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

Gerona Morales, M.E.; Sosa Clavijo, S.M.

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Authors: Marcelo Esteban Gerona Morales and Silvana María Sosa Clavijo

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XIV. Endgame: concluding remarks

In our introductory chapter in which we include the focus of our work we outlined a concept of complex vulnerability built on four pillars: the transmission channels of a crisis, the comprehensive concepts of ‘power’ and ‘interdependence’, the analysis of the gold standard ideology and the policies implemented by governments. We also added in our conceptual framework the notions of core and semi-periphery from Immanuel Wallerstein’s world-system analysis in order to shape and enlighten our wide definition of vulnerability. We designed our thesis according to these elements, so that our chapters correspond to the elements included in Figure 1 of the Introduction of this research.

Regarding the transmission of the crisis, in Chapter III we described in general how the transmission of the Great Depression to the world was carried out through trade and capital channels, and in Chapter IX we deepened our analysis of the transmission to ABU through the trade channel. In Chapter X we described the meaning of the gold standard for the world and for ABU. In Chapter XI we analysed the national policies adopted by ABU to curb the negative effects of the Great Depression. In Chapter XII we further analysed the trade policies and the diplomatic efforts of ABU governments to manage the patterns of interdependence that limited countries’ options in the world-system. And, finally in Chapter XIII we made a link to our recent experience during the Financial Crisis of 2008 to make more general conclusions relevant for today’s decision makers.

In this last concluding chapter, we summarize our findings and we give shape to the concept of complex vulnerability that we committed to constructing in our conceptual framework and give an answer to our research hypothesis that *Argentina, Brazil and Uruguay were highly vulnerable to the Great Depression, and among them the smallest country was the most vulnerable of all.*

i. A summary of the transmission belts of the Great Depression (1928-1934)

As a summary of the context in which ABU had to fight the Great Depression, in Figure 26 we illustrate and summarize the main external factors analysed in this thesis in chapters III and IV.

These factors prompted economic contraction, fiscal crisis and political unrest in Argentina, Brazil and Uruguay.

By 1928 the boom in the stock market before the Wall Street crash led to excess demand for credit and a rise in international interest rates. As a consequence, the cost of holding inventories and reducing demand increased for many of the primary products exported by Latin America. The interest rates upswing boosted additional pressure on Latin America through the capital market when the more attractive rates of return offered in London, Paris and New York prompted a significant capital flight. As during the previous decades many Latin American countries became strongly dependent on the American and British investments and loans. The drought of capital flowing from those countries not only reduced the expansion of the private sector, but also fostered strong imbalances in fiscal accounts and limited the ability of governments to apply counterbalancing policies. But, the stock market crash in October 1929 provoked a chain of events in the main markets supplied by Latin America. The contraction in the value of financial assets reduced consumer demand through the so-called wealth effect. Loan defaults led to a squeeze on new credit and monetary contraction. The whole financial system came under severe pressure. The contraction of global demand was a natural consequence of the transmission channels that linked core with peripheral and semi-peripheral countries. Many economies were negatively affected as trade contracted, levels of industrial production plunged, retail sales fell and unemployment rose.

The description about the transmission of the Great Depression could easily be applied to other events in history, because the underlying transmission mechanisms tend to operate similarly from one crisis to another. However, these similarities do hide important differences. Specifically during the thirties, for many core countries the gold standard was a dogma that was built in an increasing asymmetry between countries experiencing balance of payments deficits and surpluses. The adjustment mechanism for a deficit country was deflation rather than devaluation. In turn, the former induced the contraction of economic activity through several channels. That includes increasing real wages, real interest rates and the financial position of borrowers deteriorating. Further, the gold standard was a big constraint for governments in the face of upward outflows of gold, and especially when the gold and foreign reserves became dangerously scarce.

The position of Latin American countries within the world-system was also especially vulnerable. Exports were strongly concentrated during the period 1913-1928 in approximately eleven main products: petroleum, coffee, maize, sugar, meat (bovine or ovine), wheat, flour, copper, cotton, wool and hides. Thus, those countries were highly vulnerable to what Díaz Alejandro (2000) called the 'commodity lottery'. As early as 1925 many commodities were already showing a declining performance. Some countries accumulated stocks to keep prices high in products such as coffee and linseed, and also the good performance of crops in Europe and other producing areas contributed to the decline of prices. However, in some cases such as cotton, gold, silver and petroleum, price behaviour was more generous. But in general, the price contraction of key crops hit hard Latin American countries, including ABU.

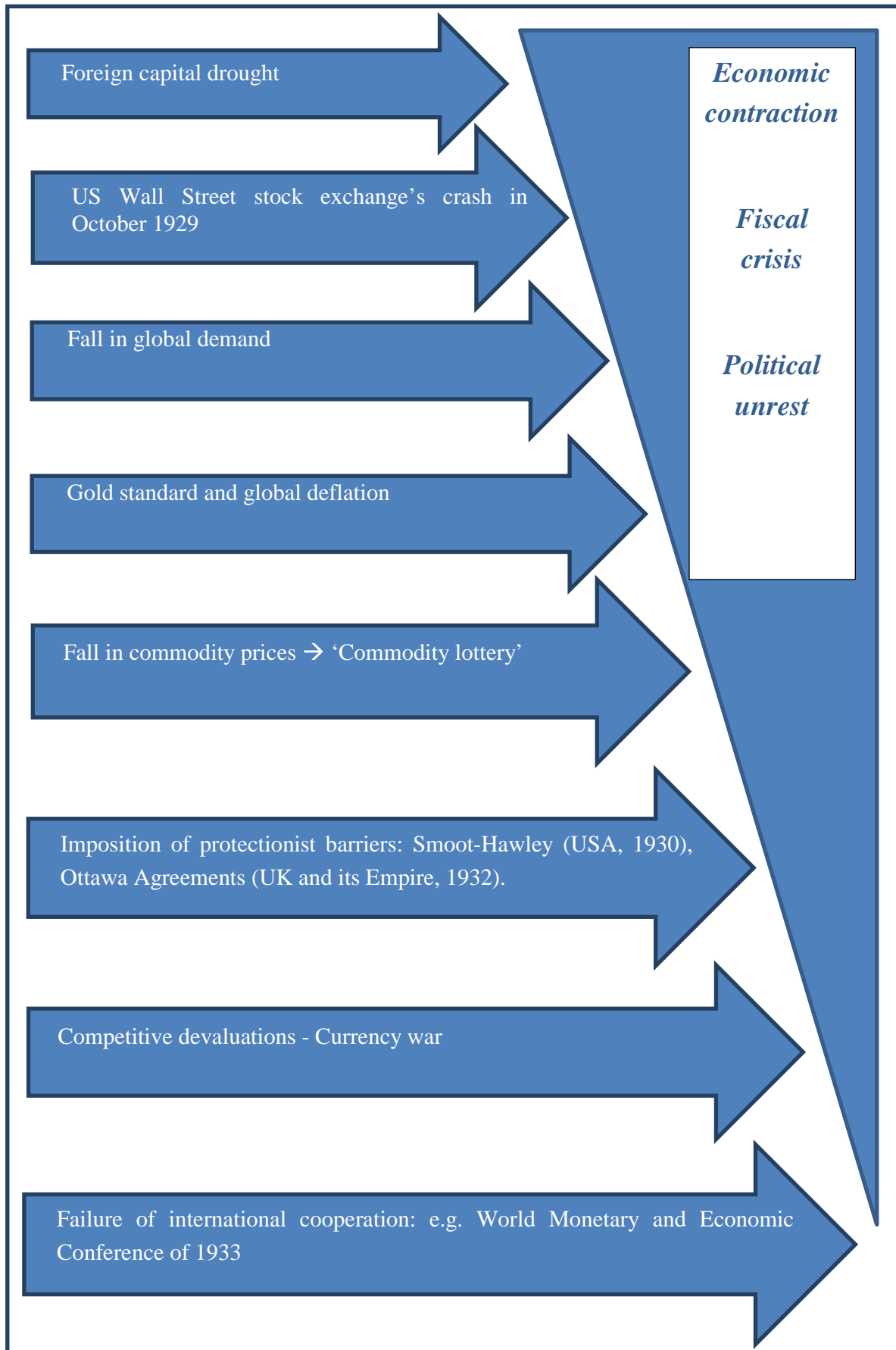
'Beggars thy neighbour' policies, including competitive devaluations and protectionist measures that meant to protect the domestic industry from foreign competition became commonplace policies worldwide. Trade policies hit Latin American countries hard. The Tariff Act of 1930 increased import duties in the US and negatively affected imports from Latin America. Also, and probably with a stronger impact on ABU, the Imperial preferences granted by the UK in 1932 in the framework of the Ottawa Agreements that channelled trade flows into its self-contained colonial bloc were strongly felt. That was due to the significant dependence of ABU on the British market, especially in the case of the Argentine and Uruguayan meat sectors. Moreover, the loose exchange rate policies added to the trade restricting measures in compromising economic performance. The UK departed from the gold standard and the pound sterling depreciated in 1930; the US devalued in 1933. They were not the exception. Countries started to devalue their currencies, so that reserve gains were reserve losses for countries still on gold. During September-October 1931 exchange controls were imposed by several countries such as Argentina, Austria, Bolivia, Colombia, Czechoslovakia, Greece, Germany, Iceland, Uruguay, Yugoslavia and many others. The gold standard went unavoidably into oblivion and by 1936 no country used it as a policy.

