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TEXTO PARA DISCUSSÃO

Nº 31

Latin America in

the 1930s

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I. Introduction

Latin American development experienced a turning point during the 1930s. The contrast between “before and after 1929” may often be exaggerated, but there is little doubt that the decade witnessed a closing toward International trade and finance, and a relative upsurge of import-substituting activities, primarily but not exclusively in manufacturing. Other trends visible before 1929, such as urbanization and a growing interest by the State in promoting economic development, continued into the 1930s, and accelerated in some countries. Memories of the 1930s have profoundly influenced the region’s attitude toward International trade and finance; per capita foreign trade indicators reached by the late 1920s were not surpassed in many nations until the 1960s.

At least some Latin American economies performed surprisingly well during the 1930s, relative to North America, and relative to what average opinion would have expected to happen in quite open, primary-product exporting nations. This essay will view the economic performance of each country as the result of the magnitude of the exogenous external shock received, of the policy measures undertaken by domestic authorities to speed adjustment to those shocks and to seek external and internal balance, and of the resilience of local private agents in responding to the new constellation of profit opportunities. Shocks, policies and capacities to transform differed substantially from country to country.

Ability and willingness to manipulate policy instruments such as nominal exchange rates, tariffs and domestic credit were greatest in countries which were either relatively large, such as Brazil, or had relatively autonomous public sectors; such as Costa Rica and Uruguay. Smaller countries, e.g., Honduras, or those with highly dependent governments, e.g., Cuba, had less room for policy manoeuvre. Large domestic markets encouraged resource reallocation in the circumstances of the 1930s, and had already induced substantial industrial capacity before then. Other structural features, such as the production characteristics of traditional exports, and the extent of foreign control of local banking and land, also played a role in determining the elasticity of response to the new relative prices. The generalization that largeness and policy autonomy were favourable to performance covers only republics with nominal sovereignty. Paradoxically, some clear-cut colonies in the Caribbean appear to have performed better than Cuba or the Dominican Republic.

An era of export-led growth culminated in Latin America during the 1920s. In some countries such as Chile, Cuba and Brazil, the limitations of external demand for the traditional staple had become clear by the late 1920s, while in others those years witnessed unprecedented export booms. Foreign capital, both portfolio and direct, flowed massively into both types of countries up until 1929, so balance of payments surplus or at least equilibrium was the rule. As in the rest of the world, there had been a return to the gold exchange standard in Latin America, and price stability was also the

rule, for the last time in this century. It is moot whether the terms of trade and the capital inflow of the late 1920s could have been expected to persist. In fact, such external and internal balances were rudely and repeatedly shocked from the outside, starting in 1929 and throughout the 1930s. The external shocks at once were reflected in balance of payments deficits, which by themselves triggered mechanisms of adjustment, some very clumsy and painful.

The rest of the paper will chronicle how various Latin American countries coped with the crisis and the extent to which they were able to mobilize mechanisms of adjustment beyond deflation. The nature of the external shocks will first be narrated. Secondly the various policy reactions to those shocks will be discussed, covering measures seeking to regain external and internal balance, as well as policies targeted toward longer term goals. Then the global, sectoral and welfare performances will be explored, and the sense in which economies did or did not do reasonably well will be analysed. An overall interpretation of events during the 1930s will close the paper.

II. External Shocks and Trends

The breakdown during 1929-1933 of the international economic order was transmitted to Latin America first of all by sharp changes in relative prices: dollar export prices collapsed more steeply than dollar import prices. Within four years the terms of trade fell by 21 to 45 percent in countries for which comparable data are available (Naciones Unidas, 1976). Latin American terms of trade had, of course, experienced steep declines before, as during 1920-21, but the magnitude of the collapse combined, for many countries, with the continuation of unfavourable terms of trade throughout the rest of the decade, in spite of some post-1933 recovery, was unprecedented at least during the era of export-led growth. As a good first approximation that terms of trade deterioration may be regarded as primarily exogenous to Latin America; even those countries which could influence International prices regulated traditional exports so as not to worsen their dollar prices no later than during the early 1930s.

For a country with a ratio of exports to Gross National Product (GNP) of one third a deterioration of the terms of trade by thirty percent would represent a loss in real income of about one tenth, assuming no change in physical output. The blow to GNP appears to have been softened in some countries by a more than proportional fall in the profits of exporting foreign enterprises; data on the fall of real returned value are unavailable for most countries. On the other hand, there are hints that out of the lower foreign profits a larger share may have sought to be remitted abroad, especially during the early years of the crisis, which may have brought further pressure on the balance of payments.

Except for the spectacular Chilean and Cuban cases, the contraction in the export Quantum

during 1929-1933 was substantially less than the terms of trade deterioration, and by the late 1930s the export quantum of several countries had surpassed the 1928-1929 level. Latin American exports were predominantly rural and mining products, the former showing a smaller price elasticity of supply than the latter. Some rural products, such as coffee and livestock, followed *sui generis* output cycles rooted in their productive characteristics, contributing to short-run price inelasticity of supply.

The commodity lottery brought relief to some countries even in the midst of gloomy external conditions. Gold prices were raised by United States monetary policy, United States support programs for silver and agricultural commodities also improved a few Latin American export prices (although sometimes at the expense of market shares, as with Cuban sugar). Droughts in North America favoured exporters of temperate foodstuffs. Post-1933 German expansion allowed export diversification for several countries, as to products and markets. Brazilian cotton, Argentine corn, Peruvian and Colombian gold, Mexican silver and Venezuelan oil are examples of generally “lucky” staples. Tropical colonies with preferential access to metropolitan markets for sugar and bananas gained at the expense of sovereign producers.

As noted earlier, during the late 1920s Latin American balance of payments were bolstered by large capital inflows, with New York replacing London as the leading source of long term portfolio funds. Already during 1929, well before Latin American countries showed signs of skipping scheduled servicing of the external debt or blocking profit remittances, gross capital inflows fell sharply. After mid-1930 little fresh capital came in. With the dollar price level falling unexpectedly by no less than one quarter between 1928-29 and 1932-33, debt servicing rose dramatically in real terms, compressing the capacity to import beyond what data on the purchasing power of exports suggest. During the early stages of the crisis, the import quantum fell even more than the purchasing power of exports in most countries, as they struggled to meet debt obligations. Defaults started in 1931 and by 1934 only Argentina, Haiti and the Dominican Republic maintained normal servicing of their external national debt. From then to the end of the decade import volumes as a rule recovered faster than the purchasing power of exports.

Direct foreign investments, in magnitudes more significant for specific branches of production than for the balance of payments, did not disappear during the 1930s, but shifted its marginal orientation away from traditional exports, export-oriented Services and social overhead capital, and toward import substituting activities, with the important Venezuelan exception. This trend had been visible already during the 1920s, particularly in the more developed countries of the region. Exchange controls and multiple exchange rates discouraging profit remittances may have induced in the short run some reinvestment of profits in new local activities, especially after the early 1930s. The late 1930s also witnessed the inflow of refugee capital from Europe, and there were even proposals to make Buenos Aires an international money centres, replacing those threatened by European tensions.

The emergence of a protectionist and nationalistic Center was the greatest shock to Latin American economies during the 1930s. As late as 1931 it was still unclear whether the decline in economic activity in industrialized countries was another passing recession or something more serious. But by that date it seemed very likely that one was witnessing the end of laissez faire and of the commitment of leading countries to relatively free trade. Already during the 1920s imperial preferences were advocated in Britain by influential groups, and the 1928 presidential election in the United States was accompanied by a protectionist wave. That ferment was followed by passage of the Smoot-Hawley tariff in 1930 and the British Abnormal Importations Act of 1931. Even if prosperity returned to the Center, the outlook for Latin American exports competitive with production in industrial countries or in their colonies or commonwealths, ranging from sugar and copper to meat and wool, looked grim. As the depression deepened, protectionism gained around British Commonwealth preferences were adopted in Ottawa in 1932, while France, Germany and Japan also reinforced their protectionism and discriminatory trade arrangements for areas under their political hegemony.

