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The great depression in Argentina, Brazil and Uruguay: revisiting vulnerabilities and policies

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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 states⁵⁴³. 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-elasticity⁵⁴⁴. 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 tariffs⁵⁴⁵. 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 1930-1931⁵⁴⁶, 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 demand⁵⁴⁷.

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,

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 1931⁵⁴⁸. 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 goods⁵⁴⁹. 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 directly⁵⁵⁰, while until then the tax regime was based exclusively on indirect taxes on goods and services⁵⁵¹. The importance of the new tool in the fiscal performance was validated in 1933 with an extension of the income tax⁵⁵². 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 conservatives⁵⁵³. 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 revenues⁵⁵⁴.

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 affected⁵⁵⁵.

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 markets⁵⁵⁶. 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 1929-1933⁵⁵⁷. 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.

foreigners⁵⁵⁸. 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 debt⁵⁵⁹.

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,

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 debt⁵⁶⁰. 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 past⁵⁶¹. 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 implementation⁵⁶².

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 loans⁵⁶³ 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 market⁵⁶⁴. Secondly, the bondholders were prepared to accept a lower return on their bonds when a present date was taken as the basis for amortisation payments⁵⁶⁵. 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 budget⁵⁶⁶. Furthermore, the government opted for publishing periodically the state accounts in the federal budget. On the other hand, reflecting on

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 revenue⁵⁶⁷. 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 companies⁵⁶⁸. 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 competitive⁵⁶⁹. 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 notably⁵⁷⁰, 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 activities⁵⁷¹. 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 years⁵⁷². 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 Decree⁵⁷³ 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 creation⁵⁷⁴ 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 suppliers⁵⁷⁵. 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 crops⁵⁷⁶. 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 farmed⁵⁷⁷. 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 Gravi (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 linseed⁵⁷⁸ 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 1933⁵⁷⁹. 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 year⁵⁸⁰ and a new terminal elevator with a capacity of 80,000 tons that was constructed by the Buenos Aires Great Southern Railway Company⁵⁸¹. 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 linseed⁵⁸². 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 Loan⁵⁸³. 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 Loan⁵⁸⁴, 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 plants⁵⁸⁶. In addition to the JNC, in 1934 *Juntas para Promover Exportaciones de Carne* (Boards for Promotion of Meat Exports) were established⁵⁸⁷. 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, autonomous 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 policies⁵⁹⁴, 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 collapsed⁵⁹⁵. 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,

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 exchange⁵⁹⁶. 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 bags⁵⁹⁸, so that the value of the coffee stocks accounted for more than 10% of the GDP⁵⁹⁹. 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 mil-réis⁶⁰⁰. 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 mil-réis to 200 mil-réis per bag during the second half of 1927

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 juncture⁶⁰¹:

- 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 hold⁶⁰². 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 1928⁶⁰³. 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).

troubles⁶⁰⁴. 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 Rothschilds 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 markets⁶⁰⁶. 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 milréis⁶⁰⁷.

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 Brothers⁶⁰⁸. 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 coffee⁶⁰⁹. However, in May the federal government created the *Conselho Nacional do*

⁶⁰⁷ See partial translation of Decree Nr. 18,688, 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 1- 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 Redescuento* 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 contos⁶¹¹. 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 Finance⁶¹². 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 contracted⁶¹⁴, in line with debt-lifting policies also applied in Argentina and Uruguay in 1933-1934. For that purpose, the *Câmara 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 banks⁶¹⁵.

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

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 revolution⁶¹⁷. 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 issues⁶¹⁸.

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

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 need 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 skipped⁶²⁰.

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 identify 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 situation⁶²¹.

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,

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 year⁶²².

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 Rothschilds⁶²³. A few days later, the Brazilian government suspended the payment of interest on the external debt⁶²⁴. 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 loans⁶²⁵. 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 1931⁶²⁶. On October 17th 1931, a funding loan was officially communicated⁶²⁷, 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 Marquess 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 contractuales*) 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 debt⁶²⁸. 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 accurately⁶²⁹. 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 stocks⁶³⁰.

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 useful⁶³¹. 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 1/8 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 market⁶³². 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 milréis⁶³³.

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

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 hand⁶³⁴.

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 1924⁶³⁵. 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 issue⁶³⁶. 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 increased⁶³⁷. 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 created⁶³⁹.

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 1932⁶⁴⁰. 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 Revaluación* (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 backing⁶⁴¹. 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 standard⁶⁴². 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 pensions⁶⁴³. 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 suspended⁶⁴⁴. 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

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 dynamism⁶⁴⁵. 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 pursuits⁶⁴⁶.

