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

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Citation

Gerona Morales, M. E., & Sosa Clavijo, S. M. (2015, October 1). *The great depression in Argentina, Brazil and Uruguay: revisiting vulnerabilities and policies*. Retrieved from <https://hdl.handle.net/1887/35598>

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

Issue Date: 2015-10-01

XIII. A link to the present, the Great Depression vs. the Financial Crisis of 2008

In this last chapter, we find it useful to make a link to our contemporary experience, so that we can obtain a better perception of the real magnitude of the Great Depression. We already made a connection in sections of Chapter III and Chapter IV, but that was from a more statistical point of view. In this chapter, we focus on the differences between the Great Depression and the Financial Crisis of 2008 using a more qualitative approach.

When the Financial Crisis of 2008 deepened and its shockwaves were transmitted through highly globalized commercial and financial linkages, every country in the world felt its consequences. Certainly, the least we can say now is that it has been a 'great' recession which marked the end of the 2003-2007 cycle. It was the most expansive in the world economy in forty years, and possibly the beginning of a lost decade of low and erratic growth worldwide, especially in the developed world. The outbreak of the international crisis during the second half of 2008 brought memories of the thirties. Actually, both crises broke out in the US in a context of intense speculation, with the burst of an asset price bubble and from there spread on to other sectors and countries, resulting in a global financial system crisis that was fuelled by the lack of financial regulation and the irrationality of markets seeking profits regardless of the costs and moral hazards at stake, as well as the economic instability in Europe.

Nowadays, these economic pathologies are aggravated by a financial system that is markedly different from the thirties, because the volume of transactions is much greater, the international interconnectedness of financial entities is deeper and the opacity of the system has reached levels never seen before. However, as we have seen, the gold standard's 'Midas touch' that paralyzed the world economy during the early thirties is nowadays only a matter of historical research. As Temin (1993) argues, the economic downturn of the thirties was transmitted internationally by a gold standard ideology, a mentality which entailed that external balance was the priority and that the speculation beneath the booming stock market in New York was dangerous. This mentality meant difficult choices for governments. In line with Irwin (2012), a complicated trilemma of economic policies existed in maintaining the gold standard parity, independent monetary policy, and open trade when severe protectionism was applied worldwide.

By contrast, the state of knowledge and the intellectual framework are clearly different now. In the antipodes of the gold standard orthodoxy, as Eichengreen & Irwin (2009b) assert, the message for today would be 'to avoid protectionism, stimulate'. But, even though in the present day there is no open trade war, the expression 'beggar thy neighbour' sounds old fashioned and restrictive trade policies are considered destructive and counterproductive, we witness a 'new protectionism'. Or, as Baldwin & Evenett (2009) state, there is a 'murky protectionism', reflected, for example, in stimulus packages that provide for the allocation of spending to domestic producers.