It is true that in 1934 Cordell Hull, United States Secretary of State, started a policy of reducing United States tariffs, but such policy made slow progress, and had to whittle down a tariff wall raised not only by the Smoot-Hawley Act but also by the deflation induced increase in the incidence of specific duties. The brightest and best informed observers of the international economy as it stood by 1934 probably had difficulty in forecasting the shape of the new international economic order for the next ten years, but it is unlikely that they would have urged Latin American countries to wait for export-led expansion. As it turned out, by that date circumstances had pushed many Latin American policy makers into considerable experimentation, without the need of sage foreign advice, which had sharply depreciated during the crisis.

III. Policies

Under gold-exchange standard rules, a deficit in the balance of payments set off automatic mechanisms of adjustment without the need for discretionary actions by policy makers. As the slowdown in the Center economies already visible in 1929 plus rampant protectionism were quickly translated into a decline of export values in the Periphery, a balance of payments already weakened by a decline in capital inflows turned negative, and gold and foreign exchange flowed out of Latin America. Nominal money supplies declined during the early stages of the crisis, while interest rates were kept no lower than those in the major international financial centers, all in accord with the then orthodox rules of the game. Falling price levels helped maintain real liquidity, also as textbooks predicted, although setting off less textbooks wish expectations and fears of bankruptcies.

As early as 1930 some Latin American policymakers began to reconsider the wisdom of remaining faithful to the orthodox rules of the game. The reconsideration was not due to new theoretical insights, but to the pressure of circumstances. Maintaining gold parities when foreign exchange reserves were disappearing and foreign capital markets were practically shut to new Latin American bond issues became foolhardy. Balancing the budget when customs revenues were collapsing and civil servants were revolting became nearly impossible. Timidly at first and loudly promising a quick return to late 1920s parities and practices, policy makers in countries where instruments were at hand or where sufficient autonomy allowed their creation began to replace gold exchange standard rules with “emergency” discretionary tinkering. Peripheral shame and self-doubts gradually gave way to self-confidence, especially after Britain abandoned the gold standard in 1931 and Germany and the United States embarked on their own experiments.

The following description of measures undertaken throughout the 1930s risks attributing to “Autonomous Policy” a series of improvisations more or less forced by circumstances, and whose logic may be clearer *ex post* than at the time of their adoption. One would search in vain among public statements by economic authorities of those days for reasoned explanations for the switch from the old rules to the new discretion; only by the late 1930s *ex post* rationalizations of some intellectual weight began to appear. Yet the thrust of policies adopted by the more autonomous and reactive republics may be viewed as attempts to avoid the costs of the deflation called for by the classical mechanism of adjustment, and to speed up arrival to the new constellation of relative prices and resource allocation consistent with the post-1929 realities of the international economy.

A. Exchange Rate Policies

Reactive countries by 1933 had nominal exchange rates relative to the dollar significantly above the late 1920s parities. The use of multiple exchange rates buttressed by exchange controls became widespread following the September 1931 devaluation of the pound sterling. Rates applicable to imports suffered the sharpest depreciations. Fears that devaluation would further worsen foreign prices for traditional exports motivated lower depreciations for rates applicable to them but non-traditional exports received more favourable rates. Fiscal self-interest led to advantageous rates for servicing the public debt; the spread between major buying and selling rates also became a convenient source of public revenue. Memories of late nineteenth century inflations under the “inconvertible paper standard”, such as those of Argentina and Brazil, made policy makers anxious about exchange rate depreciations, and some domestic and foreign advisors urged either an eventual or an immediate return to the parities of the late 1920s. Lip service was paid to an eventual restoration of the gold standard, but policy makers in reactive countries went no further than checking “excessive”

depreciations.

Small or very dependent countries, such as Honduras, Guatemala, Haiti, Dominican Republic, Panama and Cuba maintained their peg to the United States dollar throughout the 1930s. The Last two countries did not even have a Central Bank or a corresponding monetary authority, such as those of Brazil, or pre-1935 Argentina. Exchange control measures in the small or passive countries were on the whole less forceful than in reactive countries.

Date on price levels and money wages are scarce for the 1930s, especially for the smaller countries. Nevertheless, available information indicates that nominal devaluations in the reactive countries had weak inflationary consequences, contrary to the experience in later years. By 1930-34, therefore, *real* import exchange rates with respect to the dollar, which take into account price level changes domestically and abroad, had risen (depreciated) between 30 and 90 percent in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay, relative to 1925-29 levels. Such real prices of dollars in terms of local currency remained at those depreciated levels also during 1935-39. As money wages in those countries appear to have followed price level movements when the decade is regarded as a whole, the ratio of exchange rates to nominal wages also rose significantly.

For the smaller or passive countries one may conjecture that there were no such rapid and large real depreciations of exchange rates. In the Caribbean and Central America, the sharpest Depression-induced devaluation occurred in Costa Rica, with a smaller one occurring in El Salvador; other small countries maintained their pegs to the dollar or underwent monetary changes due to domestic turmoil. Some countries having a steady peg to the dollar attempted to raise the ratio of the exchange rate to nominal wages by extraordinarily repressive labour policies; such was the case of Guatemala under General Ubico.

Regardless of the exchange rate policy followed, a country subjected to an exogenous and permanent worsening of its international terms of trade should witness over the long run a decline in the price of its non-traded goods and services (or money wages) relative to the domestic price of importable goods, encouraging a movement of resources, including fresh investments, toward the import competing sector, additional to that generated by the decline in exportable-goods prices. A permanent decline in net long-term capital inflows would also induce a decline in the prices of non-traded goods relative to all traded goods. Under a gold-exchange standard with fixed rates and with collapsing international nominal prices for both imports and exports, non-traded goods prices and domestic liquidity had a long way to fall to adjust to the 1929-1933 decline in terms of trade and the cessation of capital inflows. It is the working hypothesis of this essay that countries willing and able to devalue their exchange rate moved toward the new constellation of domestic relative prices more speedily and less painfully than those with fixed rates, limiting both price and monetary deflation, containing their negative impact on real output, or reducing pressures to depress money wages by

extraordinary measures. It is worth emphasizing that the depreciating trend in the reactive countries appears smooth only in *ex post* five year averages focusing on exchange rates with respect to the dollar. Besides confusing signals emanating from promises to return to earlier parities, the early 1930s also witnessed changes in the rates between major currencies, particularly the dollar-pound sterling rate, which added to fluctuations in *effective* exchange rates of several countries, especially in South America, and complicated the formation of expectations about the future price of “foreign exchange”.

B. Other import-repressing and import-diverting policies

The domestic price of importable goods relative to non-traded goods prices, or to money wages, also received an upward push in many Latin American countries as tariffs rose and quantitative restrictions, via import or exchange control, were introduced. Contrary to what would happen in the late 1940s and 1950s, exchange rate and *de facto* protectionist policies reinforced each other as import-repressing mechanisms, especially in Brasil and the Southern Cone. Indeed, by the mid-1930s in some of the reactive countries there may have been redundancy in this formidable battery of measures; this has been argued for the Chilean case, for example.

The small or passive countries appear to have been generally as impotent regarding protection as with nominal exchange rate management. Cuba actually lowered tariffs in 1934, undoing much of the protectionist effect of her anomalous Tariff Act of 1927. Even larger countries were pressured into reversing some of their early 1930s tariff increases; wielding the threat of Commonwealth preferences and meat import quotas, the United Kingdom obtained tariff concessions from Argentina under the controversial Roca-Runciman treaty of 1933. Argentina and Cuba shared awkward memberships in “informal empires”, although the autonomy of the former country was of course much larger than the latter.