This panorama of crisis was exacerbated by the lack of cooperation among countries and central banks. The uncoordinated monetary policies of the US and France that deepened the vacuum of total world gold reserves, the hike of interest rates in the US during the unfolding crash of October 1929, and the failure of the World Economic Conference of London 1933 to curb the protectionist wave are all examples of the failure in reaching international agreements on how to face the global contraction. Policymakers were unable to agree on a concerted response to the economic crisis due to different national interests.

To sum up, most countries in the world had to face a fall in export prices in a context of global deflation, a contraction of global demand, abrupt changes in monetary policy and financial conditions of main trading partners, currency war and the protectionist barriers imposed by developed countries that could not be properly addressed by the international community. Economic contraction, fiscal crisis and political unrest were the unavoidable consequences worldwide.

However, even though these elements of strain are present one way or another in each country, the similarities hide important differences that we have addressed through this thesis for Argentina, Brazil and Uruguay. These differences also entail different vulnerabilities that we seek to summarize and highlight in this ending chapter, and allow us to conclude about the complex concept of vulnerability. But, in order to achieve conclusions from our work, we need to firstly address each country individually, and then to move to a general conclusion that builds on the complex concept of vulnerability that we outlined in our introductory chapter.

Figure 26: External factors and internal effects in Argentina, Brazil and Uruguay



ii. The ex-ante economic vulnerabilities of Argentina, Brazil and Uruguay

After this description of the main external factors of the Great Depression, we believe that it is necessary to make a connection with our hypothesis regarding country vulnerability. A dictionary definition would define something vulnerable as capable of being easily hurt or harmed or open to attack, harm, or damage. As we have seen in the introductory chapter, vulnerability can also be defined as an actor's liability to suffer costs imposed by external events even after policies have been altered⁸³² or the simple unavailability of a policy option that would protect an actor from any future costs generated by the given external event⁸³³. If a researcher places himself ex ante a major event as the Great Depression or any other economic crisis, he or she needs to consider the relevant variables available at the time to make an assessment about the relative vulnerability of a certain economy. Taking into account the kind of economic data available for the end of the twenties, this researcher could look at some of the elements analysed in this thesis such as the market and product concentration of the foreign trade, availability of foreign reserves, the existence of countercyclical policies that could smooth the cycle, the exchange regime and the fiscal structure of the country, among others. Once all these elements are assessed and compared, the researcher can reach conclusions about how much a country can be vulnerable to a crisis.

In our thesis we have considered some of these elements and we summarize them in Table 81. In it we assign an ordinal ranking of the magnitude of the contraction of main economic indicators of the three countries, from 1 (the highest value of the variable of the three countries) to 3 (the lowest), according to the results and conclusions reached in relevant chapters.

Table 81 Ordinal ranking of the contraction of main economic indicators

	Argentina	Brazil	Uruguay
Market destination concentration (HHI 1928)	2	1	3
Product concentration (HHI 1928)	3	1	2
The fiscal bottleneck	1	2	3
Availability of foreign reserves	2	1	3
Reduced internal market	3	2	1

If we concentrate on the market concentration, we have seen in Chapter III that all Latin American countries were highly vulnerable to the trade transmission channel, especially to the 'commodity lottery' and the hostile commercial and sectoral policies applied by developed

⁸³² See Keohane & Nye (1988, p. 13).

⁸³³ See Jones (1995, pp. 6-8).

countries. Further, in Chapter IV we have shown that according to the Herfindahl-Hirschmann index (HHI) calculated for 1928 the Brazilian trade structure was the most concentrated both in terms of product and market destinations due to the high share of coffee (almost 70%) in its exports and the fact that 45% of its exports were directed to the US. This outcome suggests that Brazil was the most vulnerable to a trade shock of the three. Meanwhile, Argentine export basket was more diversified, but in terms of market destinations the Uruguayan foreign trade was surprisingly the least concentrated of the three. However, according to these results, regarding product concentration Uruguay was more vulnerable than Argentina.

Continuing with our analysis, we found in chapters IX and X that, again surprisingly, Uruguay had the less exposed fiscal structure to falling trade receipts due to a fiscal structure less dependent on foreign trade taxes, while the case of Argentina is the most vulnerable from this point of view. Something similar could be said with regard to the availability of foreign reserves that gave governments a cushion to face the negative flow of gold and foreign currency. In this respect, it is important to remember that the Brazilian foreign reserves were the most reduced as compared with the country's import needs, and again in this aspect Uruguay was the best positioned.

Finally, it could be also argued that the size of the internal markets also mattered due to its relation with the exposure of economic activity to foreign trade. In relation to this, from Chapter IV it is possible to conclude that the Argentine internal market was the biggest according to its high GDP and GDP per capita, followed by Brazil. Of course, the internal market of Uruguay was comparatively marginal, so that this country was from this perspective the most exposed to the foreign turbulence.

To sum up, it is interesting that our aforementioned researcher, founded on some of these elements, would have to reckon that the smallest country was not necessarily the most vulnerable one. Uruguay was well positioned regarding market destination concentration of the foreign trade, presented the soundest fiscal structure, had relatively higher foreign reserves and depended less on exports to the US. It is true that its internal market was limited and that its diplomacy had not many instruments at its disposal to support its national interest vis-à-vis major world or even regional powers. Nevertheless, if the balance of the already mentioned indicators is considered, there is a reasonable doubt about Uruguay's relative vulnerability.

iii. Complex vulnerabilities for Argentina, Brazil and Uruguay

In the previous section we have put ourselves in the shoes of a researcher who limits his assessment of vulnerability of ABU according to some economic variables linked to the transmission channels of the crisis and concluded that the smallest country, Uruguay, was not necessarily the most vulnerable of the three. However, in our research we proposed to deepen the analysis by building a concept of complex vulnerability taking into account what really happened. In this section, we describe and summarize the interaction of the domestic economic, political and social vulnerabilities singled out in our research for 1928-1934. We contrast that preliminary evaluation of vulnerability with the real outcome of the economic contraction, and also introduce the other elements of our research framework: gold standard ideology, policies,

and power and interdependence. The conjunction of these elements with external factors prompted an important economic dislocation that affected the whole countries. However, a closer look at the events, as always in life, gives us a much richer and more complicated picture of the contribution of these elements to the complex concept of vulnerability we sought to construct.

For that task we base this text on our findings from Chapter IX to Chapter XII and divide those results according to a general reasoning presented in our introductory chapter and conceptual framework. In order to facilitate the comprehension of the remainder of this text, we illustrate for each country in Figure 27, Figure 28 and Figure 29 the complex vulnerability in a similar way as Figure 1, included in p. 14 in the Introduction. We also include in Annex I for the benefit of the reader and as a summary of our historical research, three tables containing timelines of events and policies applied by each of our case countries during the Great Depression. And in Annex II we also present a table that contrasts the main policies applied by ABU and that we analysed in detail in this thesis.

Argentina

In Argentina the transmission of the crisis from the core was straightforward. By 1929 Argentina was an exporting country of primary products without a formal plan of industrialization. It was strongly dependent on the UK and Western European markets, and its first supplier was the US. Moreover, British and American investments were very important in the country, and the loans flowing from those countries were a significant source of stability for the financial institutions and for the fiscal balance of national and local governments. The collapse of agricultural prices, as well as the drought of foreign capital inevitably disrupted economic activity and prompted social instability. Thus, in this context, to a large extent this country imported the crisis from abroad, transmitted via its balance of payments.

Although the HHI has shown that the Argentine export basket was more diversified, this country was nevertheless highly vulnerable to the trade transmission channel, especially by the ‘commodity lottery’ and the hostile commercial and sectoral policies applied by developed countries. It was particularly hit by the falling receipts of wool, cattle hides and grain products (wheat, maize and linseed) rather than others (e.g. chilled beef). As we have analysed in Chapter IX, by 1932 Argentine exports in current dollars had a contraction of more than 60% relative to 1928. Indeed, this country suffered a disaster from the fall in international prices, globally depressed demand and overproduction, to which Argentina contributed as well. Other events increasingly caused the panorama to deteriorate, and added to these market vulnerabilities. The existence of foot-and-mouth disease in live animals in some zones of Argentina was used as the perfect excuse for American protectionism, a country that banned meat imports from the region in 1926. This added to bad harvests because of the unfavourable weather conditions and the appearance of locusts in 1933 that prompted a decrease in the volume of exports. By contrast, there were also times of good weather that boosted world overproduction. For example, in 1932, the worst year for Argentine foreign trade in terms of current dollars, the production of wheat increased and continued increasing until 1933.