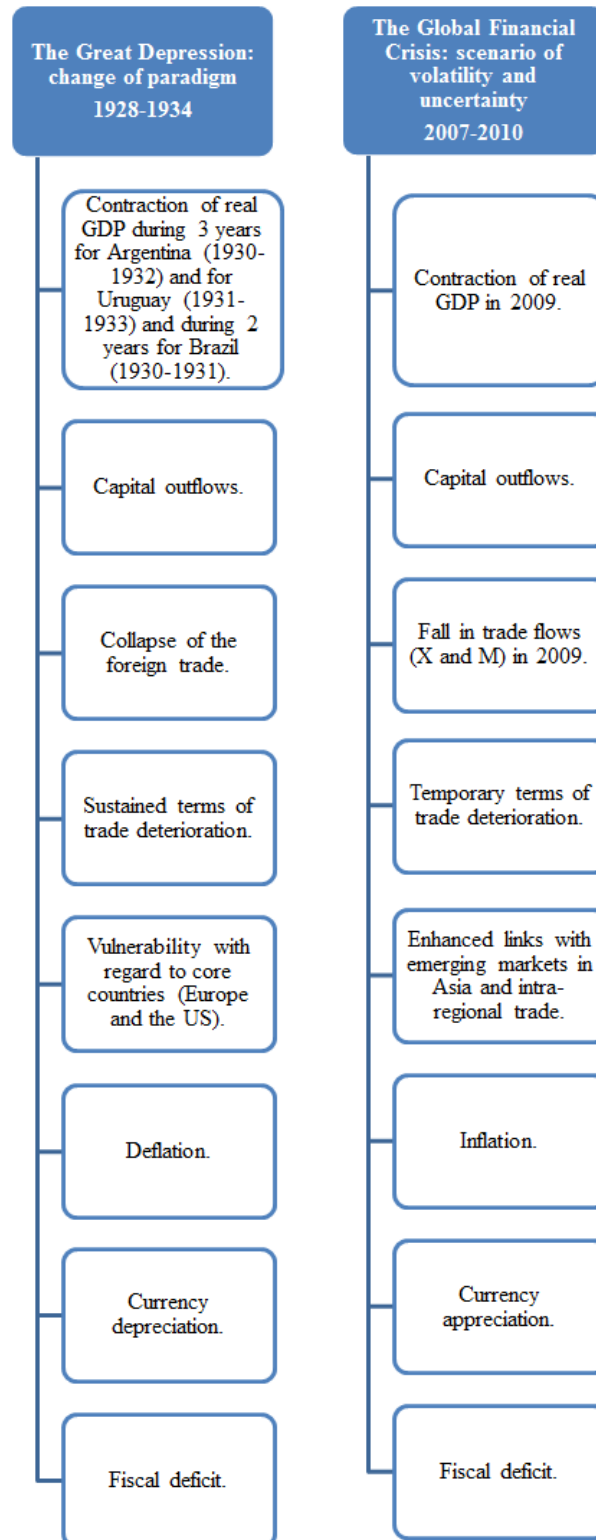
However, during the first half of the thirties the Keynesian theory was not still totally developed. Fiscal stimulus was neither well understood nor generally accepted and, in fact, 'stimulus' meant monetary stimulus translated in currency expansion that could cause serious inflation. Thus, fiscal or monetary expansions were practically prohibited words and for that reason, whenever countries needed to implement expansionary measures, they tended not to confess them. Nowadays, when we refer to 'stimulating the economy' that means also fiscal stimulus that in principle is more beneficial in terms of less incentive to trading partners to respond in a protectionist way. Nevertheless, policies in one country tend to affect others in the interconnected world of today, whereas also integrated markets play a key role, so that countries more than ever need to coordinate their fiscal and monetary measures to prevent the sort of negative global outcomes of the thirties.

In Latin America, unlike the interwar period, during 2003-2007 there was a relieving combination of financial boom, rising commodity prices, high level of remittances from migrant workers and the steady buoyancy of the biggest Asian economies, a situation that translated into unprecedented economic growth. As a consequence, most of the countries including ABU had achieved a reasonable level of foreign reserves and a lower external debt, so that they were better positioned at the outbreak of the crisis. As far as the transmission to the region is concerned, the first phase of the crisis was felt in the third quarter of 2007, when the abundant funding fell. However, the region managed to isolate itself from the financial crisis, and therefore there were no significant or long lasting runs on currencies or debt crisis as in the past. In opposition, during the twenties commodity prices were under pressure from overproduction after the First World War and plunged frequently. In this context, since 1928 Latin America experienced the hardships produced by the sudden outflow of foreign capital loans that had previously allowed them to meet payment imbalances and to develop industries, as well as infrastructure. As the 'dance of the millions' ended, international reserves came under pressure and currency runs were frequent, so that devaluations and exchange controls were unavoidable. Also the high external indebtedness became excessive for many countries, so that by 1931 sovereign debt and municipal defaults were widespread. Indeed, all these factors can explain why the contraction was so serious during the Great Depression.

Our analysis suggests that the current downturn has not been far reaching in ABU. Therefore, even though the crisis after 2008 can be characterized as 'global', it cannot be described as a depression for these three countries during the period under analysis. However, that being said, we are aware that at the time of writing this work the crisis had not ended yet, it only entered

into a new stage of slowing demand, as the Financial Crisis of 2008 turned into a sovereign debt crisis in Europe in 2011, with the potential of rebounding in China and other emerging markets, including ABU. Without prejudice to this, in Figure 25 we mirror the main characteristics of the impact of both crises on ABU, which in general terms corresponds to the Latin American experience.

Figure 25 ABU: Comparison of the impact



For our period of analysis 2007-2010 and even though it is not possible to rule out future wave shocks, we have to conclude that the contraction or the slowing down of the growth of real GDP of ABU was evident only in 2009 and consequently that the Great Depression was stronger in magnitude and longer lasting. Here it is interesting to note that the evidence gathered in our research tends to point out that during the thirties Uruguay was the country hardest hit by the Great Depression and Brazil was the one suffering a lesser impact, while during the Financial Crisis of 2008 the scenario was quite the opposite. This argument confirms our hypothesis that although ABU were highly vulnerable to the Great Depression, the smallest country was the most vulnerable of all.