Tariff rates appear to have undergone few changes in levels or structure in Mexico and Peru. These countries also behaved closer to the smaller countries regarding import and exchange controls; in contrast with Brazil and the Southern Cone they employed those instruments only sparingly. Colombia, as usual, had an intermediate set of policies: most of the change between 1927 and 1936 in the prices of her imported non-traditional manufactures has been attributed to devaluation rather than tariff increases, although increments in effective protection stimulated some industries, including cement, soap, and rayon textiles. Colombia also manipulated import and exchange controls with greater vigour than Mexico and Peru.

Import and exchange controls, together with multiple rates, had the additional task of managing key bilateral balances, especially in Brazil and the Southern Cone; in countries with less diversified trading and financial patterns such management was less of a problem. Argentine Controls were

practically forced upon her by the United Kingdom pressure for bilateral clearings; to achieve that goal Argentina had to discriminate against United States exports. Such “buying from those that bought from her” generated hostility in the United States against Argentina, and some North Americans viewed her controls as a sign of Nazi rather than British influence. Brazilian controls, in fact, received impetus from her expanded trade with Germany during the 1930s.

C. Other Balance of Payments policies

Toward the end of the 1920s the stock of British and United States investments of all kinds in Latin America amounted, in per capita terms, to about one-sixth those in Canada. The heaviest concentration occurred, in descending order and still in per capita terms, in Cuba, Argentina, Chile, Mexico, Uruguay and Costa Rica. Both in Canada and Latin America the two major foreign investors had accumulated claims of all kinds of around four times the annual value of merchandise exports. Assuming a five percent rate of return, profits and interests of foreign capital must have accounted for about 20 percent of annual export earnings, and were punctually transferred abroad. With the exception of Mexico, the “investment climate” appeared reasonably good; the nineteenth century defaults on bonds issued in London had been frictions were generated by direct investments, they seemed negotiable.

The unexpected post-1929 fall in dollar and sterling prices sharply increased the real cost of external obligations denominated in nominal terms. Servicing the Argentine public debt, for example, which had absorbed about 6 percent of merchandise exports during the late 1920s, by 1935 reached nearly 16 percent of exports. Chile in 1932 faced interest and amortization charges, including those on short term maturities, far exceeding export earnings. The ratio of the stock of long term external public debt to yearly merchandise exports for all Latin America rose from 1.5 in 1929 to 2.3 in 1935. The drying up of foreign capital markets made roll-over operations for both long and short term debt very difficult. The collapse of import duty revenues cut a traditional budgetary source for payments on the external debt.

Starting in 1931 authorities delayed granting exchange to importers for settling their short-term debt and to foreign companies for profit remittances. Also in 1931, Latin American countries began to skip scheduled servicing of the extremal long-term public debt, and a few years later only Argentina, Dominican Republic and Haiti were punctually paying interests and amortisations on their debt. Defaulting countries did not dramatically repudiate their obligations, but asked foreign creditors for conversations aimed at rescheduling and restructuring the debt. Different countries carried out those conversations with various degrees of enthusiasm; Cuba, for example, while servicing her debt irregularly during the 1930s maintained better relations with her creditors than Brazil, whose dealings

with creditors during the late 1930s, especially with British ones were acrimonious. For many countries those negotiations were to stretch out well into the 1940s, and into the 1950s in some cases.

The contrast between Argentine and Brazilian policies toward debt service in the 1930s casts some light on the nature of international economic relations during those years. In merchandise account Brazil traditionally had an export surplus with the United States and an import surplus with the United Kingdom. Argentina had an export surplus with the United Kingdom, and an import surplus with the United States. Both the Argentine and Brazilian debts had become diversified during the 1920s, but more than half were still held by British interests.

Argentina had an export surplus with a country organizing commonwealth preferences, threatening to impose bilateral exchange clearings, and where financial interests of the City still exerted great political influence. Australia, Canada and New Zealand were eager to replace Argentina in British markets. British pressures culminated in the Roca-Runcinan treaty of 1933, several of whose features were not unlike those of 1930s economic treaties between Germany and eastern European countries. Under these circumstances, tampering with the normal servicing of the Argentine debt would have involved not only a bruising commercial clash with the United Kingdom, but probably also a major restructuring of the Argentine domestic political scene, at the expense of groups linked with Anglo Argentine trade. The relative abundance of exchange reserves in Argentina, whose gold holdings remained one of the highest in the world, gaining an important windfall by the increase in the international gold price during the 1930s, plus the fact that a substantial amount of the Argentine sterling and dollar-denominated debt was held by Argentines (just as a share of “domestic”, peso-denominated debt was held by foreigners) also contributed to punctual servicing of even dollar-denominated bonds, presumably mostly held in the United States, in spite of British hints about the convenience for Anglo-Argentine trade of defaulting on that part of the debt.

In contrast, Brasil had an export surplus with a country committed to multilateral trade plus convertibility, and where the New Deal viewed financial interests with suspicion. United States exporters to Brazil knew that an additional dollar spent in Rio for debt servicing, mainly to British interests, would mean one less dollar for Brazilian imports from the United States (Brazil had run out of reserves in 1930). The British could do little when faced by erratic Brazilian debt Service. Furthermore, during the second half of the 1930s there was preoccupation in Washington with German influence in Brazil, leading to even more tolerant views of Brazilian debt service irregularities. Similar geopolitical considerations also help explain the relatively mild response of the Roosevelt administration to the 1933 Mexican oil nationalizations, the bulk of which damaged British and United States interests.

There is little reason to doubt the consensus among those who have examined the Latin American defaults of the 1930s: if the depression had been mild, and if the steady expansion of world

trace and capital flows had been continued, defaults would have been infrequent and could have been settled without much difficulty. Once depression came and productive resources were allowed to go to waste in idleness, while countries everywhere restricted imports to protect jobs, it made no economic sense to insist on the transfer of real resources as debt servicing. No doubt the capital markets of the 1920s contained significant imperfections: during the 1930s many underwriters were accused not just of negligence in seeking information about borrowers and their projects, but also of deliberately misleading bond buyers, motivating New Deal regulatory legislation. Latin American countries were encouraged to borrow excessively, and a good share of the funds went into projects of doubtful social productivity. But one may question whether these microeconomic factors were decisive. One may also note that the industrialized countries themselves led in the undermining of belief in the sanctity of contracts; examples include the British default on the war debt, Germany's failure to make payments on the greater part of her international obligations, the derogation of the gold clause in the United States, and domestic *moratoria* legislated in several countries.

By the late 1930s foreign exchange availability had improved and indeed sane debt servicing was paid by defaulting Latin American countries throughout the 1930s. Some countries purchased their own partially or wholly unserviced bonds selling at a discount in foreign markets; those bonds by the late 1930s were probably held mostly by speculators. Such "repatriations" of the debt avoided a rigid settlement schedule at a time when the international economic outlook was very uncertain, and were carried out by Central Banks, whose financial positions were generally better than those of the Treasuries, which still suffered from the fall and change in composition of imports, and the induced decline in duties.

In spite of exchange controls regulating profit remittances abroad by foreign enterprises, direct foreign investments occurred throughout the 1930s, although in amounts more significant for the expansion of specific branches of production than for balance of payments equilibrium. It has been argued that the local reinvestment of foreign enterprise profits may have been encouraged by limitations on remittances abroad, an argument more plausible in the short than in the long run. In some countries exchange controls were also employed toward off unwanted short-term capital inflows, as in Argentina during the late 1930s; such "hot money" movements were perceived as destabilizing macroeconomic balance. Capital accompanying European refugees was considered a more permanent and welcomed addition to local resources and these combinations of entrepreneurship and finance were important in the expansion of several economic (and cultural) activities in many Latin American countries.