The vulnerability through the trade channel connects with another indicator that reveals the national vulnerability: as seen in Chapter IX almost 56% of the fiscal revenue came from taxes linked to foreign trade. This weakness of the fiscal accounts made the fight against the crisis more difficult for authorities just when the government had troubles with the consolidated government deficit which represented around 4% of GDP by 1930. The government had a loss in revenues due to reductions in customs and port taxes, as well as import duties of around 30% during the period 1928-1932. Even the strong depreciation of the peso by around 35-40% against the pound and the dollar in 1931 could not outbalance the loss of government revenues heavily dependent on foreign trade taxes. Nevertheless, it is important to highlight that Argentina had a rapid recovery. In this regard, when by 1934 international prices started on a path of growth and after the implementation of important economic policies in the country, the Argentine economy also began its recovery, shown by the increase of its GDP.

The first responses of the conservative Argentine government during the early years of the Great Depression (1930-1931) were highly orthodox. The fiscal policy was in fact focused on, first of all, reductions in public expenditure, and then application of more taxes to balance the budget. The government committed to service the foreign debt, to eliminate the trade deficit, to stop the inflation and to check the fiscal deficit. It is interesting to point out that the situation was quite similar in Uruguay, which had to cut operative expenses in ministries, increase existing taxes (e.g. fuels), and create others (e.g. public servant wages). And by contrast to the cases of Brazil and Uruguay, the situation was further aggravated in Argentina due to the political decision of not defaulting on the increasing foreign debt as most countries did during this period. This was indeed another source of vulnerability specific to Argentina from the policy point of view. It is not the same to default on foreign debt when most countries are following the same path, than to do it in isolation, exposed alone to the reaction of the international financial community, as it has just happened nowadays after the freezing of payments of Argentine restructuring debt by a New York tribunal as a consequence of the default of 2001.

However, using a well-known Díaz Alejandro expression, in Chapter XI we have shown that Argentina was an 'active country' during the interwar period because of its leadership in policy experiments, a condition that it shares with other large economies in Latin America, such as Brazil, Colombia and Mexico. Indeed, Argentina constituted a truthful 'laboratory of policies'. During President Uriburu's term, and then under President Justo after 1932, Argentina started a path of oligarchic restoration that developed in parallel to a continued and deepening process of government interventionism. Against an important section of public opinion, the government adopted defensive policies based on state intervention and the end of *laissez-faire*, e.g. imposition of exchange control, price intervention schemes and increase of tariffs. The economy started to close and an incipient import substitution for industrialization process rooted in the decision making process. The governmental control was an instrument that would have far-reaching consequences for Argentine life and would for many decades change the role that the government had in the economy. That is why the experience of an open economy under a fixed exchange rate regime, such as Argentina during the Great Depression constitutes an ideal

historical research laboratory to study economic vulnerabilities derived from macroeconomic fundamentals and policy choice.

Even before the coup of 1930, the country implemented a series of economic policies that by that time were considered heterodox. A good example of this is that Argentina was one of the first countries to suspend the gold standard in December 1929, allowing the economy to disconnect its monetary policy from the strong fluctuations of the balance of payments. Moreover, after the closure of the Currency Board in 1929 that avoided an external drain and the banking panic, other policy experiments were the rediscount operations in 1931 and the conversion of the domestic public debt in 1933. The introduction of the *impuesto al rédito* (income tax) in 1932 with the chief objective of generating more revenues for the State and the authorization by the government of an *empréstito patriótico* (Patriotic Loan), were both heterodox elements added to the fiscal policy. Also the creation of new institutions such as the regulatory boards that acted as supporting organs of price intervention schemes (e.g. the imposition of minimum prices for wheat, maize and linseed) and the *Banco Central de la República Argentina* (BCRA, Central Bank of the Argentine Republic) can be considered key heterodox policies at the time. The main idea behind these policies was to encourage growth and to reconcile economic efficiency with income distribution.

It is worth noting that it was not an easy task for policymakers to find the best policies from the point of view of 'economic efficiency' when there was a need to fight against the vulnerabilities of the country. In general terms, in line with the government's desires in the sense of oligarchic restoration, the policies implemented during the period of analysis caused an income distribution favourable to the owners of the relatively most abundant factor of production (e.g. land) and therefore strengthened the position of the traditional elite. But sometimes policies that diverted meat and grain exports towards domestic consumption were also supported by urban masses that spent a high share of their budgets on these commodities. In general it can be argued that these policies reduced the vulnerability of the country, as they tackled the dependence of the fiscal structure on the foreign trade, dealt with the downfall of the key crops prices with specific regulatory boards and kept aligned the key and potentially politically disrupting land owning classes. Nevertheless, these policies would have long-term negative effects due to the permanence of economic disrupting exchange control and excess of interventionism in the economy.

Regarding power and interdependence, Argentina was negatively affected by the US Smoot-Hawley tariff of 1930 but it was more affected still by the Ottawa Agreements signed between its best customer, the UK, and its Empire. And in response to these agreements that granted commercial preferences to the UK's Empire, direct competitors of Argentina, the Argentine government sought a trade agreement with the UK. Finally, on May 1st 1933 the Roca-Runciman Treaty was signed: the most obvious example of the asymmetric Anglo-Argentine relationship. The treaty deepened the dependence on London and meant a great victory for the British. In other words, in exchange for only maintaining the Argentine presence mainly in the British meat market, the UK was guaranteed the remittances from their old investments, as well as protection against future devaluation of the peso, beneficial treatment in the allotment of

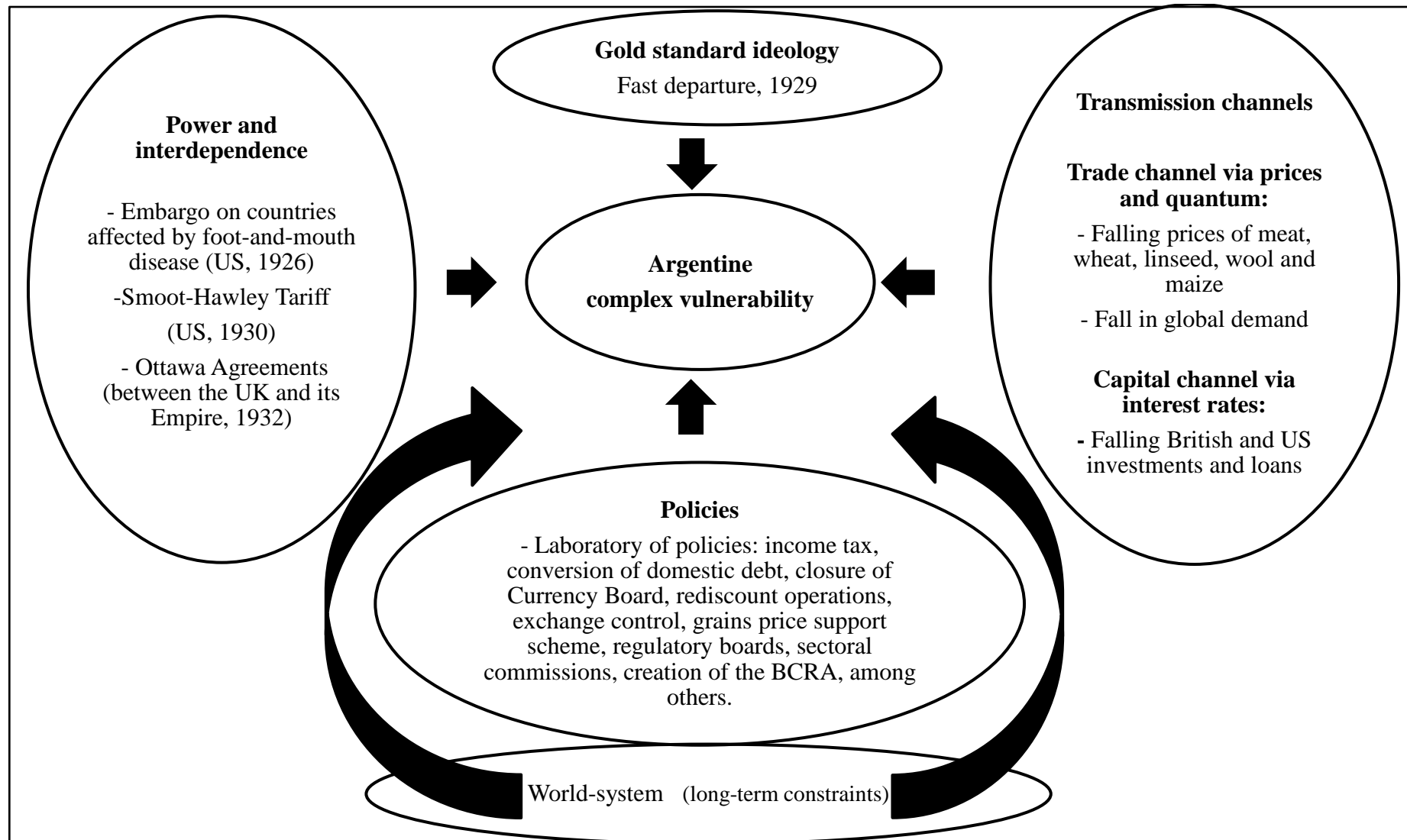
foreign exchange for remittances and trade, stability for its coal exports to Argentina, preferential treatment to British goods exported to this country, control of a significant part of the disputed domestic market and retaining the power of its meat-packing plants in the control of exports vis-à-vis local producers! Indeed, since the British also gained preferential access to scarce foreign exchange, they regained what amounted to dominance in trade with Argentina, a position that the UK had enjoyed before 1914, but which was now protected by treaty. The UK committed to not impose quotas on imports from Argentina of wheat, maize, linseed, bran, wool in the grease, grease, tallow and extract of quebracho. However, since the UK did not import a large volume of these products, the treaty related principally to beef. In any case, it is nevertheless fair to say that Argentina secured continuing access for Argentine products to the British market that eventually contributed to reducing the country's vulnerability through the trade channel.

