the UK and other bilateral agreements with Brazil, Germany and Uruguay, among others. Barter or clearing agreements (e.g. Argentina-Germany).	export. - Modification of the tariff system readjusting old duties, providing abatements of 20% on general tariff, of 35% on minimum tariff and of 100% (doubled) on general tariff as punitive tariff (Decree of September 7th, 1931). - 'Beggar thy neighbour' and competitive devaluation. - Retaliations against some countries (e.g. against France the imposition of a special rate of 120 milréis per kilogramme on serum and vaccine and increase of 25% on consumption tax on wines and foreign beverages. - Increase of bilateralism, e.g. trade agreements with Argentina, Uruguay and Sweden, among others. Barter or clearing agreements (e.g. exchanging coffee for US wheat, Italian airplanes and with German coal).	62% for fuels. - Beggar thy neighbour' and competitive devaluation. - 'Buy from those who buy from us'; seeking negotiations with countries with which Uruguay had a favourable trade balance. - A 15% discount was granted if the goods imported originated in a country whose purchases favoured Uruguayan industry. - Increase of bilateralism, e.g. trade agreements with Argentina, Brazil and the UK (Cosio-Hoare Agreement in 1935), among others. - Barter agreements with Germany and Italy.

Exchange rate policy	- Suspension of the gold standard (December 1929). - Imposition of exchange control (October 1931). - Currency devaluation.	- Suspension of the gold standard (November 22nd 1930). - Imposition of exchange control (January 1930). - Currency devaluation.	- Suspension of the gold standard (December 1929?). - Creation of a commission to analyze the depreciation of the currency. - Imposition of exchange control (foreign firms banned from sending freely benefits abroad in May 1931). - Multiple exchange rates (1934). - Currency devaluation.
Monetary and financial policy	- Interest rates increase and then ex ante extremely high real interest rates were lowered. - Closure of the Currency Board (December 1929) - Application of the Rediscount Law (rediscount of commercial papers from BNA) in 1931. - Creation of the BCRA in 1935.	- Interest rates increase. - Closure of the Caixa de Estabilização (September 1st, 1930). - Government contracted debt with *Banco do Brasil* and prohibited the foreign banks from overdrawing from their headquarters in October 1929. - Monetary emission.	- Interest rates increase. - Second contract of loans with the Hallgarten House of New York in 1930 to stabilize and rectify the foreign exchange, among other purposes. - Enactment of the 'Economic and Financial Readjustment Plan' (1934).
Fiscal policy	- Contraction of public expenditure (discharges of government employees, cut of 10% on public wages) and taxes increase (e.g. internal post charges, tariffs), as well	- Coffee *defesa* scheme as an expansionary policy. - Suspension of sinking fund payments on all	- By Law of August 6th, 1931, contraction of public expenditure (15% reduction from the ministries' operating expenses, 50% cut of public vacancies, suppression of several

	as the creation of new taxes (e.g. income tax, petrol tax, tax on transactions). But since the end of 1933 the government started to implement expansionary measures. - Authorization of the Patriotic Loan in May 1932 to finance the floating debt. - Conversion of the public debt in 1933 - Default avoided.	foreign loans except the funding loans handled by Rothschilds on September 1st, 1931. - Suspension of the payment of interest on the external debt on September 18th, 1931.	posts at the Ministry of War and Navy, 10% reduction on the remaining budgetary items), taxes increase (tax on fuels was increased but with a system of tax drawback for public transport and transport of goods, inheritance tax increased) and creation of taxes (wage tax on public servants, retired and pensioners with 6 progressive bands starting from 6% tax for wages ranging from 841 to 1,200 yearly earned pesos, to a maximum of 15% to wages over 7,201 pesos; new tax on land and on lubricating oil) . - Imposition of transferring some of the cash from BSE, BROU, ANP and UTE to the national budget. By the end of 1933 the government applied a less orthodox fiscal policy characterized by the expansion of the public investment financed with credit provided by the BROU. The so-called *Ley de Revalúo* of August 14th, 1935 (Revaluation Law) helped the BROU to pursue this objective. - Suspension of amortization of the foreign debt on September 7th, 1931. Default.

Sectoral policy	- Creation on November 1933 of a strong production and price intervention scheme (support prices) for the agri-export sector (e.g. grain sector -wheat, maize, linseed-) through the regulatory boards (e.g. JRG) using the funds coming from the exchange differential in the official foreign exchange market. - Minimum five-year contracts for farm tenants and reimbursement for improvements they had made on farmed lands (1932). - Moratorium on farmer's debts (1933). - National Economic Action Plan (1933). - Argentina lacked an articulated plan of industrialization, but the National Commission for Industrial Promotion was created. - The protection was focused on 'infant' industry.	- Emphasis on the coffee and industrial sectors. - Contract of foreign loans to keep the coffee policy running. - Coffee Realization Loans (November 1929 and April 1930). - Relaxation of the coffee stock releases in December 1928, so that future prices fell. - After 1931 gradual liquidation of the coffee valorisation plan. - Bail-out to the coffee industry using funds from the Treasury. - Creation of the *Conselho dos Estados Produtores* on April 24th, 1931 to collect tax and administer the destruction of coffee. - *Programa do Reajustamento Econômico* enacted by Decree Nr. 23533 on December 1st, 1933 with the main objective of reducing by 50% all debts from the coffee producers before mid-1933 and re-contract at 10 years term with a reduction on the amortization initially contracted.	- Emphasis on industrial protection. - National Meat-packing plant (1928). - Extension of the law of 'industrial privileges' in 1930, among others. - Paternalistic state: creation of public monopolies such as ANCAP and UTE in 1931. - Reorganization of the methods of production and preparation of meat, taking into account the special requirements of European markets (1932). - By 1934-1935 the government started to implement generous policies towards the main supporters of the Terra's coup: the cattle farmers. Some of those measures were: the devaluation of 1935, reduction by 10% of the rural property tax, and the amortization of the loans contracted by cattle farmers was suspended, among others.