D. Monetary and Fiscal Policies

The decline in exports and capital inflows signalling the beginning of the crisis was accompanied at once by balance of payments deficits which drained reserves and money supplies, according to gold-standard, fixed exchange rates rules. The export fall had important multiplier effects. This section will examine how those deflationary pressures on aggregate demand were contained and eventually reversed. In countries without well-developed financial markets it is difficult to isolate purely fiscal from monetary policies. During the 1930s only Argentina had financial markets of some sophistication, so this section will discuss aggregate macroeconomic policies without establishing fine distinctions between monetary and fiscal ones.

Money supply data indicate that reactive Latin American countries show briefer or shallower post-1929 declines in nominal money supplies than the United States. By 1932 the Brazilian nominal money supply exceeded that of 1929; the corresponding Colombian date is 1933. The end of convertibility into gold was helpful in stemming the loss of liquidity among reactive countries. In contrast, the Cuban inability to break out of the then orthodox rules led to a monetary deflation even greater than that of the United States.

Domestic price levels for 1930-39 were below those of 1925-29 even in reactive countries, excepting Chile, although the decline appears smaller for most reactive countries than that in the United States. By 1935-39 price levels in those countries had mostly returned to about 1925-29 levels, with only Chile and Mexico clearly surpassing them. *Real* money supplies in 1930-39 in most reactive countries were above those for 1925-29, by 1935-39 real money supplies in Argentina, Brasil, Chile, Colombia, Mexico and Uruguay were substantially above 1925-29 levels. The Cuban real money supply in 1935-39 was below that for 1925-29, and this probably was the case in many of the Central American and Caribbean republics. This contrast suggests that the increase in real money supplies of reactive countries was not just the result of automatic mechanisms of adjustment triggered by the fall in the international price level, but also the result of domestic policies.

Maintenance of liquidity was not simply a matter of ending convertibility into gold or foreign exchange at the old parities. Even after the abandonment of the gold standard some countries, such as Argentina, shipped gold to service the external debt and sold some foreign exchange to stem currency depreciation. Both measures cut the monetary base if orthodox practices were followed. But as early as 1931 South American monetary authorities adopted measures which would have been regarded as unsound during the 1920s. Thus, the Argentine "Caja de Conversion" whose only orthodox duty was to exchange gold and foreign exchange for domestic currency at a fixed price, and vice versa, starting in 1931 began to issue domestic currency in exchange for private commercial paper, relying on nearly forgotten laws, and later on even issued domestic currency against Treasury

paper, which was also accepted as payment for gold sent abroad for public debt servicing. Young technocrats in charge of Argentine monetary policy successfully resisted pressures to “redeem” the Treasury paper, recall the new currency issues, and return to the old parity. The Colombian Central Bank in 1931 for the first time engaged in direct operations with the public, discounting notes and lending on the security of warehouse receipts. Government bonds were purchased in large quantities by the Colombian Central Bank since 1932. In Colombia, as in other reactive countries, since the introduction of exchange Controls in 1931 international reserves ceased to govern monetary issue, which from then on was pre-dominantly influenced by internal considerations of economic policy or budgetary expediency.

The South American and Mexican monetary policies started around 1932 were in some ways a relapse into past inflationary propensities, a past which was to be exorcised by the adoption during the 1920s of gold standard rules and of orthodox budgetary and monetary mechanisms. These mechanisms became popular in the region during the second half of the 1920s, often following visits of foreign “money doctors”. Memories of wild inflation under inconvertible paper during the late nineteenth century, memories still fresh during 1929-31, as well as episodes of financial disorder as recent as the early 1920s, hampered and slowed down the adoption of more self-assured and expansionist monetary policies. It should also be remembered that as late as the first half of 1931 there were optimistic reports of an upturn in the major industrialized economies.

In contrast with the United States, there are no reports of widespread bank failures in reactive countries during the early 1930s. Also in contrast with the United States, monetary aggregates fail to reveal a flight into currency and away from bank deposits; if anything, during the early stages of the depression the opposite appears to have occurred in Argentina, Brazil, Colombia and Uruguay. In reactive countries monetary authorities simply did not let many banks fail, casting fears of moral hazard to the winds. While moratoria on urban and rural domestic bank debts were decreed in many countries (earlier than in the United States), thus freezing banks’ assets, commercial banks were supported in a number of *ad hoc* ways, not all of them conducive to maintaining actual liquidity. For example, in Brazil as early as October 1930 withdrawals of bank deposits were restricted by decree. Rediscounting of commercial banks’ loans was also vigorously carried out by Central Banks and institutions such as the Banco do Brasil and the Banco de la Nacion Argentina. Unorthodoxy was sometimes cloaked by gestures to the old financial practices; Argentina claimed to have used profits from increases in the peso price of gold to create an institution which supported commercial banks.

The financial impotency of passive countries may be illustrated by the contrasting experiences of Cuba and Mexico in their tinkering with silver for monetary and fiscal purposes. Both countries hit upon the expedient of issuing silver coins, which added to liquidity and yielded seignorage profits to the treasury, justifying expenditures. Depending on the acceptance by the public, both countries

planned to issue paper notes backed by silver stocks, increasing seignorage. In Cuba modest issues were made during 1332-33, and in 1934 a revolutionary government appeared to herald a bold new monetary system independent of the dollar by planning new issues and by making silver pesos full legal tender for the discharge of old as well as new obligations contracted in dollars or in old Cuban gold pesos. Shortly thereafter a mid-form of exchange control was decreed. Foreign banks on the island apparently threatened to export all dollars from Cuba; capital flight followed. The government caved in, lifting rather than expanding Controls. Only the legal tender status of silver for all contracts in such currency remained of the 1934 reform. Even a Central Bank was to wait until 1948.

Mexico, after some deflationary measures in 1930 and 1931, adopted early in 1932 expansionary policies, relying mainly on issues of silver pesos. Central Bank control over commercial banks was extended and strengthened. Foreign banks threatened to leave Mexico, and as the Mexican authorities held firm, most of them left. Mexican-owned banks took their place. Campaigns were launched to convince the public to use “silver” paper notes rather than coins; remarkably, the share of paper notes in the money supply jumped dramatically in a few years, for reasons still somewhat obscure. Public banks were created or expanded to finance housing, public works, foreign trade, industry and agriculture, and these instruments were used with increasingly self-conscious expansionist purposes. By the late 1930s the Mexican monetary and financial system was quite different from that of the late 1920s. In contrast with the disastrous Chinese experience, Mexican reliance on a silver standard did not generate unmanageable problems when the United States raised silver prices; Mexico simply prohibited the export of silver money in April 1935 and ordered all coins to be exchanged for paper currency. A year and a half later, after the world price of silver had fallen, silver coinage was restored, partly due to pressure from the United States silver lobby. As a major producer and exporter of silver, Mexico of course benefitted from higher international silver prices.

Even during the confusion of the early 1930s, fiscal policy in reactive countries appears to have contributed to the maintenance of aggregate demand, at least in the sense of *not* balancing the budget in the midst of the crisis, in spite of the protestation of policy makers that they intended to do so. Although data are particularly shaky in this field, real government expenditures were not significantly cut during the early 1930s, while real tax revenues fell as imports collapsed, inducing an increase in fiscal deficits in spite of new taxes and higher tariffs. The financing of budget deficits even in reactive countries during the early 1930s was not all particularly expansionary; payment delays to civil servants and government suppliers increased the “floating debt”, a debt whose holders could only turn into cash at huge discounts, thus coming close to forced loans. A fiscal policy, expansionary in the sense of increasing the full capacity real budget deficit during the early 1930s, has been documented only for Brazil. The cases of Argentina and Brazil will illustrate the variety of fiscal policies in reactive countries.