In addition, in both episodes ABU suffered capital outflows and decreased access to financial system (financial contagion), as well as a high degree of uncertainty. However, the contraction of the figures of foreign trade, then and now, demonstrates the continuous validity of the historical great dependence of the region on commodity prices. Indeed, the real transmission belt was the most important in both compared crises, a feature evidenced by the reduced external demand and changes in relative prices of exports, both of which resulted in a terms of trade deterioration. While only in 2009 the large economies of Argentina and Brazil had export contractions of around 20% and Uruguay 9.5% in relation to the previous year; by 2010 the levels of 2007 had already been surpassed.

By contrast, during the thirties ABU's foreign trade collapsed in the range 30%-40%, without reaching pre-crisis levels by 1934. In this regard a key factor was the difference in the contraction of international commodity prices. While by 1932 those prices were in the range of 50%-70% below 1928 levels, in 2009 they fell by 15%-30% against the previous year. Moreover, practically there was no average contraction during the whole period of 2007-2010. Thus, the importance of the real transmission during both events is demonstrated by the positive correlation between the slump in real GDPs and the foreign trade drop verified for each country. Regarding this, the case of Brazil during the thirties is a paradigmatic example of vulnerability to a single staple, because the Great Depression amplified the pre-existing structural flaws of the coffee policy, creating a perfect storm of overproduction and deteriorating market conditions that altogether made foreign receipts collapse, along with the broader economy.

In Chapter IV we presented calculations of the Herfindahl-Hirschmann index (HHI) for the periods 1928-1934 and 2007-2010. During the latter we found that ABU display a lower concentration in terms of export products and destination markets, and this evidence is stronger in the case of Brazil, somewhat less for Argentina and in the case of Uruguay the concentration has not changed much. As for the composition of those exports, we detected that these countries have had important changes in the structure of their export basket, although the natural resource intensive goods -mainly foodstuffs and primary commodities- are still important and even determinant as a source of vulnerability after eighty years.

In this regard, according to Prebisch's thinking, it is demonstrated that the great inequalities between countries at the centre producing manufactures and these countries producing basic commodities at the periphery are at the root of their relative underdevelopment. Throughout the thirties most of the main export products of ABU were agricultural, but now energy and mining

products are also significant in the export basket. That is a key element because, as warned by ECLAC (2009b), in 2009 the mining and petroleum goods were among those hardest hit by the contraction. And for the largest economy, Brazil, it certainly nowadays produces relatively more industrial goods than in the past. By contrast, Uruguay, with its narrow internal market but advantageous geographical position, is the country that changed less significantly the composition of its mostly agricultural export produce, although now the addition to its basket of soya and its by-products and pulp of wood have invigorated its economy. Moreover, and although in this regard the situation is changing fast, Uruguay was still dependent on imports of energy for our period of analysis, so that the evolution of international prices of petroleum and natural gas has a strong impact on its balance of payments. Because of this, the contraction of energy prices in 2009 was paradoxically a positive element that contributed to softening the cycle in that country. Using Díaz Alejandro's well known expression, the 'commodity lottery' is still playing a key role in the economic fate of ABU, but nevertheless they are nowadays less vulnerable than in the past because their export basket is more diversified.

With regard to destination markets, ABU used to be much more dependent on countries that played the leading role in the Great Depression. The UK, the US and Germany were among ABU's main trading partners during that period and that fact explains why the transmission of the contraction was so efficient. Meanwhile, nowadays ABU are more dependent on the region (e.g. Mercosur, Chile, Peru, Colombia, etc.) and the Asian emerging markets (e.g. China). The UK, a major trading partner during the thirties, represented in 2009 a market share in ABU of no more than 3% and was not even ranked among the main trading partners. Even the US, at the epicentre of the Financial Crisis of 2008, lost relative presence in these countries, along with Germany.