As a summary, in Figure 27 we illustrate the four elements that constitute our concept of complex vulnerability applied for the case of Argentina. Although the first impact on this country was the disruption of the foreign capital inflows, it was deeply affected through the trade transmission channel. That was especially due to the falling prices of wool, cattle hides and grain products, in an important context of the slump in global demand. The comparatively high dependence of the fiscal revenue on foreign trade prompted additional weakness. The decision of not defaulting in its foreign debt is probably the most risky orthodox policy applied by this country that in a way augmented its fiscal vulnerability. However, regarding policies, in spite of the strong orthodox stance of the first years, Argentina enacted innovative heterodox policies for the time that reduced the country's vulnerability. Such policies were the suspension of the gold standard in December 1929, the imposition of exchange control in 1931, the introduction of the income tax in 1932, the Patriotic Loan of 1932, the creation of the regulatory boards during 1933-1934 and the creation of the Central Bank of the Argentine Republic in 1935, among others. Nevertheless, for this period it is not possible to say that Argentina managed to detach from the predominant patterns of dependence that linked it with the British, of which the Roca-Runciman Treaty of 1933 is a clear example.

Brazil

The transmission of the crisis to the Brazilian economy was not different from other Latin American countries hit by external factors already illustrated in Figure 26. It started a year before the crash of October 1929. As Brazil was fully engaged in the process of monetary stabilization, the national production depended heavily on foreign credit. But the capital had disappeared, attracted by high yields offered in the North. The sudden drain of foreign capital deeply affected an economy that during the twenties had resorted to foreign loans to support its growth, as well as the finances of federal, state and municipal governments.

Figure 27 Diagram of forces affecting Argentina during the Great Depression (1928-1934)



Further, the case of Brazil is different from other countries due to coffee, which not only contracted because of the external shock, but also because of the endogenously generated unprecedented stock accumulation explained by natural and manmade conditions. The falling coffee receipts, along with the aforementioned reduction of capital inflows, hit the balance of payments through export price reductions of coffee that were not compensated for by an increase in export volumes. In this regard, it is important to remember that according to our calculations of the HHI in Chapter IV the Brazilian foreign trade structure was the most concentrated in terms of country and product destinations among the three countries, suggesting that Brazil was the most vulnerable of the three to a trade shock. However, actual figures show that the Brazilian trade contraction was less significant than in Argentina. Up to some extent the contraction was compensated for with more cotton exports at the end of the period. In the balance, although Brazil was a priori the most vulnerable to the swings of coffee prices, it did not fall so much as Argentina in 1930, and recovered steadily during 1933-1934.

Regarding the allegiance to the gold standard, the case of Brazil has a different tinge because the Luís administration made a stronger commitment to that system than did Argentina or Uruguay. There was an internally-grown solid conviction among the ruling classes during the twenties that supported the pledge of the Luís administration to the gold standard system, even with the evidence of the deteriorating economic situation and the falling foreign reserves. However, this stubbornness can be explained not necessarily by a hard commitment for that system, but because of political reasons. The government needed to secure the transition to president-elect Prestes and could not afford imposing unpopular or potentially disruptive economic measures. This explains why the Brazilian government just allowed the foreign reserves to fly away. Even *de facto* President Vargas kept this stance during the first months in office for similar reasons: to secure the grip of power of the new government. In any case, the crisis forced authorities to establish exchange control and to devalue the local currency in May 1931.

In relation to policies, the collapse of foreign trade in Brazil during the Great Depression put into question the model of international insertion of the country. The government struggled to keep in balance the demands of the agro exporting oligarchy, prone to an open economy and the rising urban and industrial elites. The first Vargas administration had to put in place, in the same way as in Argentina and Uruguay, orthodox objectives such as financial austerity, budget rigidity, debt control and monetary tightening. All these policies combined are necessarily pro cyclical; so that the recovery was more difficult and delayed. But within Brazilian policies, the *defesa* scheme settled after the Taubaté Agreement of 1906 was the most prominent, because it was aimed to safeguard the main source of revenues for the economy from the sudden flooding of Brazilian coffee in the world markets. This policy entailed two contradicting forces. On the one hand, it involved short-term strong vulnerabilities because the government could not completely control the excessive size of the crop, the diving worldwide demand and the low availability of domestic liquidity in the banking system that compromise its viability in the long-term. The possibility that a negative external shock would spread to the real economy by means of the gold standard was doomed to be amplified if the coffee sector was affected by the perfect storm of deteriorating market conditions and the overproduction from unprecedented favourable

weather conditions. This perception of vulnerability contributed to a strong belief among the elites that the federal government in the end would intervene as a lender of last resort whenever São Paulo and other producing states could not keep the coffee stocks in line with lucrative prices. Furthermore, the need to secure the support of the powerful landed coffee classes, along with the social implications in terms of political instability arising from collapse of the coffee economy, prevented the authorities from deciding on the abrupt ending of the coffee policy.

On the other hand, during the worst time of our period of analysis the coffee *defesa* scheme managed to support the national income as a sort of anti-cyclical policy. This also explains why Brazil started to grow again as early as 1933. The demand was supported by expansionary fiscal policies, through the acquisition of coffee due to be destroyed because the accumulation of stock piles had the effect of increasing the net investments in the country. Neither Argentina nor Uruguay had at their disposal such a complex and prominent countercyclical policy to smooth the economic contraction mechanism for their staples.

Beyond the coffee policy, during the first year of the revolution the Vargas government was more occupied in consolidating its power after the fall of the First Republic than in the outline of a comprehensive economic program for industrialization. Thus, its immediate aim was to secure the proper functioning of the economy as it was before the revolution, just in order not to end the same way as the Luís administration did. But there were other heterodox policies worth mentioning. Similarly to Uruguay, Brazil eventually defaulted on its foreign debt and discriminated with its scarce foreign currency between countries. The combination of currency devaluation, increased foreign trade taxes and exchange control punished imported commodities, favouring local products. It also deepened the processes of adopting protectionist measures for the benefit of the national industry. The stronger importation of capital goods during the twenties allowed industry to expand in line with the internal demand. The creation of the Ministry of Education and Public Health and the Ministry of Labour, Industry and Commerce in 1930, as well as the creation of a labour union under the control of the government in 1931, can be interpreted as necessary steps to strengthen the workers' capabilities needed for an industrialized society. Other measures such as the suppression of interstate taxes in 1931 contributed to fostering business activities within the country. Thus, a new phase of industrialization replaced the mono-producer growth model, hand in hand with the process of import substitution. It did it also by using an extremely protective trade policy. If we compare Brazil with its neighbours in this respect, while in this country tariffs could reach a maximum of 300%, in Uruguay they reached 48% and in Argentina certain key products were in the range 5%-35%, with some exceptions. In the long run, these policies, along with advantage of having a big and growing internal market, improved the position of Brazil in the world-system hierarchy and reduced the country's vulnerability.

Regarding the patterns of interdependence, the vulnerabilities of Brazil were similar to other countries following the gold standard rationale, but with the addition of being particularly vulnerable to the market conditions of one crop, coffee, and its demand in one key market, the US, as well as the fragile internal political situation. However, the thirties was a period of hegemonic shift from the UK to the US. As Wallerstein's analysis goes, this shift was