Real expenditures of the Argentine central government rose in 1929 and again in 1930; the provisional regime of General Uriburu, which took power in September 1930 pledging to eliminate populist budgetary excesses, reduced 1931 real expenditures slightly below those for 1930 but left them above 1929 levels. The lowest real expenditure figures for the 1930s, which were registered in 1933, were still higher than those for 1929; for the rest of the decade real government expenditures expanded so that by 1933-39 they were around 50 percent above 1929. A major road-building program was undertaken by the government of General Justo (1932-1938), adding 30,000 kilometres of all-weather and improved roads by 1933 to a system that had only 2,100 kilometres of such roads in 1932. This program had important effects not just on aggregate demand but also on productivity and aggregate supply, both complementing and competing with the vast Argentine railroad network. The late 1930s also witnessed an expansion of military expenditures. The ratio of all government expenditures to merchandise exports which in 1928 was less than 0.9 had risen to more than 0.9 by 1938-39.

The technocrats in charge of the economic policies of the Uriburu and Justo administrations, including Federico Pinedo and Paul Prebisch, took a dim view of the large deficits registered in 1930 and 1931; the fall in revenues from import duties aggravated a fiscal situation which already in 1928 and 1929 yielded taxes covering only 76-80 percent of all government expenditures. Tariff rates were increased, an income tax was introduced (in 1932), a gasoline tax was coupled with the road-building program, and use was made of multiple exchange rates to generate government revenues. As in other Latin American countries, fiscal heterodoxy was discredited in Argentina by dubious expenditures and lax budgets during the late 1920s.

The budget deficits of 1930 and 1931 were financed primarily by delays in payments to suppliers and civil servants, or payments in public debt instruments of low liquidity, contributing to the unpopularity of government deficits. Starting in 1932, however, such floating debt was sharply reduced and by the second half of the 1930s the government placed in an active local market both short and long-term public securities at rates of interest much below those of 1929-1932. Refunding operations were also carried out to reduce the cost and improve the structures of domestic and foreign debts.

The countercyclical potency of Argentine fiscal policy during the early 1930s was reduced by the increased share in total expenditures of debt service payments, largely made to foreigners. All payments on the public debt reached 29 percent of expenditures in 1932; this may be contrasted with the meagre 5 percent devoted to public works. By 1938 the figures were 15 percent for debt service and 20 percent for public works. Other Latin American countries were to find the budgetary weight of debt service a strong inducement to suspend normal payments.

In short, there is no evidence that during the early 1930s the Argentine government sought to

increase the full capacity budget deficit to compensate for the fall in aggregate demand. On the contrary, attempts were made to shift upward the tax schedule and to lower that for government expenditures. But even during the early 1930s efforts to reduce the deficit induced by the decline in foreign trade and output were tempered by either common sense or the sheer inability to cut expenditures and raise taxes fast enough. The relative size of public expenditures in the income stream thus grew by default already in the early 1930s, helping to sustain economic activity. Since 1933 public expenditures expanded in a deliberate way, and this expansion had at least balanced-budget-multiplier effect on the rest of the economy. In addition, since 1935 the new Central Bank encouraged the expansion of a market for the domestic public debt, facilitating modest deficit financing. Finally, the structure of expenditures during the late 1930s on balance favoured domestic expansion, in spite of some increase in the import content of military expenditures.

Brazil provides an example of a compensatory increase in government expenditure in the early 1930s. Since 1906 the State of São Paulo and the Federal Government had attempted to sustain coffee prices via buffer stocks; during the sharp recession of 1920-21 the countercyclical potency of the coffee valorisation scheme had already been demonstrated. As coffee prices fell during the early 1930s the government again purchased large quantities of that product. A good share of those purchases were financed either by foreign loans or new taxes, but about one-third were financed essentially by money creation. It has also been argued that the new taxes levied on exports and the exchange rate appreciation generated by foreign loans, improved Brazilian terms of trade relative to the relevant counterfactual situation. Argentina also started regulating the production and export of major traditional exports during the 1930s, but without the massive fiscal impact of the Brazilian coffee purchases. The exchange differential profits were the Argentine counterpart to the Brazilian export taxes, both attempting to raise government revenues as well as to protect the terms of trade. Brazil also expanded public expenditures during the late 1930s, and probably reduced the import content of those expenditures even more than Argentina, as beginning in September 1931 it met debt service obligations only partly. In 1937 Brazil announced the suspension of all debt servicing, and none occurred during 1933 and 1939. In both Argentina and Brazil, the 1930s witnessed diversification of public revenues, with a remarkable expansion in non-customs taxes, which by 1932 (Argentina) and 1933 (Brazil) had exceeded the 1929 levels, at current prices. A similar trend toward tax diversification has been reported for Colombia and Mexico. In the Brazilian case state revenues, especially those of São Paulo, appear to have expanded by more than those of the federal government.

Calamities, civil disturbances and border wars during the early 1930s led to increased real public expenditures in several countries, apparently financed directly by monetary expansion. Examples include political turmoil in Chile during late 1931 and 1932 (when that country had a short-lived socialist government); the war between Peru and Colombia over Leticia in 1932 (partly financed on

the Colombian side by voluntary donations); the second Chaco War between Bolivia and Paraguay; São Paulo movement also in 1932 and a severe drought in the Northeast, which added to coffee deficits in Brazil (the former more than the latter).

Whatever the hesitations and improvisations of the early 1930s, by the second half of the decade the reactive Latin American countries had developed a respectable array of both monetary and fiscal tools, as well as the will to use them to avoid deflation. Thus, the 1937-33 recession in the United States was felt in the foreign trade statistics more than those for industrial output. South American countries damaged by the loss of European markets and shipping shortages in 1939-40 mobilized to adopt emergency stabilization measures, such as the remarkable Plan Pinedo in Argentina, which included proposals for closer regional economic ties, particularly between Argentina and Brazil. That Plan was never adopted, due to Congressional opposition and an improvement in the economic Outlook. In passive countries an activist fiscal policy continued to be checked by exiguous foreign and domestic demand for public debt, and by convertibility into dollars at fixed rates that limited monetary expansion not backed by international reserves.

E. Other Policies

While nominal exchange rate behaviour during the 1930s is well documented, much less is known regarding wages and how they were influenced by public policy, except for a few cases. In Guatemala, for example, where the exchange rate fixed during the 1920s was maintained throughout the 1930s, the regime of General Ubico enforced draconian labour practices, some originating in the Spanish conquest, generating a cheap supply of quasi-forced labour for both landowners and public works. Flexibility and moderation regarding money wages was induced by subtler means in other countries, particularly where non-traditional labour markets already existed. In some of those countries, like Argentina, soft economic conditions during the early 1930s, rural-urban migration and cheap foodstuffs kept increases in nominal wages substantially behind exchange rate depreciations. In others, such as Colombia, Brazil and Mexico, those market trends were accompanied by public policies encouraging trade unions which often controlled from above rather than promoted wage gains, especially *vis-a-vis* nationally-owned firms. Mass deportation of Mexican workers from the United States during the 1930s also added to the pool of mobile labour available in that country.

Public policies went beyond those seeking short term adjustment to outside shocks, and Latin American governments, whose attachment to *laissez-faire* was never particularly deep, became increasingly committed during the 1930s to promoting long-term growth and structural transformations. The Lazaro Cardenas administration (1934-1940) accelerated the land reform program of the Mexican Revolution, and in 1938 nationalized the petroleum industry. Government

regulation of the pricing and marketing of rural products, and of public utility rates expanded in most countries. As noted earlier for Mexico, the 1930s witnessed in several other Latin American countries the strengthening and creation of public institutions granting medium and long-term credits, which the unregulated financial markets of the 1920s had not provided in amounts regarded as sufficient, or whose supply had been left in foreign hands. Housing, public works, agriculture and, increasingly, industry benefitted from such credit, which during the 1930s, when inflation was moderate at worst, was still priced not far below plausible estimates for the shadow cost of capital.