		- Selective protection was awarded to developing national industries through customs facilities for raw materials or equipment needed from abroad and exchange control. - Suppression of the interstate taxes in 1931 in order to foster business activities within the country.	

Annex III Great Depression vs. the Financial Crisis of 2008

Table 87 Comparison of the reactions of the ABU governments to the international crises

Argentina		
Policies	**Great Depression: 1928-1934**	**Financial Crisis: 2007-2010**
Trade policy	- Tariff increases (e.g. duty-free articles such as fuel oil, printed books, machinery and spare parts, heavy chemicals, among others, were to pay 5%-25%), tariff creation ('temporary' surtax of 10% ad valorem on practically all classes of dutiable goods) and import prohibitions (e.g. yerba mate). - Tariff exemptions to some countries (UK, Brazil, etc.) on foodstuffs, wood (e.g. South American white pine lumber) and machinery. - Tariffs revision in 1931-1932. - 'Beggar thy neighbour' and competitive devaluation. - Retaliations against some countries (e.g. against Brazil with the imposition of duties on rice and imposition of sanitary regulations on apples imported from the US). - 'Buy from those who buy from us'. - Increase of bilateralism, e.g. Roca-Runciman Treaty between Argentina and the UK and other bilateral agreements with Brazil, Germany and Uruguay, among others. - Barter or clearing agreements (e.g. Argentina-Germany).	- Import duties increase, tighter customs controls (via import licenses and import sworn declarations, among others) on import goods that are sensitive for national industry (e.g. textiles, footwear, metallurgical goods, white goods and motorcycles) and extensions of the deadlines for automatic advance import licenses. - Export financing and support: export duties (*retenciones*) reductions (e.g. on wheat from 28% to 23% and on maize from 25% to 20%). - According to Mercosur regulations member countries cannot negotiate independently with others but they can negotiate jointly. Main negotiation with the EU was resumed in 2010 and is still on going.
Exchange rate policy	- Suspension of the gold standard. - Imposition of exchange control. - Currency devaluation.	- Managed floating exchange rate. Since October 2011 imposition of exchange control over foreign currency. - Liquidity injections in foreign currency: agreement with China and Brazil to do swap operations in local currencies.
Monetary and financial policy	- Interest rates increase and then ex ante extremely high real interest rates were lowered. - Closure of the Currency Board. - Application of the Rediscount Law (rediscount of commercial papers from BNA) in 1931. - Creation of the BCRA in 1935.	- Interest rates contraction. - Reduction of the mandatory bank reserves in local currency. - Liquidity injections in national currency. - Measures introduced by AFIP, the BCRA and the National Securities Commission to discourage the flows of private and corporate capital to tax havens and offshore banks. - Capital flow controls.
Fiscal policy	- Contraction of public expenditure (discharges of government employees, cut of 10% on public wages) and taxes increase (e.g. internal post charges, tariffs), as well as the creation of new taxes (e.g. income tax, petrol tax, tax on transactions). But since the end of 1933 the government started to implement expansionary measures. - Authorization of the Patriotic Loan to finance the floating debt. - Conversion of the public debt - Default avoided.	- Increase of public expenditure (improvement in the expenditure distribution focusing on housing projects, hospitals, sewerage systems and roads) and abolishment of the AFJPs (Retirement and Pension Fund Management Companies). - Tax cuts or benefits and subsidy increases. - Extension of the tax incentives under the law promoting investment in capital goods and infrastructure works.