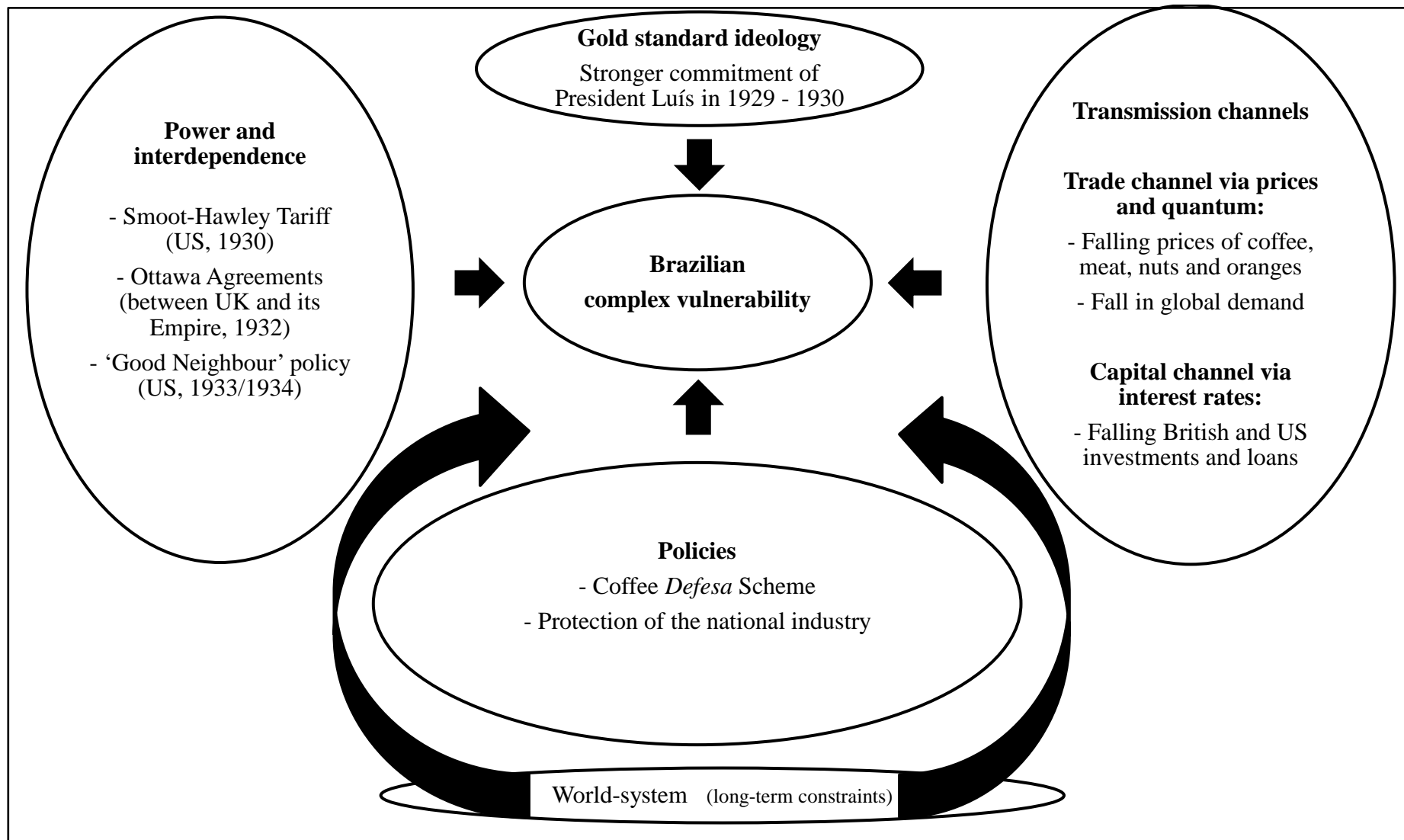
accompanied by accommodating US diplomacy willing to skip short-term interests in order to gain hearts and souls in its undeniable rising position in the world-system. Thus, the US lacked the political willingness of British diplomacy to impose solutions. This fact gave Brazil a unique opportunity to leverage its position in the world-system. Only a few semi-peripheral countries are able to translate that condition in the world-system hierarchy into a real shift in economic position at any given moment in history. Although beyond our period of analysis, it is possible to say that the history of the twentieth century shows that Brazil as a semi-peripheral country managed to take a better use of that position in the world-system. The special context of global downturn and power vacuum during the thirties helped Brazil in that regard. Since then it achieved a degree of industrialization and international standing remarkably different as compared with the semi-agrarian and deeply underdeveloped position of the nineteenth century and first decades of the twentieth.

As a summary, in Figure 28 we illustrate the forces at work for Brazil according to our concept of complex vulnerability. In this country the trade contraction was less important than in Argentina and Uruguay due to many factors, of which it is worth mentioning that the coffee *defesa* scheme managed to support national income as a type of anti-cyclical policy that in spite of the short-term collapse of 1929-1930, helped during this period the performance of the economy. However, policies such as the late departure from the gold standard system and the highly orthodox policies of the last year of the Luís administration had the opposite effect, especially at the beginning of the crisis. The authorities also were driven by political considerations linked to the weakness of the First Republic and the revolution of Vargas of 1930. This period is marked also for a new phase of industrialization built in a highly protectionist environment. Brazil's position in the world-system was helped by an accommodating US diplomacy willing to confirm its hegemony.

Uruguay

The impact of the Great Depression represents a genuine landmark in Uruguayan political history. Even though the crisis that Uruguay had to face could be categorized as moderate if compared with, for example, the US; the slump of the Uruguayan economy during the period 1931-1933 was one of the worst recorded in local history.

Figure 28 Diagram of forces affecting Brazil during the Great Depression (1928-1934)



As in other countries, the GDP slump in this country was deeply influenced by the falling demand from the core countries, the protectionist measures taken by key trading partners (trade war), and the currency depreciation. As a matter of fact, recalling our analysis of the HHI, although Uruguay was not the country with the most concentrated trade structure in terms of product, it did end up more affected through the trade channel than the HHI told us a priori. Indeed, the bulk of the negative effects of the Great Depression came one year later than in Argentina and Brazil, but they were devastating. When the crisis hit, every external variable conspired against Uruguay. An imbalance of payments combined with a significant terms of trade deterioration, economic contraction and fiscal deficit were the measurable indicators of the Uruguayan Great Depression. Indeed, given its regional location and economic ties with Argentina and Brazil, and its dependence on a few foreign markets, Uruguay could not escape similar hardships to its bigger neighbours after the outbreak of the crisis. Moreover, Uruguay was in a much more uncomfortable situation than its neighbours. Its narrow internal market determined that the economy depended fully on external markets, and in addition its exports were deeply concentrated on meat and meat by-products, mostly exported to the UK. As the authorities explained, Uruguay was a country “which depended solely on its meat trade for its existence”⁸³⁴. Thus, the closure of key markets, such as the UK because of the Ottawa Agreements and the US because of the foot-and-mouth disease, as well as natural disasters such as locusts and drought, all contributed to the trade collapse.

Regarding policies, our period of analysis is remembered because of the policy measures that at first seemed temporary but ultimately lasted for decades and marked a clear change of the model of international insertion of the country. When the drain of foreign capital added to the plunging exports and the inability to prevent the peso from depreciating, the natural reaction of the government was not different from other countries worldwide: exchange control, devaluation and moratorium on the payment of the foreign debt. In commercial terms, this global crisis meant for Uruguay the end of an era of export-led growth, as the economy began to close. After all, protectionism reigned worldwide and Uruguay was not the exception. But probably the most important legacy of the Great Depression in Uruguay is the consolidation of a long-term path of government interventionism, first led by the National Administration Council (CNA) since 1931, and later by President Terra’s *de facto* government after 1933. This period constitutes for Uruguay a landmark, even as compared with the old *batllista* policies of the first two decades of the twentieth century.

In any case, the main package of policies applied by Uruguay was, on the one hand, in 1931, when the country started to feel the impact of the Great Depression and the depreciation of the

⁸³⁴ See note Nr. 154 signed by R.C. Michell to Mr John Simon dated November 9th, 1932, regarding a meeting with the manager of the BROU, Mr. Morató, with representatives of the Uruguayan British chambers of commerce, the Uruguayan banks, the Bank of London and South America Limited, the two agricultural federations, the Uruguayan chilled meat factory and the foreign chilled meat companies, in “Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK” in FO A.5984/1864/46, BT 11/114.

pound sterling after the suspension of the gold standard by the UK, and on the other hand in 1933-1934, after the US dollar devaluation. Among the measures taken by the CNA, the exchange control introduced in 1931 and institutionalized by Terra's regime after 1933 favoured exporters – often of value added goods-, restricted imports abruptly and boosted the domestic market. This situation was mirrored in the increase of industrial production. For many countries the exchange control was used as a tool in a negative juncture, not only to save hard currency, but also as a source of revenues for the public sector in times of fiscal trouble. However, for Uruguay this policy became almost permanent for fifty-four years. Certainly, it is remarkable that most political parties did not question the convenience of keeping the exchange control for so long. Nevertheless, the introduction of a dual exchange rate system in 1934 had a beneficial effect in relation to tourism and services, and the flow of capital remained mostly unconstrained and beyond government intervention. Thus, the existence of a free market worked as an anchor against fiscal irresponsibility and political unrest.

The management of the value of the peso had important political implications. As the economic life of the country circulated around activities related to cattle farming, there was a growing discontent among the landowner elites over the country's competitiveness and the way the government was handling the crisis. The cattle farmers, who defended a stagnant sector suffering from drought, diseases and the slump in international prices, demanded a stronger depreciation of the peso to keep the competitiveness of the Uruguayan produce high. But the CNA's policies were closer to the emerging industrial economy. Thus, this clash between the cattle farmers and the CNA prompted internal political turmoil built on the shortcomings of the institutional framework that enshrined a potential clash between the CNA and the presidency over the conduct of the economic affairs of the country. As the CNA was in charge of the economic policy, the President could not respond by enacting policies of its own. Whenever the economic situation deteriorated, the President blamed the CNA for its perceived inaction to face it. That is why in Uruguay the international economic hardship translated easily into internal social and political turmoil, marked by the coup of incumbent President Gabriel Terra in 1933 against the CNA and later the accommodating constitutional reform of 1934, all events that marked Uruguayan history.

