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

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## Summary

In this thesis Marcelo Gerona and Silvana Sosa undertook an analysis of the Great Depression (1928-1934) in a sample of three highly interconnected South American countries: Argentina, Brazil and Uruguay (ABU). The problem tackled by our research is the strong vulnerability of these three countries, in light of the current state of knowledge. Our hypothesis is that Argentina, Brazil and Uruguay were highly vulnerable to the Great Depression, and among them the smallest country was the most vulnerable of all.

In the Introduction the authors present the aim of the research, the hypothesis and the constituent elements of a new concept of complex vulnerability that are illustrated in Figure 1 of this thesis: the transmission channels of a crisis, the comprehensive concepts of ‘power’ and ‘interdependence’, the analysis of the gold standard ideology and the policies implemented by governments. The notions of core, periphery and semi-periphery from Immanuel Wallerstein’s world-system analysis are introduced in order to shape and enlighten our wide definition of vulnerability. Also included are a general overview of the sources of information, the literature review, the objectives of the field trips made (London, Montevideo and São Paulo) and the key methodological and statistical shortcomings.

The remainder of the text is divided into three parts. Part One includes the chapters concerning the background of our research. Chapter II contains the conceptual framework that guides our work, including an economic description of the transmission channels of an imported crisis, as well as other concepts borrowed from the fields of international relations and international political economy. Chapter III comprises the historical framework of the Great Depression with a link to the financial crisis that broke out in 2008, the role of the key core countries, the ‘contracting spiral of world trade’, the defensive measures adopted worldwide and the impact of the crisis on Latin America. Chapter IV puts Argentina, Brazil and Uruguay in perspective by comparing the economies and structure of commerce between the periods 1928-1934 and 2007-2010 and revisiting the regional and worldwide significance of ABU. The results of the Herfindahl-Hirschmann index (HHI) suggest that ABU were more vulnerable to external real shocks during 1928-1934 than during 2007-2010, due to a higher concentration in terms of export goods and market destinations.

Then, Part Two describes the situation of Argentina, Brazil and Uruguay before the crash. Chapter V presents the general situation of Argentina, focused on its economy, its relatively high international standing, significant dependence on UK exports and capital flows, all in the framework of a turbulent political scenario that gradually would undermine the second presidency of the aging Hipólito Yrigoyen. Chapter VI addresses the general situation of Brazil at the sunset of the Old Republic, its strong underdevelopment, the influence of the gold standard thinking on policy, and the importance of the coffee economy and the coffee defesa scheme in the country. Chapter VII addresses the characteristics of the welfare State created by the batllismo led by José Batlle y Ordóñez in Uruguay, the role of state-owned

monopolistic entities and the strong vulnerabilities of the country due to its limited internal market and exposure to the swings of exports of raw wool and meat.

Part Three constitutes the core of the research as in it we seek to analyse the complex vulnerability of the three countries. Chapter VIII explores the increased political difficulties in Argentina which led to the military coup of Uriburu in 1930, followed by the Justo government after 1932; the political process that led to the coup of Getulio Vargas in 1930 in Brazil; and the tensions within the executive power in Uruguay that led to the coup of Terra in 1933. One conclusion is that the external shock and the political outcomes were correlated, at least in the short and medium-term. The internal struggle for power among pressure groups was determinant to the final political outcome. Chapter IX analyses the transmission of the crisis from the core and concludes that even though the degree of trade concentration, along with a better fiscal profile a priori suggested that Uruguay was not among the most vulnerable countries from the three, the actual figures of trade and contraction in economic activity tell that this perception was not accurate. Meanwhile, in Brazil trade vulnerability did not translate in full extent into trade contraction. One possible reason for this outcome is that the main destination of its coffee, the US, did not use all its leverage as much as it could to turn Brazilian policies around.

Chapter X addresses the role of the gold standard ideology. Although Brazil delayed its decision, the three countries chose to depart early from the gold standard. They all established instead exchange control systems and also strongly devalued their national currencies. These measures contributed to reducing the countries' vulnerabilities to the worldwide deflationary forces. Chapter XI explains the policies applied to mitigate the negative impact of the crisis. The conclusion is that all three countries applied heterodox policies, but with differences in timing. The main ones in Argentina were the imposition of exchange control, the price support schemes for grains, the use of regulatory boards and the creation of a Central Bank in 1935; and in Uruguay stronger government intervention through the use of state owned monopolies and a complex mechanism of exchange control. Brazil represents a paradigmatic example of vulnerability to a single staple, but paradoxically, the coffee defesa scheme was also a sort of countercyclical policy. In the three cases the thinking of the incumbent governments was increasingly interventionist, in line with a rising path for import substitution industrialization policies. Chapter XII presents the influence of the patterns of complex interdependence that linked each country to the world-system. The conclusion is that taking into account the strong links of Argentina and Uruguay with the UK and the relative autonomy of Brazil, the latter was less vulnerable to the changes of policies of the main trading partners. However, the world-system still prevailed and limited the options of the governments. In Chapter XIII we make a link to the recent past by comparing the Great Depression of 1929 with the Financial Crisis of 2008. Despite the analogies between the two downturns, governments in the recent case implemented faster and sharper fiscal and monetary policies than in the thirties: a reason why the worldwide contraction was milder in 2007-2010. The role of new emerging markets and multilateral institutions are also highlighted.

Finally, and always taking into account each of the elements that shape the concept of complex vulnerability, some concluding remarks are presented, focused on the experience of Uruguay as the smallest country. Regarding the transmission of the crisis, this thesis shows that the trade and economic contractions arrived late to Uruguay, but both were strongest there. Thus, the soundest economic fundamentals were not enough to prevent a hard landing. Moreover, in spite of the abandonment of the gold standard, the country was influenced by the idea of linking the money supply to the gold holdings, limiting the role of monetary policy. Regarding policies, beyond the exchange control and suspension of the payment of the foreign debt, the government lacked the resources available to Argentina or Brazil to apply counterbalancing policies to smooth the cycle in key economic sectors. And with respect to patterns of power and interdependence, Uruguay was not a priority to major and even regional powers, so that it could not negotiate effectively and in a timely manner better access for its key staples in times of hardship. Finally, in spite of its strategic position in a semi-peripheral region, Uruguay was less capable of improving its hierarchy in the world-system as compared with Brazil, for example. Thus, it is concluded that even though Uruguay held an important stock of foreign reserves, the government finances were a priori less dependent on foreign trade taxes, and its exports were not the most concentrated if compared with its neighbours, this country was nevertheless the most vulnerable of the three if a concept of complex vulnerability as proposed in this thesis is applied. Thus, our research leads the authors to confirm the hypothesis.