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 activity⁶⁴⁷. 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 standards⁶⁴⁸. 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 industry⁶⁴⁹, 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 scenario⁶⁵⁰. 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 measures⁶⁵¹. 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 Mexico⁶⁵², 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.

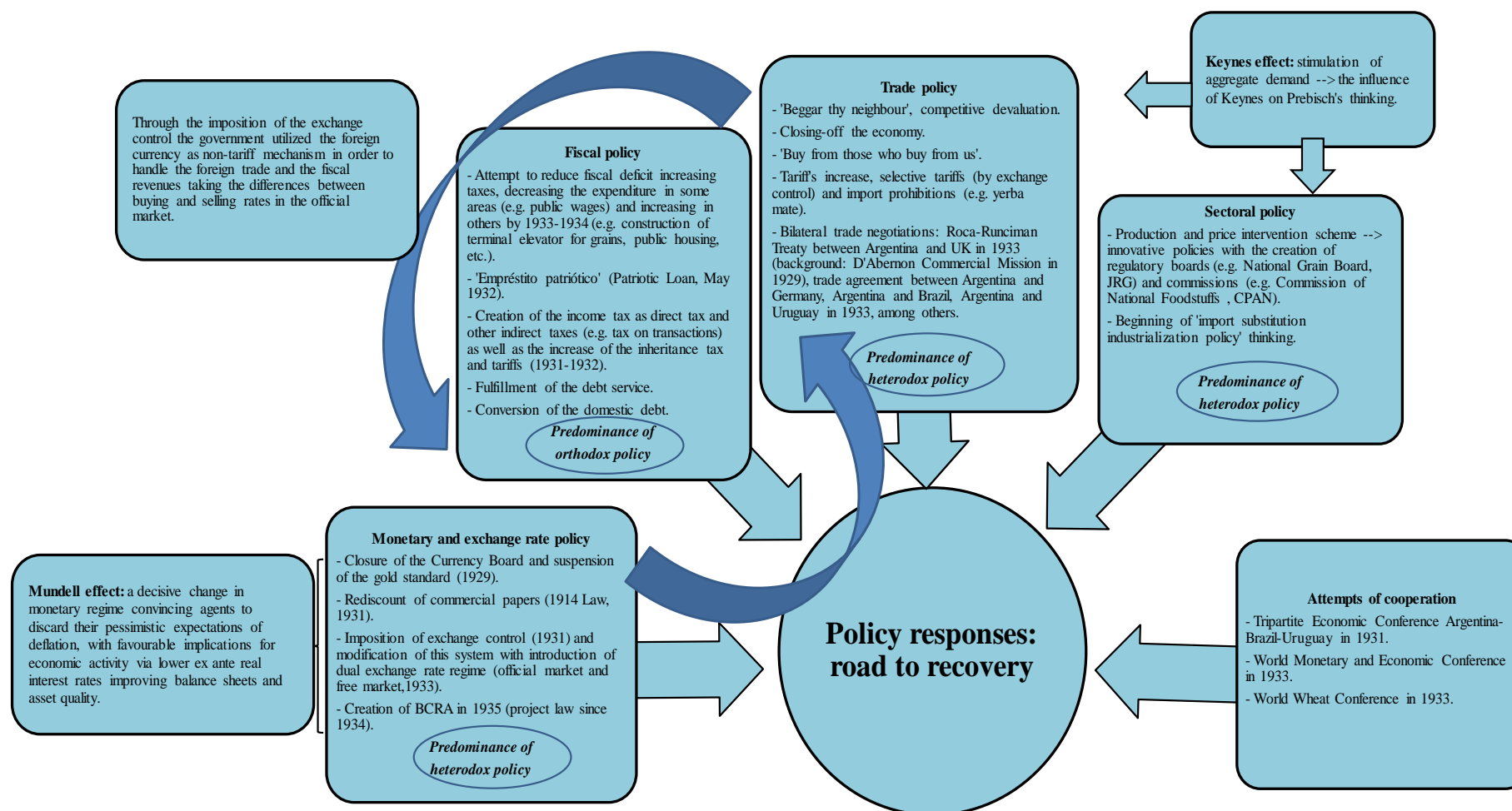
public servant wages). And it did not have the advantage of Brazil which counted on its coffee *defesa* scheme as a countercyclical policy to smooth the economic contraction.

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' nickname⁶⁵³. 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.