Sectoral policy	- Creation of a strong production and price intervention scheme (support prices) for the agri-export sector (e.g. grain sector -wheat, maize, linseed-) through the regulatory boards (e.g. JRG) using the funds coming from the exchange differential in the official foreign exchange market. - Minimum five-year contracts for farm tenants and reimbursement for improvements they had made on farmed lands. - Moratorium on farmer's debts. - National Economic Action Plan. - Argentina lacked an articulated plan of industrialization, but the National Commission for Industrial Promotion was created. - The protection was focused on 'infant' industry.	- Emphasis on industrial protection. - Loans for financing sales of motor vehicles and consumer durables. - Prefunding of exports and working capital. - Credit lines targeting competitive industry. - Creation of the Ministry of Production with departments of industry, commerce and SMEs, agriculture, livestock, fisheries and food, tourism and mining. - YPF expropriation (May, 2012).
Brazil		
Trade policy	- Tariff increases (e.g. duties on cotton yarns practically reached prohibitive levels, duties increase on jute and hemp and duties on other similar national products such as paper goods reached 300% ad valorem), introduction of a system of import licensing and import prohibitions (e.g. flour imports prohibited for 18 months in connection with the large-scale barter with the US). - Tariff reductions on several foreign products not considered as directly competitive or regarded as necessary to the economic life of the country (e.g. on textiles -raw cotton and corded cotton threads- and on equipment needed for the production of rubber products, alcohol, cellulose, among others.), tariff elimination on capital goods required for the production of cement, canned foods, glass, tires, etc., and application of tariffs which included a drawback clause for total or partial exemption of the taxes over raw materials incorporated in products for export. - Modification of the tariff system readjusting old duties, providing abatements of 20% on general tariff, of 35% on minimum tariff and of 100% (doubled) on general tariff as penal tariff (in 1932 and 1934). - ‘Beggar thy neighbour’ and competitive devaluation. - Retaliations against some countries (e.g. against France the imposition of a special rate of 120 milréis per kilogramme on serum and vaccine and increase of 25% on consumption tax on wines and foreign beverages. - Increase of bilateralism, e.g. trade agreements with Argentina, Uruguay and Sweden, among others. - Barter or clearing agreements (e.g. exchanging coffee for US wheat, Italian	- Import duties increase, import restrictions via import license requirements and controls over certificates of origin. The main affected sectors were: wheat, plastics, copper, aluminium, iron, capital goods, electrical and electronic material, and automobiles, among others. Controls against ‘dumping practices’. - Tariff reductions (temporary measure): reductions on tariffs of 306 products included in the 'ex-tariff' list (not competitive with local production) in order to make it cheaper to import capital goods and products in the electrical, paper and pulp, graphics, medical and hospital, automobile and electronics sectors, among others. - Export financing and support: use of foreign exchange reserves to finance exports, by reverse auction of bank securities to backstop foreign trade. Central Bank allowed the granting of foreign currency loans directly to private banks to finance foreign trade transactions, creation of a special line of credit for the BNDES to provide guarantees to exporters, among other measures. - According to Mercosur regulations member countries cannot negotiate independently with others but they can negotiate jointly. Main negotiation with the EU was resumed in 2010 and is still on going.

	aeroplanes and with German coal).	
Exchange rate policy	- Suspension of the gold standard. - Imposition of exchange control. - Currency devaluation.	- Managed floating exchange rate. - Liquidity injections in foreign currency: exchange swap auctions in order to provide liquidity to importers. - Agreement with the US Federal Reserve to establish a currency swap line for up to 30 billion dollars.
Monetary and financial policy	- Interest rates increase. - Closure of the *Caixa de Estabilização*. - Government contracted debt with *Banco do Brasil* and prohibited the foreign banks from overdrawing from their headquarters. - Monetary emission.	- Interest rates contraction but keeping them comparatively high. - Inflation target (4.5%). - Reduction of the mandatory bank reserves. - Liquidity injections in national currency. - Broader powers for the Central Bank to intervene in failing financial institutions. - Creation of an investment bank within the Federal Economic Fund to buy the stock of the real estate firms, as well as other sectors. - Agreement with Argentina to do swap operations in local currencies.
Fiscal policy	- Coffee *defesa* scheme as an expansionary policy. - Suspension of sinking fund payments on all foreign loans except the funding loans handled by Rothschilds. - Suspension of the payment of interest on the external debt.	- Increase of public expenditure (campaign to stimulate consumption and attempts at improving expenditure distribution focusing on infrastructure investments such as roads, railways, housing and so on). - In March 2009 public spending cuts of 11.11 billion dollars were announced affecting ministries. - Renegotiation of debts owned by majors' offices to the social security system, for periods of up to 20 years. - Tax cuts or benefits and subsidy increases. - After 2010, the fiscal policy has been more contractive.
Sectoral policy	- Emphasis on the coffee and industrial sectors. - Contract of foreign loans to keep the coffee policy running. - Coffee Realization Loan. - Relaxation of the coffee stock releases in December 1928, so that future prices fell. - After 1931 gradual liquidation of the coffee valorisation plan. - Bail-out to the coffee industry using funds from the Treasury. - Creation of the *Conselho dos Estados Produtores* to collect tax and administer the destruction of coffee. - *Programa do Reajustamento Econômico* with the main objective of reducing by 50% all debts from the coffee producers before mid-1933 and re-contract at 10 years term with a reduction on the amortization initially contracted. - Selective protection was awarded to developing national industries through customs facilities for raw materials or equipment needed from abroad and exchange	- Emphasis on boosting agricultural sector and industrial protection. - Creation of a guarantee fund for SMEs, for up to 1.75 billion dollars, among the creation of other funds with the same purpose. - Direct support of 6.47 billion dollars for the agricultural sector. - Improvement of the taxation system (e.g. income tax was eliminated on measures to promote exports and the government announced an integrated drawback scheme), public purchases and expansion of credit for the local industry. In particular expansion of borrowing capacity of PETROBRAS and BNDES to keep up planned investment levels. - Creation of a 440 million dollars guarantee fund for the maritime industry.