The public works undertaken in many countries had a long-lasting impact on productive capacity and urbanization patterns. Vast road programs accelerated the transition from the railroad age to that of motor vehicles. That transition stimulated many manufacturing activities including cement, rubber, petroleum refining and the assembling and eventual production of cars, trucks, and buses: generated public revenues via gasoline taxes; diversified and completed transport networks, lowering their costs and encouraging new activities, such as United States tourism in Mexico, while opening up new lands for rural production: and even helped to change international economic relations, as motor vehicle activities were dominated by the United States, while railroads had been dominated by the United Kingdom. Irrigation works, like those undertaken in Mexico, together with new roads and credit facilities, encouraged the transition from traditional to modern capitalist agriculture; the construction of a network of grain elevators in Argentina improved the bargaining power of farmers.

During the 1930s governments and public opinion showed a keener interest in increasing the national share in value added by foreign-owned activities and the control over the processing and marketing of exports. Foreign-owned enterprises came under closer scrutiny and supervision by host countries; several traditional export activities witnessed a rise in the share owned by domestic capitalists, as in the case of Cuban sugar. Finally, as the European and Asian political scenes continued to deteriorate, the Armed Forces, especially in South America, showed increased interest in promoting the expansion of certain types of infrastructure, and the local manufacture of steel and armaments.

IV. Performance

Even in countries performing reasonably well during the 1930s, structural changes were more impressive than overall growth; during that decade some economic activities stagnated or collapsed while others surged ahead. The former was generally associated directly or indirectly with external markets, while the latter typically involved domestic sales. Reactive countries performed better than passive ones, and in both types of nations some regions did much better than others. Pockets of

profitability within agriculture and industry coexisted with liquidations; textile mills worked three shifts even in 1932 while meat-packing plants and sugar mills were idle. The larger the pre-1929 share of exports in total output, the smaller the absolute size of the domestic market, and the greater the institutional barriers to domestic resource mobility, the more difficult it was for the growing sectors to dominate the shrinking ones to yield a reasonably good overall performance. In what follows aggregate performance will first be examined as far as data allow, turning later to sectoral and welfare performances.

A. Macroeconomic Performance

National accounts for the four largest Latin American countries (Argentina, Brazil, Colombia and Mexico) register growth rates for Gross Domestic Product (GDP) steadier and higher than those of Canada and the United States for 1929-1939. Neither the absolute GDP growth nor its level relative to the growth achieved during the 1940s and early 1950s, however, are impressive, ranging from around 2 percent per annum for Argentina and Mexico, to about 9 percent per annum for the two major coffee countries. Argentine and Colombian GDPs grew during the 1920s at clearly faster rates than those of the 1930s; Brazilian GDP during 1919-1929 also seems to have outperformed the 1929-1939 expansion.

Measurements of GDP ignore losses of real income from deteriorating terms of trade. Taking these losses into account would reduce Brazilian annual growth for 1929-1939 by about one percentage point (while increasing these for the 1920s and 1940s). Population growth in Latin America during the 1930s was higher than that in industrialized countries. Thus, measuring performance by growth in *per capita* real domestic income during 1929-1939 would reduce the differential favouring reactive Latin American countries compared with industrialized countries. Correcting for the reduction in factor payments abroad which occurred during the 1930s, to obtain real *national* income, is unlikely to offset corrections for terms of trade and population in evaluating overall performance. Even for reactive countries data for these calculations are shaky, however, and for others they are generally unavailable.

In reactive countries GDP recovery apparently started in 1932, earlier than in the United States. Neither the 1929-32 decline nor the 1932-37 recovery were as dramatic as those in the United States.

Consumption and investment also show disparate behaviour in their component parts, making the use of those aggregates of only limited value. Investment shares in GDP seem to have declined relative to the late 1920s, yet some sectors expanded their productive capacity while others experienced net disinvestment. Imports of machinery and equipment for railroads and electricity waned, while those for some manufacturing activities rose. It would strain available data to discuss

the evolution of national savings during the 1930s relative to the 1920s, but it is clear that they rose relative to external savings, and it seems that changes in the domestic financial system and in government budgets encouraged their mobilization. Private consumption must have also undergone significant structural changes after 1929, some reflecting ongoing long-term trends such as urbanization and the adoption of new products, others induced in the short-and medium-term by the income and substitution effects of higher prices for imported goods.

3. Sectoral Performance

Economic performance during the 1930s for the reactive Latin American countries looks more impressive when attention is focused on manufacturing. While growth in this sector during the 1940s and early 1950s was to exceed that for the 1930s in most countries, manufacturing growth rates for 1929-39, ranging from more than 3 percent per annum in Argentina to more than 8 percent per annum in Colombia, far outstripped those of the United States and Canada, which hovered around zero. The relatively modest Argentine manufacturing expansion was higher than that of Australia, even though both countries experienced roughly similar GDP growth rates between 1928 and 1938. In the important Brazilian case, manufacturing growth during the 1930s, of more than 6 percent per annum, was significantly higher than during the 1920s; Colombian industrialization in the 1930s could not have been much behind the pace of the 1920s, if at all. Another interesting comparison involves Chile and Uruguay, on one side, and Cuba, on the other; the former reactive countries experienced manufacturing expansion of 3 to 5 percent per annum, while the latter country saw its total industrial production shrink even more than in the United States.

Pre-1929 Latin American manufacturing tended to grow only slightly ahead of the rest of the export-led economy. Beyond moderate protectionism, public policy departed little from neutrality toward industry. Important segments of manufacturing exported (slightly) processed primary products; examples include meat-packing plants and flour mills in the River Plate and sugar mills in several countries, which also sold their products domestically. Growth of manufacturing during the recovery phase of the 1930s relied heavily on import substitution, defined in the usual accounting sense (decrease in the share of imported goods in total supply), which focuses on output rather than on installed capacity. Manufacturing during the 1930s grew in reactive countries much faster than GDP, in contrast with pre-1929 experience.

The uneven performance in various GDP components is echoed by heterogeneous growth within manufacturing. Activities tied to pre-1929 export-oriented prosperity shrank, while others (sometimes a handful) made dramatic output advances. Leading sectors typically included textiles, petroleum refining, tires, pharmaceuticals, toiletries, food processing for the home market (e.g.,

vegetable oils), chemicals, cement and other building materials. Cotton and wool textiles were the most important leading sectors, often providing more than 20 percent of the net expansion of value added in manufacturing, and growing at annual rates above 10 percent. Between the late 1920s and late 1930s, cement production multiplied by more than 14 times in Colombia, by more than 6 times in Brasil and by almost 4 times in Argentina. Even in passive countries one finds some import-substituting industries growing very fast, such as milk-processing and cotton cloth in Cuba, but in the midst of depressed export-related manufacturing. The remarkable industrialization of major coffee countries (Brazil and Colombia) was partly due to having pre-1929 manufacturing sectors with few direct links to exports, in contrast with Argentina and Cuba. Pre-1929 growth, and the industrialization it had induced, were the more helpful to the import-substituting drive of the 1930s the greater the extent to which social overhead capital, trained labour force, and other productive capacity which had been created were not rigidly tied to specialized needs of exporting activities and could be reallocated quickly to serve other productive purposes.