Indeed, until 2010 China was gradually acquiring the role of 'locomotive' in the region from the US. It is clear that the sustained Chinese demand of exports from the region had a shock-absorbing effect when the crisis spread to ABU from the US and Europe. As Steneri (2011) argues, the increasing weight of China in the region has had macroeconomic implications of various types. Firstly, it has prompted the appreciation of the real exchange rate determined by a growing demand. Secondly, it has entailed a change in the foreign trade structure, skewing towards the export of foodstuffs and natural resources. Thirdly, it has promoted a process of deindustrialization because of the difficulties in competing with Chinese production in a wide range of goods ranging from light industry to sophisticated industrial segments, such as vehicles and automotive spare parts. Moreover, the relative advantages offered by the Asian business environment, along with a lack of competitiveness, mean a real challenge. Even for the biggest Latin American economies a real danger is the migration of industries to Asia as happened before with several developed countries, including the US. Nowadays, the region, directly or indirectly, specializes in exporting raw materials, while a significant share of its imports are final goods of Chinese origin. Thus, using some of the concepts of Prebisch's theory and Wallerstein's analysis, these changes prompted by China have undermined the opportunities for development of the region via diversification and industrialization of their export baskets. Therefore the role of the State to counteract this trend with the suitable policies has turned into a

key element. Definitely, China is the raising star among semi-peripheral countries that have been able to translate that condition into a better position in the world-system hierarchy.

ABU have diversified market destinations but depend more on the region and Asian countries; therefore the UK and the US no longer have the same power of cycle transmission to ABU as during the interwar period. This reduced vulnerability in relation to these particular markets may explain in part why the transmission of the crisis from the traditional core countries has not been so strong to ABU. With no doubt, the structural trend is that countries such as China and India are consolidating an important role in ABU in the fields of production, international trade, foreign direct investment and international reserve holdings, along with a gradual internationalization of their companies. Thus, the outcome of the Financial Crisis of 2008 in ABU, unlike during the thirties, can be linked to the sustained growth in China. Recalling Wallerstein's analysis, it is possible to assert that while the three economies continue to be vulnerable to certain destination markets and Brazil has achieved a better positioning in the world-system, the semi-periphery of the thirties have shifted somehow eastwards towards a sort of Chinese-dependence of the Latin American region. These developing countries have suffered structural crises because of the changes in the world-system as a common feature of the historical process of capitalist development. It is important to recall how the world-system has extended geographically and intensified economically, and the hegemon status has passed from the UK to the US in the nineteenth century and nowadays from the US to a more multipolar world.

Certainly, we have three different macroeconomic realities during 2008-2010. Argentina with a worrying inflation level; Brazil with high interest rates and an overvalued local currency; and Uruguay, a small country in the middle of two big countries with macroeconomic stability at risk, interested in reducing the impact of the asymmetries within Mercosur. As a response to the downturn, these countries applied expansionary or countercyclical policies in nature that can be referred to as lessons learnt from the Great Depression. The absence of the gold standard ideology or other major monetary constraint facilitated the acceptance of temporary fiscal deficits and monetary easing since the very beginning of the crisis. For example, on the monetary side, they injected liquidity to boost the demand and reduced interest rates. On the fiscal side, they boosted public investments and implemented tax reductions. Also, from 2007 to 2010 ABU have had flexible exchange rate regimes which have given more freedom of action, so that the balances of payments could adjust promptly to external shocks. ABU did not suffer deflation as in the thirties, but by contrast the rising inflation has been a matter of concern, a reason why countries such as Brazil and Uruguay kept a system of inflation targets and remained vigilant on that variable. Furthermore, the context of competitive devaluations that marked the thirties did not occur and by contrast, the strong initial depreciation of the currencies of ABU during 2009 did not reverse the general trend of the real appreciation seen during the period of analysis. However, in the case of Argentina, that initial leeway turned into economic distress after our period of analysis that resulted in the adoption of exchange control, and the problem of rising inflation was spreading to Uruguay, too.

At the beginning of the thirties these countries were quick to depart from the gold standard rationale and the orthodox thinking. Here an important observation is that the abandonment of that rationale was fuelled by the regime changes in the three countries. Even though it is not possible to prove a direct link between the effects of the Great Depression and the coups that put Uriburu into office in Argentina in 1930, Vargas in Brazil in 1930 and Terra in Uruguay in 1933, it seems clear that the new regimes were prone to enact more flexible policies as a matter of political survival. As active countries, they applied a combination of the so-called orthodox measures especially in the fiscal field, along with others that were by the time considered heterodox, although there was also a fundamental lack of coordination of fiscal and monetary policies. The main idea behind the policy reasoning was not to implement an expansionary or contractive policy. Instead, the priorities of governments were the consolidation of power and the improvement of the economic conditions in the framework of a worldwide depression.