	control. - Suppression of the interstate taxes in 1931 in order to foster business activities within the country.	
Uruguay		
Trade policy	- Tariff increases (from 31% to 48% for goods competitive with the national industry, an increase of 25% on the official customs import values in 1932 and 40% for store haberdasheries, upholsteries and electricity goods in 1933), imposition of new duties on automobiles (which later was doubled), alcohol, cigarettes, spirits, fuels and bananas, consular fees increased to 2% ad valorem on tariffs, CNA allowed to apply import prohibitions (e.g. luxurious goods) and implementation of import quotas (1932 and enforced in 1934). - Tariff exemptions: several commodities demanded by industry and essential goods used by the lower classes were waived from this regime (e.g. tariff exemptions on machinery, spare parts, raw materials and industrial inputs). - Tariff reductions: reduction of 10% on the official customs import value for coal and 62% for fuels. - A 15% discount was granted if the goods imported originated in a country whose purchases favoured Uruguayan industry. - 'Beggar thy neighbour' and competitive devaluation. - 'Buy from those who buy from us'; seeking negotiations with countries with which Uruguay had a favourable trade balance. - Increase of bilateralism, e.g. trade agreements with Argentina, Brazil and the UK (Cosio-Hoare Agreement in 1935), among others. - Barter agreements with Germany and Italy.	- Import duties increase (tariff protection on specific segments of vehicle manufacture to be reviewed), import license authorization delays. Increase of the corporate income tax (IRAE) on imports of certain consumer goods, such as clothing and footwear. - Tariff reductions: IRAE reductions on imports of consumer goods and extension of tax-free imports of inputs for re-export (temporary admission). - Export financing and support: exporters could swap tax rebate certificates for cash through the BROU. Increase in rate for 180-day credits (from 1.78% to 2.78%, 2009) to pre-finance exports. Preferential rates for pre-financing of textile exports (regime extended to leather and automobile sectors). Additional 125 million dollars to help the banking system to fund investment projects and pre-finance exports. BROU's creation of a guarantee fund of 20 million dollars for exports to countries that classified as representing a non-payment risk. - According to Mercosur regulations member countries cannot negotiate independently with others but they can negotiate jointly. Main negotiation with the EU was resumed in 2010 and is still on going.
Exchange rate policy	- Suspension of the gold standard, creation of a commission to analyse the depreciation of the currency and imposition of exchange control (foreign firms banned from sending freely benefits abroad). - Multiple exchange rates. - Currency devaluation.	- Managed floating exchange rate. - Liquidity injections in foreign currency: early redemption in two stages of securities issued by the Central Bank, which offers the possibility of obtaining liquidity in local currency or dollars.
Monetary and financial policy	- Interest rates increase. - Contract of loans with the Hallgarten House of New York to stabilize and rectify the foreign exchange, among other purposes. - Enactment of the 'Economic and Financial Readjustment Plan' (1934).	- Interest rates contraction. - Inflation target (4%-6%). - Liquidity injections in national currency (e.g. measures by which tax rebate certificates can be swapped for cash through the Central Bank).

Fiscal policy	- Contraction of public expenditure (15% reduction from the ministries' operating expenses, 50% cut of public vacancies, suppression of several posts at the Ministry of War and Navy, 10% reduction on the remaining budgetary items), taxes increase (tax on fuels was increased but with a system of tax drawback for public transport and transport of goods, inheritance tax increased) and creation of taxes (wage tax on public servants, retired and pensioners with 6 progressive bands starting from 6% tax for wages ranging from 841 to 1,200 yearly earned pesos, to a maximum of 15% to wages over 7,201 pesos; new tax on land and on lubricating oil) . - Suspension of amortization of the foreign debt on September 7th, 1931. Default. - Imposition of transferring some of the cash from BSE, BROU, ANP and UTE to the national budget. By the end of 1933 the government applied a less orthodox fiscal policy characterized by the expansion of the public investment financed with credit provided by the BROU. The so-called *Ley de Revalúo* of August 14th, 1935 helped the BROU to pursue this objective.	- Increase in public expenditure and tax cuts or benefits and subsidy increases (bonus of 120% exemption from IRAE for investments made in 2009, manufacture of energy equipment 100% exempted from IRAE -then the rebate will be gradually lowered to 50% in 2018-, increase of VAT exemption from 75% to 100% for agricultural machinery, among others. - Cut of at least 5% in spending and investment by the government and public enterprises to balance the budget, as well as increase in specific domestic tax (IMESI) on cigarettes.
Sectoral policy	- Emphasis on industrial protection. - Enactment of a law of 'industrial privileges', among others. - Paternalistic state: creation of public monopolies such as ANCAP and UTE. - Reorganization of the methods of production and preparation of meat, taking into account the special requirements of European markets. - By 1934-1935 the government started to implement generous policies towards the main supporters of the Terra's coup: the cattle farmers. Some of those measures were: the devaluation of 1935, reduction by 10% of the rural property tax, and the amortization of the loans contracted by cattle farmers was suspended, among others.	- Emphasis on industrial protection. - Creation of a national guarantee system to facilitate access to credit for SMEs. - Increase in guarantee fund for SMEs' loans administered by the National Development Corporation and greater benefits for SMEs under the investment promotion law. - Measures to provide loans and support to the dairy sector and VAT exemption for acquisition of agricultural machinery (government evaluates to support metallurgical and wood sectors, among others, October 2011). - VAT and IRAE reductions on purchases of diesel and manufacturing inputs for the manufacturing sector, promotion of renewable energy equipment, authorization of swaps of tax rebates certificates and increase of the BROU's fund investment in industry, commerce and service provision with favourable rates and maturities.