Output growth in the booming industrial sectors far outstripped the expansion of total domestic absorption of those manufactured goods, which either followed more closely the somewhat sluggish growth of GDP, or declined in some cases even in reactive countries. Apparent domestic cement consumption, for example, increased by far less than the spectacular output increases noted earlier; it rose by 26 percent in Colombia, 12 percent in Brazil, and 52 percent in Argentina (in the United States it *declined* by 36 percent, in Canada and Haiti by 50 percent, and in Cuba by 63 percent). Exports explain little of the gap between high output and low domestic absorption expansion; the share of local production in domestic absorption of cement rose between the late 1920s to the late 1930s from 6 to 72 percent in Colombia, from 19 to 80 per cent in Brasil, and from 35 to 94 per cent in Argentina. In contrast, in Cuba, Haiti, the Dominican Republic and Central America the share of domestic output in national cement absorption changed very little during that decade (although the Cuban share had reached levels higher than those of South American countries in the late 1520s). A similar import substitution tale applies to textiles. For other commodities, such as automobiles, the decline in imports could not be matched by expansion of local production; for those roods, primarily consumer durables and machinery and equipment, domestic absorption fell, not to recover in per capita terms until the 1960s in many cases.

Capacity in manufacturing and ancillary social overhead capital expanded by less than output during the 1930s; statistics do not show either an upsurge in imports of machinery and equipment nor a compensating expansion of local production of those goods. Indeed, in some countries imports of certain types of machinery (e.g., textile machinery in Brazil) were banned based on allegations of excess capacity. The late 1920s left substantial slack or malleable capacity in industry, electricity and sane transport facilities. There are frequent reports of textile mills increasing their number of shifts

during the early 1930s, and of large investments made during the late 1920s coming to fruition during the 1930s, as in the Brazilian cement industry. Electricity capacity oriented toward export-related production during the 1920s could fairly easily be switched to supplying booming import substituting activities. Nevertheless, output expansions such as those registered for cement in Argentina, Brazil and Colombia *must* have relied on cone increases in capacity, and imports of machinery and equipment that there were substantial changes in the composition and allocation of capital goods imports between the 1920s and 1930s, so even if their total fell, plenty of room was left for the investment needs of dynamic branches of manufacturing.

The industrialization of the 1930s, at least in South America, was quite labour-intensive, and involved many small and medium-sized firms. Between 1930 and 1937 industrial employment in São Paulo grew at nearly 11 per cent per year. The output elasticity of employment was about one in both Argentina and Brazil; increases in average labour productivity for specific activities seem to have been rare, in spite of the entry of new firms. In Argentina, for example, the increase in the number of textile firms accounted during the 1930s for approximately 65 per cent of the increase in spindles held by the industry.

There are other indications that import-substitution relied heavily on new national and foreign-born entrepreneurs, including fresh immigrants from the troubled Europe of the 1930s. The rise of Hitler and Franco led to significant gains of human and financial capital for Latin America. There was also direct foreign investment in import-substitution by tariff-jumping enterprises, whose home markets showed weak prospects. For sectors like tires and cement these investments and the technology they supplied provided significant impetus. There is little systematic evidence on the overall financing of manufacturing investment during the 1930s. It may be conjectured that traditional sources, e.g., reinvestment of gross profits and short-term and informal-market borrowing supplied the bulk of finance for national entrepreneurs as the contribution of public credit institutions to manufacturing capital formation was still modest

New import-substituting activities clustered, not surprisingly, mainly around major consuming centers, such as Buenos Aires, Mexico City and São Paulo. While industrialization thus contributed to support trends, the latter appear to have had a dynamism of their own, making one sceptical of any close short-term links between the two phenomena.

Import substitution was the engine of growth during the 1930s, but not just in manufacturing. The rural sector also witnessed gains in the production of goods sold in the domestic market relative to those primarily sold abroad. Food-importing, countries, such as those in the Caribbean and Central America, engaged in either modest import replacement, as in Cuba, or more ambitious, if truculent, efforts as in Guatemala. Countries which during the 1920s imported beverages and cooking oils, like Argentina, turned to domestic substitutes during the 1930s. Cotton textiles imported during the 1920s

were replaced partly by value added in expanding local production of cotton, which later led to exports. In contrast with import-replacement in industry, much of agricultural import-substitution was at the expense of intra-Latin American trade, e.g., Argentine production of *verba mate* was at the expense of imports from Paraguay.

Agricultural import-substitution naturally had a greater weight in overall growth in the smaller, less-developed countries. Land was an apparently malleable “installed capacity” which could be turned from export cash-crops to production for either the local market or subsistence, and could also be expanded using little foreign exchange. The ease of land reallocation and expansion depended partly on tenure arrangements and agronomic characteristics of export crops. Thus, it appears that the presence of foreign-owned plantations in Cuba and Central America reduced, *ceteris paribus*, flexibility in land use, while lands planted with coffee were physically more receptive to sharing their space with other crops than those planted with bananas or sugar cane (an identification problem exists as the latter were often produced in foreign-owned plantations and the former by local farmers). As noted earlier, all types of rural production were encouraged by new irrigation works, feeder roads, credit facilities and price support programs. Publicity-sponsored agricultural research programs also had important payoffs during the 1930s, as in the case of Brazilian cotton.

Import substitution extended to services; those of foreign labour and capital were to a large extent replaced with local inputs or dispensed with, while it is likely that many Argentines substituted visits to Bariloche and Mar del Plata for vacations in Paris. Among expanding sectors one can also find, especially in reactive countries, some producing non-traded goods and services using relatively few imported inputs, such as construction, housing, and government.

The level of imports and exports reflected primarily exogenous shocks and trends, but their structures responded to the differing sectoral performances described above. The shares in total imports of consumer goods and intermediate products like cement and textiles fell, while those for metallurgical and other intermediate products rose. Machinery and equipment imports going to export-related manufacturing and to social overhead facilities which had expanded during the 1920s fell, while those going to import-substituting manufacturing rose. Export bills also underwent changes, partly because of the collapse of traditional exports, but also due to exportable surpluses generated by expanding activities, such as Argentine fruits and Brazilian cotton. Tourism also became an important non-traditional Mexican export during the 1930s. Export diversification extended to regional origin within the country (Rio Grande do Sul in Brazil and Rio Negro in Argentina emerging as exporting areas) and to their geographical destination, with Germany becoming an expanding market for many Latin American exports. New markets and higher exports for one Latin American country often meant a loss in traditional exports for another: thus, Colombia and Central America gained shares in the international coffee market at the expense of Brazil; Venezuelan oil advanced

replacing Mexican crude; bananas from Honduras took the place of Colombian ones; and a large number of countries nibbled at Cuban sugar hegemony.

C. Welfare Performance

Since colonial times it has been noted that a boom in Latin American land intensive exports may not improve the welfare of lower-income groups, as during booms prices of locally produced foodstuffs rose sharply, and access to land became more difficult. Where coercive labour systems were applied, booms meant longer and more intense working hours. Busts frequently led to cheaper home grown foodstuffs, a greater availability of land for subsistence crops, and slacker working regimes. One may conjecture that part of these ancient effects were still visible in the 1330s for those employed in reasonably competitive labour markets it is likely that real wages in terms of foodstuffs rose, even as they fell in terms of importable goods. Access to rural land in many countries appears to have become easier and cheaper for lower and middle income groups, as the opportunity cost for land held by exporters declined and plantations were parcelled. These market trends were carried further in Mexico by a major land reform, while in Colombia and Cuba milder public measures also pointed in the same direction, increasing the tenure security of lower income farmers.

Primarily coercive labour systems survived into the twentieth century in several Latin American localities where descendants of American Indians were concentrated, such as Bolivia, Peru and Central America, coexisting with freer labour arrangements. During the 1930s in Guatemala roads and public works were built using coerced Indian (and convict) labour, as had been the case under the Leguia dictatorship in Peru. The developmental ambitions of General Ubico went against the generalization linking busts with slacker labour regimes.