Frequently governments resorted to policy improvisation, so that ‘trial and error’ policy experiments and ‘learning by doing’ prevailed in a context of frustration because of the tough circumstances. Immediately after the first impact, in an orthodox way, ABU reduced public spending and applied tax increases in order to balance the budget because the fiscal deficits had reached a point that it was necessary to introduce harsh adjustments, especially in the case of Uruguay. Also Argentina implemented a substantial budgetary reform during Uriburu’s government that signalled the starting point of a more realistically-minded management of government finance. However, saving the specificities of each country, ABU began also to apply heterodox policies to achieve the recovery. For example, these countries departed from the gold standard and introduced radical changes in monetary regimes, devalued their currencies, imposed exchange controls and increased tariffs for fiscal and protectionist reasons which encouraged import substitution activities. And in addition Brazil and Uruguay defaulted on the foreign debt. It is even possible to say that these countries implemented ‘Keynesian policies before Keynes’, including public investments to boost demand (e.g. public infrastructure and housing).

In particular, although Argentina kept pegged to orthodoxy with regard to the timely payment of its foreign debt, it did turn into a real ‘laboratory of policies’. In 1931 the Argentine government permitted rediscount operations at the Currency Board which prompted monetary expansion; in 1932 authorized the Patriotic Loan, whose monetization had an expansionary effect on public spending; and, introduced the income tax as a heterodox element of fiscal policy. In 1933, among many other measures, the government signed the Roca-Runciman Treaty with the UK in order to secure its share in the British meat market and initiated the creation of new institutions such as the regulatory boards to put into effect price intervention schemes. Later, in 1935, the Central Bank (BCRA) was created.

The case of Brazil is special because of the importance of the coffee economy, for which the coffee *defesa* scheme was clearly a ‘program for boosting the national income’ and a sort of countercyclical policy. The accumulation of stock piles had the effect of increasing the net investments in the country, counterbalancing the fall of the private investment and preventing the economy from falling harder during the Great Depression.

In the case of Uruguay, it is important to highlight that its foreign trade policy was marked by its complex multiple exchange rate system after the introduction of the exchange control in 1931, the introduction of the premiums for exports and the closeness with the German and Italian governments. The increase of public investments and the expansionary credit policy of the BROU since 1935 thanks to the Revaluation Law and the creation of state monopolies were also distinctive landmarks for this country.

After our historical country-specific research, we believe that the constraints imposed by the international system and its patterns of dependence, the heterodox policies implemented by those governments during the thirties contributed to a reduced impact of the crisis on them; especially if one takes into account the positive results of the expansionary policies applied during the Financial Crisis of 2008. According to ECLAC (2009) the exit of the recent crisis was easier thanks to a set of countercyclical policies that effectively counteracted external shocks. During the thirties, the experience of most peripheral countries, including ABU, is that recovery was faster than in core countries and linked to the quick resort to aforementioned isolationist policies, such as the imposition or increase of tariffs, devaluations and exchange controls, as well as defaults in the cases of Brazil and Uruguay. Nowadays, the recovery has also been fast and in this case there have been endogenous strengths that softened the cycle. ABU not only entered the crisis better positioned than during the Great Depression, but also the aggregate demand and the volume of world trade recovered quickly, supported by high commodity prices due to a steady demand from Asian countries. However, that recovery for ABU was at the expense of international competitiveness. Especially for Brazil and Uruguay, there was a profound appreciation of their local currencies during 2008-2010 that rendered their exports increasingly expensive in international markets.

One key aspect that we find different is the role of cooperation. Today, unlike then, there are multiple regimes of international cooperation and coordination at both regional (e.g. Mercosur) and multilateral (e.g. WTO) levels, most of them created after the Second World War. Even with their limitations, these organizations spread awareness about the risks involved with the national responses that could easily evolve into predatory practices of the Great Depression type. During the Financial Crisis of 2008 the most relevant initiative to coordinate actions addressing the financial collapse was the G20, in which Argentina and Brazil participate as full members, but not Uruguay. Indeed, the twenty most powerful countries gathered in a Summit in September 2009 to seek international cooperation in times of crisis, resembling in a way the efforts of the failed World Monetary and Economic Conference of 1933 in London. In general terms, the G20 group called for major reforms to promote greater balance in the global economy. Although the G20 was partly successful in preventing the governments from engaging large-scale use of restrictive measures on trade and investment as in the thirties, it could not totally avoid the use of tariffs and especially non-tariff instruments that have hindered trade flows further.