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Curriculum vitae

Marcelo Esteban Gerona Morales is Uruguayan professional diplomat born in Buenos Aires, Argentina on April 21st, 1973. He graduated as a Cum Laude economist from the *Universidad Católica Andrés Bello of Venezuela* in 1996. He also holds two master degrees in International Relations from the *Facultad Latinoamericana de Ciencias Sociales*, FLACSO, Ecuador (2004), and in International Economics (International Trade Specialization) from the *Universidad de la República* (UdelaR - Uruguay) in 2000. He attended many courses and seminars, some of them in trade topics organized by the World Trade Organization in Washington and Geneva, as well as others specific to the diplomatic profession held in Beijing and Madrid. He speaks fluent Spanish (native), English and Portuguese (advanced level). As a diplomat, he was posted to Ecuador (2000 – 2006), the Netherlands (2008 - 2013) and Mexico (August 2015 to date), although he has also lived in Argentina and Venezuela. In September 2012 he was promoted to the rank of Minister Counsellor. He has experience in both multilateral and bilateral diplomacy. He wrote the book "El comercio de productos agrícolas en la OMC", Abya – Yala and FLACSO, Quito, Ecuador, 2005, and the articles 'Apostilla: por un Uruguay más eficiente', *Política Exterior del Presente*, AFUSEU, Montevideo, Uruguay, March, 2011, "El comercio exterior uruguayo y la presencia internacional: una mirada desde los indicadores de comercio", *Política Exterior del Presente*, AFUSEU, Montevideo, Uruguay, December, 2007, and "Una simulación de la dinámica de la seguriad social en competencia electoral", Facultad de Ciencias Sociales, *Universidad de la República*, Montevideo, Uruguay, 2001.

Silvana María Sosa Clavijo was born on November 10th, 1976, in Maldonado, Uruguay. She has a Degree in Economics (*Licenciada en Economía*) from the *Facultad de Ciencias Económicas y de Administración* of the *Universidad de la República* (UdelaR), Montevideo, Uruguay, in 2002. Her degree thesis *"Magnitud, naturaleza y evolución del comercio intraindustrial uruguayo en los últimos años"* was recommended for publication resulting in an article selected for the *XVIII Jornadas de Economía del Banco Central del Uruguay* in August 2003 in Montevideo, and a book published in 2011. She obtained a Master in International Trade and Finances in 2011 from the *Facultat de Ciències Econòmiques i Empresarials* of the *Universitat de Barcelona*, Barcelona, Spain, and her Master's degree thesis *"Transmisión y Efectos sobre América Latina de la Gran Depresión vs. la Primera Crisis Económica Global del S. XXI. Un Análisis Comparativo"* was approved with 'excellent' and was published in 2013. Furthermore, she has several postgraduate diplomas in: Foreign Trade and International Finances (2009), Foreign Trade and International Economics (2008), both of them from *Facultat de Ciències Econòmiques i Empresarials* of the *Universitat de Barcelona*, and Economic Local and Regional Development (2005) from *Facultad Latinoamericana de Ciencias Sociales* (FLACSO) in

Quito, Ecuador. She has worked as consultant and/or adviser in several international organizations such as the Inter-American Institute for Cooperation on Agriculture (IICA), the Southern Agricultural Council (CAS), the Agricultural Policy Coordination Network (REDPA) and the United Nations Development Programme (UNDP) in areas of agricultural policies, trade negotiations, agri-business, international finances and public management: highlighting her experience in international relations and diplomacy. Among her several publications one to stress is: *"Inventario de Políticas Agroalimentarias de Ecuador"* in *Inventario de Políticas para la Agricultura en la Región Andina*, IICA, 2006, Lima, Peru. In addition, she has been a lecturer on microeconomics, macroeconomics, research methodology and rural agro-tourism for the period 2003-2007 in Quito, Ecuador. She speaks fluent Spanish (native), English, and Portuguese, and she has a basic knowledge of French and Italian.

Summary

In this thesis Marcelo Gerona and Silvana Sosa undertook an analysis of the Great Depression (1928-1934) in a sample of three highly interconnected South American countries: Argentina, Brazil and Uruguay (ABU). The problem tackled by our research is the strong vulnerability of these three countries, in light of the current state of knowledge. Our hypothesis is that Argentina, Brazil and Uruguay were highly vulnerable to the Great Depression, and among them the smallest country was the most vulnerable of all.

In the Introduction the authors present the aim of the research, the hypothesis and the constituent elements of a new concept of complex vulnerability that are illustrated in Figure 1 of this thesis: the transmission channels of a crisis, the comprehensive concepts of 'power' and 'interdependence', the analysis of the gold standard ideology and the policies implemented by governments. The notions of core, periphery and semi-periphery from Immanuel Wallerstein's world-system analysis are introduced in order to shape and enlighten our wide definition of vulnerability. Also included are a general overview of the sources of information, the literature review, the objectives of the field trips made (London, Montevideo and São Paulo) and the key methodological and statistical shortcomings.