Nevertheless, the new government had to take into account the claims of industrialists for stronger protection against foreign competition and cheaper and easier access to intermediate and capital goods. With the creation of two strategic public monopolistic companies, ANCAP in 1931 (petroleum) and CONAPROLE in 1935 (dairy products), the national industry gained ground in the national economy. Furthermore, industry managed to increase its output and relative importance among the economic activities and its dynamism contributed to consolidating the country's economic recovery. The strong dependence of this sector on energy inputs, technology and certain foreign raw materials prompted stronger state interventionism with the aim of saving foreign currency, prioritizing its expenditures and promoting industrial activity. Also, Uruguay managed to create its own national meat-packing plant, *Frigorífico Nacional*. But, it did not develop as expected due to problems of scale, commercialization bottlenecks and the control of the North American trust over the prices paid to the livestock farmers, distribution channels and marketing conditions. However, there was no room in Uruguay for industrial policies of the sort

adopted in Brazil and later in Argentina. For the small market scale of the Uruguayan economy, those policies would probably have been costlier in terms of efficiency. Nevertheless, the executive decreed fiscal benefits for those national industries that expanded their scale or the new investments that settled in the country. As a result, in 1936 the textile industry, like in Argentina, became one of the main drivers of Uruguayan exports. However, measures of this kind that favoured the industrial sector were a source of dissatisfaction for the rural sector that had to cope with the stagnation of the cattle farming related activities. That is why the Revaluation Law was put in place in 1935 as a non-declared currency devaluation to boost agricultural exports. The revenues derived from this measure made it possible to grant premiums for exports, a reduction of property tax and improvements in education, among other measures.

Regarding the patterns of power and interdependence, similarly to Argentina, the British protectionist trade policies also deeply affected the Uruguayan economy. Furthermore, as we have seen in documents obtained from the National Archives at Kew, Richmond, England, Uruguay was low in British diplomatic priorities and the Uruguayan officials in many representations made in London and Montevideo were not able to persuade the British counterparts in the same way as the Argentineans did to pursue trade negotiations as fast as the economic context required. However, the Cosío-Hoare Agreement with the UK signed in 1935 followed the example of the Roca-Runciman Treaty signed with Argentina in 1933, and both show the importance of British influence on the River Plate at the time. But the fact is that this outcome was delayed for three years since the Imperial preferences were implemented in 1932 and at least as detrimental as in the case of Argentina. Uruguay also tried to distort trade and capital flows by means of interventionist measures, but those were mostly not applied due to the fear of retaliation from core countries.

As a summary and similarly to the other two cases we illustrate in Figure 4 the main elements that constitute the complex vulnerability of Uruguay. The bulk of the negative effects of the Great Depression came to Uruguay one year later than in Argentina and Brazil. Its internal market was limited and its economy deeply dependent on meat and meat by-product exports, mostly exported to the UK. Exchange control, devaluation and moratorium on the payment of the foreign debt were all unavoidable measures that added to a path of growing government trade protectionism and interventionism in the economy signalled by an increasing number of public monopolies. More in Uruguay than in its neighbours, the management of the value of the peso was a strongly debated issue because it determined the balance between the powerful cattle farmers and the government. However, the limited size of the country determined that there was no room in Uruguay for industrial policies of the sort adopted in bigger countries. The patterns of dependence were similar to Argentina regarding the British, although its diplomatic leverage was significantly lower, befitting a semi-peripheral country very low in the hierarchy of the world-system. From the political point of view, the tensions within the government translated into an exacerbated questioning of the CNA that eventually led to the coup of President Terra of 1933. Afterwards, under the new regime, the capitalist land owning sector was benefited by some measures from the

government, although the long-term path of increasing state interventionism would hold for many decades.

iv. The need for a complex vulnerability approach

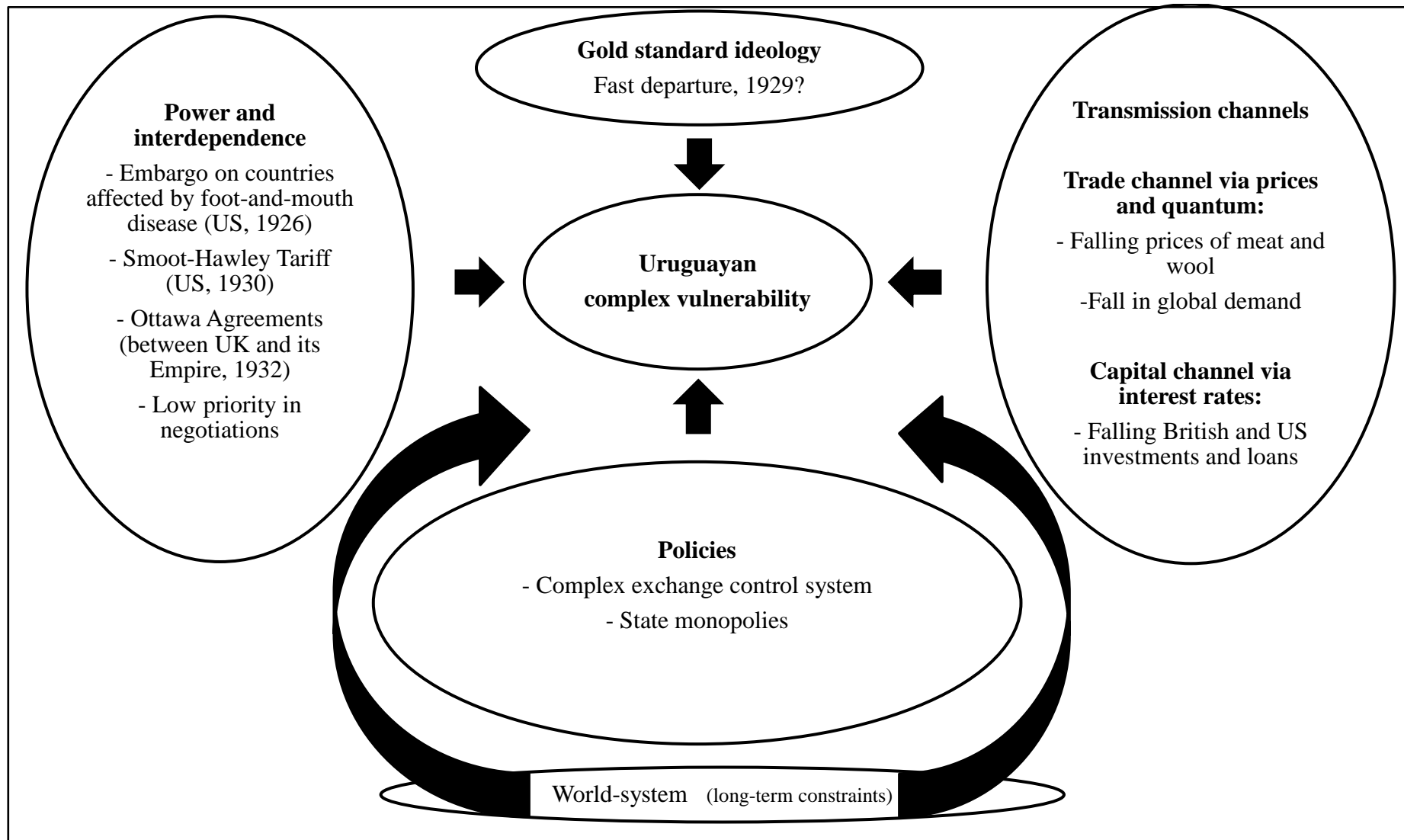
In the previous section we have summarized the findings of our text and constructed a picture about how our concept of complex vulnerability is suitable for the experience of each of our three case countries during 1928-1934. In order to be more descriptive and analytical, we finalize our research in a more comparative way, which enriches our academic contribution.

We start with the transmission of the Great Depression from core to ABU that we mainly analysed in Chapter IX, and for that purpose we summarize in Table 82 the results regarding transmission. We assign an ordinal ranking of the magnitude of the contraction of selected economic indicators, from 1 (the highest value of the variable of the three countries) to 3 (the lowest). Although in some items the evaluation necessarily includes a subjective component, in all the cases there is a foundation in the research contained in our thirteen previous chapters.

In general, it can be said that Uruguay suffered a strong depression, Argentina reached a depression and Brazil suffered a strong recession. Regarding the sectoral behaviour, either using the industry or landing activities GDP, we find that the crisis in Brazil was milder as compared with the other two countries. Uruguay was the hardest hit, but the contraction arrived later and lasted longer. This country also shows the strongest variability of sectoral GDP, suggesting a stronger impact and exposure to foreign flows. Also, it can be said that the two countries with a stronger industrial basis, Argentina and Brazil, benefited from an early recovery of industrial activity. In both larger countries, some industrial sectors grew during 1931-1934, compensating in this way for the contraction of other sectors.