Beyond this macro level, there is also a substantial degree of regional cooperation. During the thirties, Argentina and Brazil were more enemies in geopolitical terms than economic partners. The hypothesis of conflict was always present in the military sphere of both countries, and the

international alliances were divergent. In the middle, Uruguay always took the advantage of those rivalries to accommodate itself to the requirements of the insurmountable bigger neighbours, knowing that any possible development of its industrial production depended on the preferential access to those markets. Nowadays, these three countries, along with Paraguay and Venezuela are full members of the Common Market of the South (Mercosur) which constitutes a key element in terms of structural patterns of trade and investments, as well as deliberate national policy to pursue development goals. That being said, the analysis carried out in this thesis tends to point out some similarities in the policies applied nowadays. However, those similarities cannot be attributed to the existence of Mercosur, since there was no coordination of the fiscal, monetary and investment policies. With regard to trade policies, ABU basically protected their economies with increases in the external common tariff, as well as mutually agreed waivers on a definite number of customs lines per country, normally targeting imported products competitive with local industry. Unlike in the thirties when the tariff tool was more important, nowadays import licenses and antidumping measures are preferred (non-tariff barriers), along with financial support to the worst-hit exporting sectors. This kind of trade policy, especially after 2010, has at times strained the commercial relationship among Mercosur's partners.

In Annex III of this thesis we confront the reactions of the governments in both events. As it is possible to appreciate in that table, following the lessons from the Great Depression, the governments of ABU implemented policies expeditiously, although in a measured way to avoid major macroeconomic imbalances. One big difference is that at the end of the twenties decision makers were constrained by the gold-exchange standard orthodoxy. However, when the crisis spread among developed countries, ABU were among the first countries in abandoning the gold standard logic. And therefore Argentina closed its Currency Board and Brazil closed its *Caixa de Estabilização*. ABU also imposed exchange controls in a scenario of strong currency depreciation and capital flight amid a currency war. By contrast, managed floating exchange rates prevailed in ABU during 2007-2010, by which central banks intervened with open market operations and liquidity injections in foreign currency to smooth the exchange rate variability, so that the economy was able to adapt and absorb unfavourable external shocks without causing material traumas to the economic process. In line with Sevares (2009, p. 31), it is important to highlight that during that period Argentina and Brazil had different schemes of floating exchange rates: Argentina sought a competitive exchange rate, which contributed to the recovery of growth and the expansion of the local industry, but at the cost of high inflation and diminished competitiveness against its trading partners. Meanwhile, Brazil had a floating system that did not prevent the appreciation of the real, fostered capital inflows and brought slower growth.

Of the three, only Argentina imposed exchange control since October 2011 and embarked on a policy of discouraging capital flows to tax havens and offshore banks. Brazil kept exchange markets relatively open but introduced a tax on capital inflows to reduce their magnitude and Uruguay remained mostly unchanged in its mostly open market for foreign capital. The strong inflow of capital resulted in a major appreciation of the Brazilian and Uruguayan currencies, and

as a matter of fact became a subject of debate. Indeed, the excessive monetary expansion in developed countries that did not exist during the Great Depression resulted in a strong appreciation of the Brazilian real and other currencies as a collateral effect. The real was one of the preferred destinations for global investors seeking return on investment, as Brazil offered high interest rates and developed countries were at historic lows. As a consequence, by 2011 the real appreciated strongly, negatively affecting the industrial sector and Brazilian exports. The Central Bank changed its monetary policy, intervening heavily in the foreign exchange market, which has pushed the exchange rate, and interest rates also have been aggressively cut.

Certainly, the policies applied by ABU in reaction to the Financial Crisis of 2008 were mostly expansionary. However, by 1929-1930 the governments kept high interest rates, contracted public expenditure and increased or created taxes to balance the budget. But, fortunately, these three countries were also quick to implement policies considered heterodox during the Great Depression, for example, as mentioned the suspension of the gold standard and the imposition of exchange control. They also implemented monetary emissions, although with different timing. Moreover, firstly Argentina and secondly Uruguay started to implement more expansionary fiscal policies by the end of our period of analysis in an attempt to boost public investment and to support the agricultural sector, reducing the tax burden. The case of Brazil was a clear example of active policies given the countercyclical effect of the coffee *defesa* policy. Brazil and Uruguay also suspended the payment of the foreign debt in the first week of September 1931, a key difference with Argentina which kept paying in full.