The remainder of the text is divided into three parts. Part One includes the chapters concerning the background of our research. Chapter II contains the conceptual framework that guides our work, including an economic description of the transmission channels of an imported crisis, as well as other concepts borrowed from the fields of international relations and international political economy. Chapter III comprises the historical framework of the Great Depression with a link to the financial crisis that broke out in 2008, the role of the key core countries, the 'contracting spiral of world trade', the defensive measures adopted worldwide and the impact of the crisis on Latin America. Chapter IV puts Argentina, Brazil and Uruguay in perspective by comparing the economies and structure of commerce between the periods 1928-1934 and 2007-2010 and revisiting the regional and worldwide significance of ABU. The results of the Herfindahl-Hirschmann index (HHI) suggest that ABU were more vulnerable to external real shocks during 1928-1934 than during 2007-2010, due to a higher concentration in terms of export goods and market destinations.

Then, Part Two describes the situation of Argentina, Brazil and Uruguay before the crash. Chapter V presents the general situation of Argentina, focused on its economy, its relatively high international standing, significant dependence on UK exports and capital flows, all in the framework of a turbulent political scenario that gradually would undermine the second presidency of the aging Hipólito Yrigoyen. Chapter VI addresses the general situation of Brazil at the sunset of the Old Republic, its strong underdevelopment, the influence of the gold standard thinking on policy, and the importance of the coffee economy and the coffee defesa scheme in the country. Chapter VII addresses the characteristics of the welfare State created by the batllismo led by José Batlle y Ordóñez in Uruguay, the role of state-owned

monopolistic entities and the strong vulnerabilities of the country due to its limited internal market and exposure to the swings of exports of raw wool and meat.

Part Three constitutes the core of the research as in it we seek to analyse the complex vulnerability of the three countries. Chapter VIII explores the increased political difficulties in Argentina which led to the military coup of Uriburu in 1930, followed by the Justo government after 1932; the political process that led to the coup of Getulio Vargas in 1930 in Brazil; and the tensions within the executive power in Uruguay that led to the coup of Terra in 1933. One conclusion is that the external shock and the political outcomes were correlated, at least in the short and medium-term. The internal struggle for power among pressure groups was determinant to the final political outcome. Chapter IX analyses the transmission of the crisis from the core and concludes that even though the degree of trade concentration, along with a better fiscal profile a priori suggested that Uruguay was not among the most vulnerable countries from the three, the actual figures of trade and contraction in economic activity tell that this perception was not accurate. Meanwhile, in Brazil trade vulnerability did not translate in full extent into trade contraction. One possible reason for this outcome is that the main destination of its coffee, the US, did not use all its leverage as much as it could to turn Brazilian policies around.

Chapter X addresses the role of the gold standard ideology. Although Brazil delayed its decision, the three countries chose to depart early from the gold standard. They all established instead exchange control systems and also strongly devalued their national currencies. These measures contributed to reducing the countries' vulnerabilities to the worldwide deflationary forces. Chapter XI explains the policies applied to mitigate the negative impact of the crisis. The conclusion is that all three countries applied heterodox policies, but with differences in timing. The main ones in Argentina were the imposition of exchange control, the price support schemes for grains, the use of regulatory boards and the creation of a Central Bank in 1935; and in Uruguay stronger government intervention through the use of state owned monopolies and a complex mechanism of exchange control. Brazil represents a paradigmatic example of vulnerability to a single staple, but paradoxically, the coffee defesa scheme was also a sort of countercyclical policy. In the three cases the thinking of the incumbent governments was increasingly interventionist, in line with a rising path for import substitution industrialization policies. Chapter XII presents the influence of the patterns of complex interdependence that linked each country to the world-system. The conclusion is that taking into account the strong links of Argentina and Uruguay with the UK and the relative autonomy of Brazil, the latter was less vulnerable to the changes of policies of the main trading partners. However, the world-system still prevailed and limited the options of the governments. In Chapter XIII we make a link to the recent past by comparing the Great Depression of 1929 with the Financial Crisis of 2008. Despite the analogies between the two downturns, governments in the recent case implemented faster and sharper fiscal and monetary policies than in the thirties: a reason why the worldwide contraction was milder in 2007-2010. The role of new emerging markets and multilateral institutions are also highlighted.

Finally, and always taking into account each of the elements that shape the concept of complex vulnerability, some concluding remarks are presented, focused on the experience of Uruguay as the smallest country. Regarding the transmission of the crisis, this thesis shows that the trade and economic contractions arrived late to Uruguay, but both were strongest there. Thus, the soundest economic fundamentals were not enough to prevent a hard landing. Moreover, in spite of the abandonment of the gold standard, the country was influenced by the idea of linking the money supply to the gold holdings, limiting the role of monetary policy. Regarding policies, beyond the exchange control and suspension of the payment of the foreign debt, the government lacked the resources available to Argentina or Brazil to apply counterbalancing policies to smooth the cycle in key economic sectors. And with respect to patterns of power and interdependence, Uruguay was not a priority to major and even regional powers, so that it could not negotiate effectively and in a timely manner better access for its key staples in times of hardship. Finally, in spite of its strategic position in a semi-peripheral region, Uruguay was less capable of improving its hierarchy in the world-system as compared with Brazil, for example. Thus, it is concluded that even though Uruguay held an important stock of foreign reserves, the government finances were a priori less dependent on foreign trade taxes, and its exports were not the most concentrated if compared with its neighbours, this country was nevertheless the most vulnerable of the three if a concept of complex vulnerability as proposed in this thesis is applied. Thus, our research leads the authors to confirm the hypothesis.