Trade was the main transmission channel of this crisis, and the vulnerabilities spread into the economies, which fuelled other structural vulnerabilities of each of them. For example, the vulnerabilities related to trade were amplified due to the fact that the governments of ABU were strongly dependent on the income from the foreign trade. Wherever a tax system is strongly dependent on custom taxes, government finances are particularly vulnerable to the contraction of trade. Recalling our conclusions of Chapter IX, beyond the mechanical transmission of the crisis through trade, the most vulnerable of the three from the fiscal point of view was Argentina because of its high dependence on the foreign trade taxes. By contrast, the case of Uruguay shows the soundest fiscal structure, both in terms of share of fiscal dependence on foreign trade taxes and the ratio of fiscal deficit to total revenues. However, in spite of its better starting position, the government figures unavoidably suffered. Further, the strong expenditure cuts and tax increases in this country are consistent with the collapse of foreign trade. Brazil was the country in which the fiscal revenues suffered the most, although it is important to keep in mind that the deterioration of 1932 is more a consequence of the costs associated with suppressing the revolution of São Paulo than a direct effect of the Great Depression.

Figure 29 Diagram of forces affecting Uruguay during the Great Depression (1928-1934)



From our analysis we conclude that the economies of ABU contracted as a consequence of the transmission of the crisis from the North through trade and capital flows. In particular, the actual experience shows that most of the agricultural prices relevant for Argentina were also relevant for Uruguay and to a lesser extent to Brazil. The fall of prices of beef, cattle hides, wheat and maize in Argentina, beef and wool in Uruguay and coffee in Brazil seen during 1928-1932 was transferred through the trade channel. Moreover, protectionist trade policies such as the Smoot-Hawley tariff enacted in June 1930 in the US and the Imperial preferences applied by the UK in 1932, among others, were specially felt during 1930-1933, and hit ABU evenly.

And in spite of the initial *ex ante* assessment about the perceived relatively lesser vulnerability of Uruguay of our hypothetical researcher in Section ii who only took into account the degree of trade concentration, fiscal structure and level of foreign reserves in 1928; the actual *ex post* contraction of 1928-1934 suggests the opposite. The greater Uruguayan fall of trade is consistent with a long lasting and stronger contraction of economic activity. In particular, the fall in commodity prices hit hard the Uruguayan key agricultural sectors, a feature that is particularly revealed by the contraction in 1931 of the cattle farming GDP in that country. The small market and the lack of strong autonomous industrial basis or services meant that the foreign-induced contraction of trade impacted Main Street hard.

However, this outcome, suggesting a stronger vulnerability of Uruguay, is still inconsistent with its *ex ante* perceived soundest economic foundations. Something similar but in the opposite direction could be said about the case of Brazil. Thus, in order to explain why Uruguay actually was the most vulnerable of the three countries or Brazil the lesser, it is necessary to follow an eclectic approach and to incorporate other elements from political economy to the analysis.

Table 82 ABU: Ordinal ranking of transmission channels and effects

	Argentina	Brazil	Uruguay
Collapse of the GDP	2	3	1
Extension of the Great Depression	1	2	1
Fall of industry GDP	2	3	1
Fall of landing activities GDP	2	3	1
The collapse of trade	2	3	1
Ratio of fiscal deficit to government revenues	1	2	3
Fall of fiscal revenues	2	1	3

Following our reasoning of the introductory chapter, conceptual framework and the country focused analysis of our previous section, we move to address the other forces affecting ABU during the Great Depression. In Table 83 we present some elements that illustrate the ordinal ranking of the gold standard. Indeed, in every historical event, it is important to take into account the ideology predominant among decision makers. Consequently, for our period of analysis, an

assessment of the researcher about the real commitment of such persons to the gold standard ideology that predominated during the twenties is important in order to incorporate that element to the evaluation about the relative vulnerability of a country during the Great Depression. In the context of the contradiction between that ideology that dictated a strong commitment to deflationary forces, and the need to avert the economic depression, ABU had to individually make hard choices, that nevertheless show a remarkable coincidence in timing and content. One of them was the early departure from the gold standard system during 1929-1930, a move that in a way was validated later by the departure of the UK (1931), the US (1933) and other major players until 1936 and confirms that in spite of the official discourse, the commitment to the gold standard was at best weak.

However, there are nuances. While Argentina suspended the Currency Board in December 1929 and in Uruguay there was a debate about its return to the system after 1914, Brazil waited until November 1930 to suspend the gold standard. It is possible to say that in a way Argentina and Uruguay were more open to the idea of departing from the gold standard logic because of their strong view about safekeeping the stock of international reserves and a dose of pragmatism facing the revealed severity of the crisis. Nevertheless this decision in the case of Uruguay does not necessarily mean a complete departure from the idea of linking the issue of currency with gold holdings, especially before 1931. By contrast, Brazil eventually followed suspending the gold standard only when its foreign reserves were depleted. This explains why in our view Brazil was relatively more vulnerable vis-à-vis Argentina and Uruguay when the Great Depression arrived because of the stronger commitment of President Luís' government to the gold standard. The monetary behaviour of Brazil and to a lesser extent Uruguay suggests that both countries suffered monetary contraction that contributed to exacerbating the downturn at the time the Great Depression arrived, an assessment that is also in line with the expected behaviour of countries already influenced by the gold standard. Here, it is important to point out that even though Uruguay was not committed to the gold standard, it was committed to gold, as the BROU's issue function was legally constrained by the gold holdings.

In any case, the three countries were in the first group of countries to suspend for good the gold standard. And within Irwin's (2012) trilemma of the gold standard mentioned in Chapter X, each of our case countries decided to impose exchange control systems. The combined effect of both decisions was a diminished pressure of the deflationary forces of the gold standard that contributed to a faster recovery of the economies and also provided governments with extra revenues. Indeed, on the one hand, the exchange controls allowed the governments to use the foreign currency as a non-tariff mechanism, so that they could handle foreign trade; and, on the other hand, to obtain fiscal revenues by profiting from the differences between buying and selling rates in the official markets. Those extra funds allowed either the financing of additional sectoral policies or the addressing of the growing fiscal deficits. The imposition of the exchange controls was firstly introduced in January 1930 by Brazil and lasted until November of that year. Later by decree of September 30th, 1931, a new permanent system was established. In Uruguay, a more permanent arrangement was enacted by law on May 29th, 1931, although it was only operative in

September of that year. And in Argentina the exchange control was enacted by decree on October 10th, 1931. Consequently it is possible to say that all three countries had put in place permanent arrangements by October 1931, but important backgrounds were the Brazilian temporary system of 1930 and the Uruguayan Law of May 1931. In this regard, it is relevant to point out that even though Brazil hesitated to leave the gold standard in 1930, it was swift following the example of Germany, for example, which officially kept with the gold standard, but introduced exchange control.

The imposition of exchange controls was also accompanied by a strong depreciation of local currencies. In particular, the Uruguayan peso shows the most prominent loss of value against the US dollar, a feature that is in line with our previous assessment regarding the stronger exposure of the country to foreign trade fluctuations and the lack of a stronger internal market. The Brazilian and Argentine currencies also depreciated strongly, especially the former in 1931, but during the period 1928-1934 on average both reached a similar variation.

As a consequence, from the point of view of the ideology of the time, it is possible to say that Brazil was the most vulnerable country of the three due to the relatively stronger commitment of president Luís to the gold standard. Also Uruguay was vulnerable because its inability to pursue expansive monetary policy.

Table 83 ABU: Ordinal ranking of gold standard ideology related issues

	Argentina	Brazil	Uruguay
Departure of the Gold Standard	1 12/29	2 11/30	1 12/29
Exchange control	3 Decree 10/10/31	1 Temporary 1/30 Permanent Decree 30/9/31	2 9/31 Law 29/5/31
Devaluation	3	2	1
Depletion of foreign reserves	2	1	3
Freedom of monetary policy	1	3	2

Now, it is adequate to move to the analysis of the policies followed by ABU, our second element of the concept of complex vulnerability. In Table 84 we illustrate the ordinal ranking of policies in a similar way to previous tables. Argentina was the most vulnerable of the three from the point of view of the foreign debt due to its commitment to keep paying it, in spite of the fact that the Argentine revenues were the most dependent on the foreign trade taxes and consequently its revenues were severely hit by the falling prices of key commodities. It was a decision taken almost in isolation, as most countries worldwide chose to default.

All three countries were strongly interventionist, as they applied heterodox policies in order to diminish the negative effects of the Great Depression. Among those policies the already

mentioned early departure from the gold standard ideology was part of that package. However, if we try to measure the degree of state interventionism on the economies, comparing the three countries, the results would not be conclusive. But it is relevant to make some comments. The most representative interventionist measure of the Brazilian case is the coffee *defesa* scheme, in Argentina the use of regulatory boards and in Uruguay the creation of state owned monopolies. In particular, in chapters VI and XI we analysed how Brazil counted on its coffee *defesa* scheme that willingly or not had the positive effect of smoothing the cycle. Argentina also had some price support scheme in order to protect key staples (grains) by 1933-1936. Even in Uruguay, in spite of having very limited resources to enact such measures, there was an attempt at intervening in the commercialization of certain grains (maize and wheat) during 1928-1930. In this respect, both Brazil and Argentina had at their disposal more resources to apply such policies. In addition, ABU also became strongly protectionist countries. However, of the three, Brazil presents the highest tariffs and the most directed policies to the protection of national industry, for example to the textile industry.