In the more urbanized countries where free labour systems predominated, at least in the cities, open unemployment seems to have been rare after the initial years of the crisis. A lack of strong institutional barriers to downward money wage flexibility and a rapid end to immigration contributed to the elimination of open unemployment; during the early 1930s many European immigrants returned to their old countries and some recent arrivals to urban centers returned to their rural birthplaces. In Cuba the seasonal importation of Jamaican and other West Indian labour for the sugar harvest was eliminated. Nevertheless, the welfare consequences of the crisis appear worse in Cuba than in some Central American countries which had larger and more flexible subsistence sectors.

On the whole, income and wealth distribution during the 1930s appear buffeted by contradictory influences. Groups linked to traditional exports must have seen their relative and even absolute position decline. Entrepreneurs in import-substituting agriculture and industry must have accumulated handsome profits, with their output fetching high domestic prices while labour and raw

material costs were unusually low. Entrepreneurs who had inherited excess capacity from the 1920s were especially fortunate, receiving unexpected capital gains. High and middle-class families, with budgets having low shares for foodstuffs and high shares for imported consumer goods, faced unfavourable relative price trends. Beloved durable goods, such as automobiles, or European vacations became very expensive, and their consumption often was to be postponed for many years. For lower income groups, whether urban or rural, it is unlikely that real income gains in terms of foodstuffs could have been very substantial; the best guess is that even in reactive countries performing reasonably well by the late 1930s real wages for unskilled and semi-skilled labour, taking into account all components of their consumption basket, were no higher than a decade earlier. Gains in employment security arising from new labour legislation were limited to pockets in the labour force and of moot significance even for then. The tax reforms carried out in several countries were more important for public revenue raising and diversification than for significant changes in income distribution. Perhaps with the exception of Mexico, the 1930s did not witness a discontinuity in the inherited trends for public services in education and health. Secular improvements in literacy and health indicators appear to have continued without obvious leaps nor retardations, seemingly following more the sluggish urbanization trends than the vagaries of import substitution.

V. A Concluding Interpretation

Much of the evolution of Latin American particularly the coexistence in reactive countries of agriculture and manufacturing with foreign trade can be explained as a response to incentives created by policies aimed primarily at coping with balance of payments disequilibria generated by the unexpected worsening of the terms of trade and the abrupt cessation of capital inflows. As it became clear that the new constellation of external and domestic relative prices was not a fleeting phenomenon, and that the international economy was not to return to the pre 1929 rules of the game, both private and public agents reoriented their production and investment plans.

Admittedly incomplete evidence appears to support the view that countries willing and able to forcefully devalue their exchange rate early in the decade moved toward the new pattern of accumulation more speedily than those nations which kept their exchange rate fixed or devalued slightly. For the latter type of country, the required deflationary process involved the marking down of a myriad of non-traded goods prices (and wages) without clear guidance from either markets or governments as to what the correct new level should be. The confusing circumstances of the 1930s, whose macroeconomics are debated even today in industrialized countries, made guessing about the new equilibrium non-traded goods prices singularly difficult. In contrast, devaluing the exchange rate involved a clear signal and a species of “price guideline reducing uncertainty for economic agents in

reactive countries.

As devaluations typically occurred while exports of goods and services exceeded imports of goods and non-factor services (i.e., excluding remittances of profits and interests abroad), their expansionary effects were strengthened. Note also that purchasing-power-parity should not be expected to hold in an economy subjected to real shocks, so it is not surprising that the nominal devaluations of the 1930s, in contrast with those occurring in Latin America since World War II were offset only to a slight degree by movements in domestic price levels. Plentiful idle resources, of course, contributed to this outcome. One may also conjecture that in several reactive countries during the late 1920s an unusually large inflow of foreign capital financing domestic public works had resulted in what during the 1970s became known as “atraso cambiário”, i.e., a low price for dollars and sterling and a high price for non-traded goods and services, which made the real depreciations of the early 1930s the more dramatic. The late 1920s may have also left a legacy of plentiful liquidity in some countries, cushioning the impact of the crisis.

The abandonment of the old parities and of unlimited convertibility into foreign exchange allowed in several countries the maintenance and expansion of domestic liquidity, which combined with other policies led to the reasonably good economic performance in reactive countries. The balance of payments crisis and the threat of financial collapse were of greater significance in the adoption of those policies than whether the new governments which came to power during the 1930s represented a shift to the Right, as in Argentina, or toward more reformist positions as in Colombia and Mexico. Purely domestic political factors may have accounted for whether or not a country engaged in land reform during the 1930s, but those factors had much less to do in reactive countries with the adoption of policies which induced import substitution. The latter depended on the magnitude of the foreign exchange and financial crisis, and country on specific characteristics of the external sector. Thus, revolutionary Mexico was timid regarding exchange control than conservative Argentina, largely because of its open border with the United States. Policy makers who abandoned gold convertibility, allowed the exchange rate to depreciate supported banks at the edge of bankruptcy, permitted budget deficits induced by economic and foreign trade decline, and financed them by monetary expansion, on the whole did so moved by survival instincts rather than inspired by the writings of economists, either defunct or live. But in reactive countries, including Chile and Uruguay, the institutional structure was compatible with actions involving a degree of policy autonomy, while in smaller or passive countries, such as Cuba, it was less so.

While the economic performance of reactive countries was reasonably good, per capita real incomes grew less during the 1930s than during the 1920s or 1990s. Had the industrialized countries maintained full employment, open markets for foreign goods and bonds and a peaceful international environment, it is likely that the aggregate output performance in reactive countries (and of course in

passive ones) would have been better. Sectoral patterns of growth would have been different, and it is likely that under such counterfactual circumstances some activities, like cement and textiles, would have grown less than they actually did during the 1930s. The diversification which took place in agriculture, manufacturing, exports and government revenues, as well as in the geographical sources and destination of exports, could very well have been less under the hypothesized counterfactual conditions. It is also conceivable that institutional reforms in banking, taxation and even land tenure would have been weaker. Under the counterfactual circumstances there might have been less structural change but more growth not just in aggregate output but also in physical and technical capacity. Output growth during the 1930s wore out much of the capital stock accumulated during the 1920s and earlier, and was accompanied by relatively little fresh investment and technical change. At the outbreak of World War II, a good share of the Latin American social overhead capital and industrial capacity was already stretched thin and at the verge of obsolescence; war shortages were to aggravate these conditions.

The crisis at the Center did induce policy experimentation in the Periphery. Bold foreign examples were plentiful: The New Deal in the United States; fascism in Italy and later in Germany and Spain; and radical socialism in the Soviet Union. Examples of a successful maintenance of old-fashioned orthodoxy were fewer. The collapse of international financial markets encouraged attempts to mobilize domestic savings and the creation of new domestic financial institutions. The lamentable state of banks in the United States and other industrialized countries during the early 1930s made Latin Americans think twice about the wisdom of capital flight, increasing the potency of domestic monetary and tax policy. Rivalries among industrialized countries, exacerbated by the crisis, plus the Good Neighbour policy of Franklin Delano Roosevelt also encouraged, directly or indirectly, policy initiatives favouring the geographical diversification of foreign trade, greater national control over natural resources, and the rescheduling of external debt obligations. A poor profits outlook at the Center encouraged some direct foreign investment into Latin America, and helped to concentrate the animal spirits of local entrepreneurs within the domestic market. In short, the disastrous news from the rest of the world reaching Latin America during the 1930s made policy-makers and informed opinion feel not only that local conditions were not so bad, after all, but also that no one knew, in Center or Periphery, exactly what were the roots of the crisis nor how it could be overcome. After a terrible fright, this stimulated an almost exhilarated creativity. The old authorities and rules were shattered. It was a time calling for reliance on one's discretion.

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