Samenvatting

In dit proefschrift voeren Marcelo Gerona en Silvana Sosa een analyse uit van de mate van onderlinge verbondenheid tijdens de Grote Depressie (1928-1934) van drie Zuid-Amerikaanse landen: Argentinië, Brazilië en Uruguay (ABU). Ze onderzoeken de grote kwetsbaarheid van deze drie landen aan de hand van recente wetenschappelijke inzichten. De hypothese is dat ABU bijzonder kwetsbaar waren voor de Grote Depressie, en dat dit in extreme mate gold voor het kleinste land, Uruguay.

In de inleiding presenteren de auteurs het doel van het onderzoek, de hypothese en de samenstellende elementen van een nieuw concept van complexe kwetsbaarheid die zijn weergegeven in Figuur 1 van dit proefschrift: de transmissiekanalen van een economische crisis, de omvattende concepten ‘macht’ en ‘interdependentie’, de analyse van de ideologie van de gouden standaard en het overheidsbeleid in de drie landen. De begrippen kern, periferie en semi-periferie van Immanuel Wallersteins wereldsysteem analyse worden geïntroduceerd om de gehanteerde brede definitie van kwetsbaarheid vorm te geven en te belichten. Het proefschrift bevat ook een algemeen overzicht van de informatiebronnen, het literatuuronderzoek, de doelstellingen van het uitgevoerde veldwerk (London, Montevideo en São Paulo) en de belangrijkste methodologische en statistische tekortkomingen.

De rest van de tekst bestaat uit drie delen. Het eerste deel betreft de hoofdstukken over de achtergrond van het onderzoek. Hoofdstuk II omvat het leidende conceptuele kader, inclusief een economische beschrijving van de transmissiekanalen van een geïmporteerde crisis, naast andere concepten die zijn ontleend aan de leer der internationale betrekkingen en de internationale politieke economie. Hoofdstuk III bestaat uit het historische kader van de Grote Depressie met een link naar de financiële crisis van 2008, de rol van de belangrijkste kernlanden, de ‘neerwaartse spiraal van wereldhandel’, de defensieve maatregelen die wereldwijd werden ingevoerd en de impact van de crisis op Latijns-Amerika. Hoofdstuk IV plaatst ABU in een onderling vergelijkend perspectief aan de hand van de economische en handelsstructuren in de periode 1928-1934 en 2007-2010 en biedt een herinterpretatie van de regionale en wereldwijde betekenis van de ABU. De resultaten van de Herfindahl-Hirschmann-index (HHI) suggereren dat ABU kwetsbaarder waren voor externe schokken in 1928-1934 dan in 2007-2010 als gevolg van een hogere concentratie van uitvoer en afzetmarkten.

Deel twee beschrijft vervolgens de situatie in ABU voor de crash. Hoofdstuk V geeft de algemene situatie van Argentinië weer, met een focus op de economie, de relatief goede internationale reputatie, de aanzienlijke afhankelijkheid van de Britse uitvoer en kapitaalstromen, tegen de achtergrond van een turbulente politiek situatie die geleidelijk het tweede presidentschap van de verouderende Hipólito Yrigoyen zou ondermijnen. Hoofdstuk VI richt zich op de algemene situatie van Brazilië in de nadagen van de Oude Republiek, de sterke onderontwikkeling, de invloed van de ideologie van de gouden standaard op het overheidsbeleid, en het belang van de koffie-economie en de zogenoemde defesa regeling voor koffie. Hoofdstuk VII richt zich op de kenmerken van de verzorgingsstaat die was ingevoerd door het batllismo onder aanvoering van José Batlle y Ordóñez in Uruguay, de rol van monopolistische entiteiten in handen van de staat en de grote kwetsbaarheden van het land als gevolg van de beperkte interne markt en blootstelling aan schommelingen in de uitvoer van ruwe wol en vlees.

Deel drie vormt de kern van het onderzoek, waarin de auteurs de complexe kwetsbaarheid van de drie landen analyseren. Hoofdstuk VIII verkent de toenemende politieke moeilijkheden in Argentinië die leidden tot de militaire staatsgreep van Uriburu in 1930, gevolgd door de regering Justo na 1932; het politieke proces dat leidde tot de staatsgreep van Getulio Vargas in 1930 in Brazilië; en de spanningen binnen de uitvoerende macht in Uruguay die uitmondden in de staatsgreep van Terra in 1933. Een van de conclusies is dat de externe schokken en deze politieke uitkomsten samenhingen, althans op de korte en middellange termijn. De interne strijd tussen de belangengroepen om de macht was bepalend voor de uiteindelijke politieke uitkomst. Hoofdstuk IX analyseert de transmissie van de crisis vanuit de kern. De conclusie luidt dat hoewel Uruguay op grond van de mate van handelsconcentratie en het gunstigere fiscaal profiel a priori niet tot de meest kwetsbare van de drie landen lijkt te behoren, de handelscijfers en de gegevens over de krimp van de economie dit beeld ontkrachten. In Brazilië daarentegen vertaalde de kwetsbaarheid van de handel zich niet in het volledig inkrimpen van de handel. Een mogelijke verklaring hiervoor is dat de Verenigde Staten, de belangrijkste afnemer van Braziliaanse koffie, niet hun maximale invloed gebruikten om het Braziliaanse beleid te veranderen.