In Chapter VIII we have seen that all three countries presented political tensions that linked one way or the other with the struggle of the agricultural activities and the newly rising industrial sector, and the respective social classes that came from them. All the three countries witnessed coups and political high intensity struggles, although probably the case of Brazil is the one showing the most dramatic shift of institutional foundations: firstly with the collapse of the First Republic and later in 1932 with the civil war with the State of São Paulo.

With this background, it seems that the country most lacking in resources to apply heterodox policies, Uruguay, was in this regard the most vulnerable. However, it managed to create strong state monopolies in key services, although with varying results. For example, it is doubtful whether the state owned meat-packing plant created in 1928 changed the reality of a market still dominated by British and American interests.

Table 84 ABU: Ordinal ranking of policies

	Argentina	Brazil	Uruguay
Suspension of the payment of foreign debt	2	1 (1/9/31) Decree 7/10/31	1 (7/9/31)
Countercyclical policies	2	1	3

The last element in our quest for a better understanding of the concept of vulnerability is the influence of power and interdependence among nations illustrated in Table 85. As we have shown in detail in this thesis, the foreign trade and production levels of ABU were deeply influenced by the decisions of the developed countries that traded with them due to the strong dependence on the exports of coffee, meats, wool and grains. ABU were also a prominent market for British coal, manufactured goods and capital exports. As a result of this asymmetric interdependence, the UK

had a dominant position in trade negotiations with Argentina and Uruguay vis-à-vis other core powers. By contrast, the competitive nature of US agricultural production made trade negotiations and flows with Argentina and Uruguay less dynamic. For that reason, both countries presented persistent deficits with the US and surpluses with the UK.

Regarding the patterns of dependence, we have seen in Chapter XII that there was an important difference between on the one hand Argentina and Uruguay which depended more on the British interests, and on the other Brazil, which depended more on the US market. With the US the epicentre of the Great Depression, it could be argued that in this regard the *ex-ante* Great Depression relative vulnerability of Brazil was higher due to this fact. Moreover, the fact that the previous closure of the US market to the Argentine and Uruguayan meats during the twenties due to the foot-and-mouth disease had already made that market less relevant at the time the wave of the crisis reached the River Plate, so that most of the trade contraction for these countries would have to come from other places than the US. Furthermore, even though none of the three countries were highly ranked in the international arena ruled by core powers, the Argentine Republic could be said to have enjoyed at that time a higher hierarchy in the international world-system.

As we have shown from documents obtained from London and Washington, the diplomacies of Argentina, Brazil and Uruguay were active in trying to minimize the damage of core countries' policies, but also clearly show the different capabilities of these countries to obtain concessions based on mutual interconnectedness. Their success was nevertheless limited, especially in the case of the UK Imperial tariffs that benefited direct competitors from the Commonwealth. Although Argentina could not escape the nature of its commercial links to the world that meant a strong leverage for British diplomacy, the UK was sensitive due to the need to protect its important investments, so that they also needed a settlement. The complex interdependence between the British and Argentineans explains the higher priority of Argentina in British diplomacy and the relatively higher leverage of the former to negotiate a better positioning regarding protectionist trade British policies. This explains the outcome of the Roca-Runciman Treaty between Argentina and the UK in 1933. Uruguay also reached an agreement, but only in 1935, too late to curb the effects of the Great Depression, a foreseeable outcome due to the low position of Uruguay in the world-system.

The statistical evidence in the Brazilian case suggests that even though the perceived *ex ante* trade vulnerability was higher, it did not translate in full into actual trade contraction, because the main destination of its coffee, the US, did not use its leverage as much as it could to turn Brazilian policies around. By contrast, the other two neighbours were highly dependent on the British market, and the UK government was more committed to exerting its leverage during commercial negotiations. The conclusion of this is that Uruguay was the most vulnerable country to the policies of the time due to its scarce resources to persuade foreign powers and its low position in the international hierarchy of the world-system. On the opposite front were Argentina and Brazil, although for different reasons, the former because of its better positioning in the world-system, and the latter due to the indifference of the US.

Table 85 ABU: Ordinal ranking of power and interdependence

	Argentina	Brazil	Uruguay
Dependence on the US	3	1	2
Dependence on the UK	1	3	2
Lack of international hierarchy	3	2	1

Finally, we need to analyse the relationship between complex vulnerability and the world-system. Beyond trading relations, the twenties and the thirties was a time of changing hegemony in the world-system and that change allowed for some increased degrees of freedom to semi-peripheral states willing to improve their hierarchy in that system. Indeed, the power of the UK was being surpassed by the US, not only in terms of military and diplomatic resources, but also in terms of the control of the main financial flows worldwide. However, the Americans were still in the process of gaining the souls and minds of lesser powers, especially in their Latin American backyard. The US did not exert at that time the kind of pressure of the British were willing to exert to protect what was left of their Empire, knowing its weakness. In this changing context, even though Immanuel Wallerstein's analysis can be questioned in multiple aspects, it includes the appealing notion that there is a particular group of semi-peripheral states with a chance to play an improving role in the capitalist world-economy, especially at times of world economic downturn. As our analysis has been eclectic in nature, this notion is in our view not inconsistent with Kindleberger's analysis of hegemony and his reference to the power vacuum left by the change of hegemony during the thirties, which is also helpful to illustrate the role of ABU in the world-system.

Up to some extent these countries attempted with different degrees of success to make use of these increased degrees of freedom at the expense of core countries due to the change of hegemony and the economic collapse. Protectionist policies, including discrimination in the allotment of scarce foreign assets and non-tariff barriers, willingly or not, boosted the development of new industries and changed the paradigm of international insertion of all these countries. Although these measures did not change the foundations of the interdependence patterns that linked them to the world-system and its basic structure containing peripheral, semi-peripheral and core countries, they paved the way for a transformation of the economies to more industry-oriented ones.

Regarding the most recent experience of ABU, over time the three countries attempted to improve their position in the world-system, but the one that used more advantageously its size and the vacuum left by the changing hegemony was Brazil. As we have seen in Chapter IV, it is decisively the country that achieved a stronger industrial basis with a more diversified export basket, and an improved positioning in the world-system. The latter can be seen in Brazil's leading role in groups such as the BRICS or the G20, and its serious aspiration to hold a

permanent seat in the Security Council of the United Nations. And regarding our analysis of Chapter XIII, it is fair to say that the three countries nowadays are prepared to apply counterbalancing policies in times of crisis, so that at least in this regard they are less vulnerable than during the thirties. Moreover, although the mechanisms of transmission are operating similarly as eighty years ago, the vulnerabilities evidenced by the transmission channel have shifted to other world powers, notably China.

The main conclusion regarding the transmission of the crisis is that even though Uruguay held important stock of foreign reserves, the government finances were a priori less dependent on foreign trade taxes and its exports were not the most concentrated if compared with its neighbours, this country was nevertheless the most vulnerable of the three if a concept of complex vulnerability as the proposed in this thesis is applied. Most of our analysis points in this direction.

In relation to the transmission of the crisis, we have seen that the trade and economic contractions arrived late to Uruguay, but both were strongest there. Thus, soundest economic fundamentals were not enough to prevent a hard landing. Those could delay the collapse, but not prevent it. Moreover, the other three elements that constitute our concept of complex vulnerability approach clearly reveal the difficulties of Uruguay during the Great Depression. In spite of the abandonment of the gold standard, its institutional framework was designed and its decision makers were influenced by the idea of linking the money supply to the gold holdings, limiting the role of monetary policy. This stance was not a result of the allegiance to the gold standard ideology, but a sort of a conviction regarding a gold stock ideology with similar, although smoothed pro-cyclical effect. Regarding policies, beyond the exchange control and suspension of the payment of the foreign debt, the government lacked resources available to Argentina and Brazil to apply counterbalancing policies to smooth the cycle in key economic sectors and as a consequence it was more difficult for the government to curb the crisis. And with respect to patterns of power and interdependence, Uruguay was not a priority for major or even regional powers, so that it could not negotiate effectively, or in a timely manner, better access for its key staples in times of hardship. Finally, in spite of its strategic position in a semi-peripheral region, Uruguay was less capable of improving its hierarchy in the world-system as compared with Brazil, for example.

Beyond the four pillars of the complex vulnerability analysed in this thesis, other factors to explain the performance of Uruguay during the Great Depression such as the limited internal market and relatively less important industrial activity can be pointed out as possible additional elements to consider influencing that outcome. It might be worth including them in future research, possibly as new constituting elements of a more useful concept of complex vulnerability.

Our research leads us to confirm our hypothesis that Argentina, Brazil and Uruguay were highly vulnerable to the Great Depression, and among them, the smallest country was the most vulnerable of all.