During 2007-2010, ABU acted even quicker. Probably as lessons from the thirties, ABU understood the importance of the monetary and fiscal expansion in times of crisis and the coordination between both policies, and did not hesitate to implement them. They injected liquidity into the economy, reduced interest rates, applied tax cuts and benefits to the most affected sectors, increased public investment and introduced measures to improve spending distribution. However, although there has been consensus in the region in using countercyclical fiscal policies, it is worth noting that for the smallest country of the three, Uruguay, there are constraints that limit the margin to adopt those policies, so that the implementation of procyclical policies prevails. For example, pensions are indexed to wages, and therefore at the peak of the cycle, wages tend to rise, retirements and pensions also rise and accordingly government spending rises, too.

In relation to trade policies, as contrasted in the Annex III of this thesis, the new protectionism, also called by academics 'murky protectionism', is different from the tariff wall of the thirties. Countries worldwide tend to avoid direct violation of WTO obligations and prefer to protect the national industries from competitive foreign suppliers by means of import licenses, certificates of origin and antidumping measures, export subsidies, sanitary and phytosanitary barriers, and stimulus packages labelled as 'export financing and support' that provides for the allocation of spending to domestic producers, among other measures. During 2007-2010 ABU were not disconnected from this reality. Argentina enacted a package of heterodox policies that held at the borders or delayed procedures for most of its imports (e.g. books, medicines, dolls, etc.), and Brazil resorted to licenses and antidumping investigations. Those policies also affected

neighbouring countries and Mercosur's partners. During the thirties the protectionism was more stringent based on the increase of tariffs, the discretionary allocation of foreign exchange, and retaliations, all guided by the logic of 'buy from those who buy from us', with a key element being the trade balance with partner countries.

The outcome of this comparison is that the worldwide contraction was milder in 2007-2010 because governments acted promptly. ABU were not the exception. The three countries enjoyed during the Financial Crisis of 2008 a greater margin of manoeuvre than during the Great Depression and they swiftly applied measures to counteract the negative effects of the external shock. This was possible because when the shockwave hit, there was a favourable combination of sound macroeconomic fundamentals, higher international foreign reserves, better understanding of the Keynesian rationale and fundamentally the contraction of foreign trade was not long lasting and was preceded by a period of booming commodities prices that provided an extra cushion.

Although it is not possible to state that active public juncture policies were determinant, it is clear that they contributed to softening the contraction. According to the recent experience and without prejudice to the constraints imposed by the international system and its patterns of dependence, the heterodox policies implemented by ABU's governments during the thirties contributed to a reduced impact of the crisis on them. The quick resort to exchange controls and currency devaluations of ABU, as well as the default on the foreign debt in Brazil and Uruguay, among other measures, gave some more room to counteract the downturn. An unintended consequence is that these countries started to rethink their economic model and implemented more protectionist policies which lasted many years and that eventually led to the progress of import substitution industrialization. A change of paradigm so strong is missing nowadays, at least for the time being.

To sum up our findings, beyond the unavoidable transmission of the contraction through the international trade and the financial contagion to ABU after the collapse of Lehman Brothers, the absence of a monetary constraint such as the gold standard and the better knowledge of the advantages and risks of Keynesian economics contributed to the decision making process. That led to the application of a more structured package of policies by the governments that during the thirties would have been labelled as 'heterodox'. In the case of ABU there was also a sound public financial position and a more diversified export basket and destinations when the hardships arrived, which allowed an extra margin of manoeuvre. At the end of the twenties, those features were absent, so that the initial reaction was generally pro-cyclical.

However, they managed to implement soon enough heterodox policies, although normally after a swift change of political regimes. Certainly, unlike the Financial Crisis of 2008, although it is too early to predict the long-term outcome, the experience of the Great Depression eventually contributed to a change of paradigm in ideological, social and economic terms that had profound long lasting effects in Latin American intellectuals and researchers and led to the construction dependency theory. A new era of interventionism was starting in ABU in which, as the

structuralist theory proposed, the State defended 'new born industry' in a more inward-oriented development as a tool to achieve an improvement in income distribution and the construction of a more equitable balance in international economic relations.