Hoofdstuk X richt zich op de rol van de ideologie van de gouden standaard. Hoewel Brazilië hiertoe iets later besloot, kozen alle drie de landen al vroeg voor het verlaten van de gouden standaard. In plaats daarvan introduceerden ze valutacontroles en gingen over tot forse devaluaties van de nationale munt. Deze maatregelen droegen bij aan het verminderen van hun kwetsbaarheid voor wereldwijde deflatoire krachten. Hoofdstuk XI legt het beleid uit dat werd uitgevoerd om de negatieve impact van de crisis te verzachten. De conclusie luidt dat alle drie de landen een heterodox beleid toepasten, maar dat de timing ervan verschilde. In Argentinië vormden valutacontroles, subsidieregelingen voor granen, het instellen van toezichthouders en het oprichten van een centrale bank in 1935 de voornaamste beleidsmaatregelen; in Uruguay ging het om stevig overheidsingrijpen via staatsmonopolies en een complex deviezencontrolemechanisme. Brazilië is een paradigmatisch voorbeeld van kwetsbaarheid als gevolg van afhankelijkheid van een enkel hoofdproduct, maar paradoxaal genoeg had de defesa regeling voor koffie ook een soort anticyclisch beleidseffect. In alle drie de landen omarmden de zittende regeringen in toenemende mate het interventionistisch gedachtegoed dat hoorde bij de opmars van het beleid voor importsubstitutie als onderdeel van de industrialisatiestrategie. Hoofdstuk XII toont de invloed van patronen van complexe interdependentie die de landen verbonden met het wereldsysteem. Met inachtneming van de sterke banden van Argentinië en Uruguay met het Verenigd Koninkrijk en de relatieve autonomie van Brazilië, luidt de conclusie dat dit laatste land minder kwetsbaar was voor veranderingen in het beleid van zijn belangrijkste handelspartners. Niettemin had het wereldsysteem nog steeds de overhand en beperkte de mogelijkheden van regeringen. In hoofdstuk XIII wordt het verband gelegd met het recente verleden aan de hand van een vergelijking van de Grote Depressie van 1929 met de Financiële Crisis van 2008. Ondanks de overeenkomsten tussen beide recessies, was een groot verschil dat de regeringen in 2008 veel sneller en gerichter overgingen op fiscale en monetaire beleidsmaatregelen dan in de jaren dertig, waardoor ook de wereldwijde recessie milder was in de jaren 2007-2010. In dit hoofdstuk wordt ook ingegaan op de rol van de nieuw opkomende markten en multilaterale instellingen.

Tot slot, en steeds rekening houdend met elk van de elementen die het concept complexe kwetsbaarheid vormgeven, worden enkele conclusies gepresenteerd over de ervaring van Uruguay als kleinste van de drie landen. Ten aanzien van de transmissie van de crisis laat dit proefschrift zien dat de krimp van de handel en de economie later optrad in Uruguay, maar in dit land ook het sterkst was. Het toont aan dat zelfs de meest solide economische fundamenten niet genoeg waren om een harde landing te voorkomen. Bovendien werd het land ondanks dat de gouden standaard werd verlaten toch beïnvloed door het denken over een vaste koppeling van de geldhoeveelheid aan goudreserves. Dit beperkte de rol voor het monetaire beleid. Afgezien van deviezencontroles en opschorting van de aflossing van buitenlandse schulden ontbrak het de overheid ook aan de corrigerende beleidsinstrumenten waarover Argentinië of Brazilië wel beschikten om de cyclus in de belangrijkste economische sectoren te verzachten. Voor grote of zelfs regionale machten vormde Uruguay geen prioriteit, waardoor het er al evenmin in slaagde om in economisch slechte tijden betere markttoegang voor zijn belangrijke exportproducten uit te onderhandelen. En ten slotte slaagde Uruguay ondanks zijn strategische positie in een semi-perifeer gebied er minder goed in zijn hiërarchische positie in het wereldsysteem te verbeteren, bijvoorbeeld ten opzichte van Brazilië. Deze factoren leiden tot de conclusie dat hoewel Uruguay beschikte over een belangrijke voorraad buitenlandse reserves, de overheidsfinanciën a priori minder afhankelijk waren van invoerheffingen en de concentratie van de uitvoer in vergelijking met de buurlanden niet het hoogst lag, het toch het meest kwetsbaar was volgens de maatstaven van het concept complexe kwetsbaarheid dat in dit proefschrift wordt gehanteerd. Hiermee bevestigt het onderzoek de hypothese van de auteurs.