

Argentine Riddle: The Pinedo Plan of 1940 and the Political Economy of the Early War Years

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Abstract. By mid-1940, the Argentine economy seemed to be heading for a major crisis because many of her traditional export markets had suddenly become inaccessible. In response, Finance Minister Federico Pinedo and his team developed a wide range of initiatives. These aimed to overcome the crisis and restructure the Argentine economy in order to accommodate it to a changing and difficult international environment.

This article analyses the nature, successes and failures of these policies. It argues that while Pinedo's initiatives certainly entailed visionary elements which anticipated major problems of the Argentine and Latin American development of the post-war era, they should not be regarded as some 'golden opportunity' for sound economic modernisation that was missed only because Pinedo and his fellow conservatives failed to win political approval and were later pushed aside by the rising force of populism.

In November 1940, Argentina's Finance Minister Federico Pinedo introduced his *Plan de Reactivación Económica* to Congress. Apart from a detailed report on the economic state of the nation and its principal problems, the Pinedo Plan, as it soon came to be known, contained 15 legal provisions designed to cope with economic dislocations caused by the European war.² In December the bill was approved by the Argentine Senate, but it was stalled in the Lower House where the political opposition controlled the majority of seats. The main opposition party, the *Unión Cívica Radical* (UCR), refused to collaborate after the governing conservative alliance had resorted to fraud in recent provincial elections. Pinedo's attempts to strike a political truce with UCR-leaders failed and after less than five months in office, he resigned in January 1941. His plan never came into being. Nevertheless, it stimulated ardent discussions among contemporary observers and the general public, and it has received a great deal of attention in modern historiography.

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² Argentina, Congreso Nacional, *Diario de sesiones del Senado 1940*, vol. II (Buenos Aires, 1941), pp. 315–32. His report was reprinted in *Desarrollo Económico*, vol. 19, no. 75 (1979), pp. 403–26.

For some, Pinedo came to be the incarnation of the *oligarquía vendepatria*, an oligarchy that had no qualms about selling out national interests to enhance their own privileged position.³ These critics draw attention to one of the legal provisions of his plan, Article 10, which called for a nationalisation of the British-owned railways. While such a project had been on the nationalist agenda for quite some time, Pinedo's project aroused suspicion when it became public knowledge that he had been on the payroll of the British companies. In 1938 (and for a very generous fee) he had designed a detailed blueprint for a gradual nationalisation on behalf of the railroads. Suspicions now arose that he was going to carry through his nationalisation scheme that was reputed to be far too generous to the foreign companies.⁴

More generous contemporary observers were less intrigued by the ominous Article 10 than by other aspects of his programme. For Félix Weil, the Argentine sponsor of the *Frankfurt School of Critical Theory*, Pinedo's efforts constituted nothing less than the Argentine equivalent of Roosevelt's *New Deal*. Instead of following the traditional *laissez-faire* approach, Weil explained in 1942 in a lecture on the Pinedo Plan in New York (a manuscript he extended and published a few years later in what became a very influential book, his *Argentine Riddle*), this politician had introduced state interventionism to cope with economic imbalances. Moreover, Pinedo tried to break with the traditional hostility of the ruling *estancieros* towards industry, Weil argued, by advocating government incentives to industry as a road to general recovery. 'The highlight of Pinedo's Plan was that, for the first time in Argentine history, domestic industrialists got the recognition they had so long clamoured for in vain', he stressed.⁵ Miron Burgin, a Latin Americanist in the US State Department, hailed the programme as the clearest expression yet of a hemispheric trend toward a new economic policy: 'It epitomizes the desire to attain economic stability through diversification of production'.⁶

This turn towards industry, Miguel Murmis and Juan Carlos Portantiero argued in the 1970s, was not so much a break with the past but rather a lucid effort to reinforce the traditional hegemony of the 'oligarchy'. After all, had not Pinedo himself stressed that his

³ For nationalistic attacks against Pinedo see, for example, J. L. Torres, *La década infame, 1930-1940* (Buenos Aires, 1973), pp. 59-61. For Pinedo's reaction against these *vendepatria*-charges see F. Pinedo, *En tiempos de la república*, vol. 1 (Buenos Aires, 1946), pp. 186-7. For a detailed discussion of the contemporary reactions to Pinedo's programme see G. Cramer, *Probleme der Wirtschaftspolitik in Argentinien während des Zweiten Weltkriegs* (Stuttgart, forthcoming), ch. V.

⁴ Under intense public pressure, Pinedo himself declared in a parliamentary session to have received £10,000 for his legal expertise, cf. *Diario de sesiones del Senado 1940*, vol. II, p. 417.

⁵ F. J. Weil, *Argentine Riddle* (Washington, 1944), p. 166.

⁶ M. Burgin, 'Post-Mortem on Argentina's Pinedo Plan', *Inter American Quarterly*, vol. 3, no. 4 (1941), pp. 68-75.

industrialisation programme was to be a limited one, that the only enterprises to receive public support would be those which had a domestic resource base and whose products did not endanger the exports of countries that Argentina depended on as markets for her traditional agricultural products?⁷

In the 1980s, the Pinedo Plan again appeared in a different light. By now, many (and not only conservative) observers had identified the extreme inward-looking course that Argentine economic policy-making had taken in the post-war era as a leading cause for the secular stagnation of the country. Looking back to the 1940s, Juan José Llach saw in Pinedo's plan what could have been the historical alternative to Perón's extreme *mercadointernismo*, as he aptly called it. Whereas Perón's industrial policies aimed at import-substitution and were based upon indiscriminate protection, Pinedo had offered a different strategy: a selective industrialisation, i.e., a sponsoring of industries which were to compete in foreign markets and which were to be supported by a new foreign trade policy designed to develop permanent new markets for non-traditional exports. The latter implied a thorough rapprochement with the United States and a strengthening of trade ties with neighbouring countries. In 1940, however, politics triumphed over the economy, Llach argued, in what turned out to be a pyrrhic victory because the economy would soon triumph over politics: Peronist economic strategies failed despite receiving massive popular support.⁸

More recently, and against a background of rapid trade liberalisation and tangible progress in regional economic integration (MERCOSUR), it is not so much the specifics of Pinedo's industrial schemes that have intrigued observers but rather the trade and foreign policy aspects. We learn, for example, that '[t]he central concern of the Pinedo Plan was the expansion of trade with the USA and the Latin American countries'.⁹ Elsewhere, Pinedo is hailed as a pioneer of economic integration, his plan as a first concrete effort towards a South American free trade area.¹⁰

Many an observer today might wish that the Pinedo Plan had not been the victim of the intense partisan struggles back in 1940, and that the young and dynamic finance minister had been given the chance to implement a thorough reform programme: Argentina's history might

⁷ M. Murmis and J. C. Portantiero, *Estudios sobre los orígenes del peronismo* (Buenos Aires, 1987), pp. 36–8. (The first edition dates from 1971.)

⁸ J. J. Llach, 'El Plan Pinedo de 1940, su significado histórico y los orígenes de la economía política del peronismo', *Desarrollo Económico*, vol. 23, no. 92 (1984), pp. 515–58.

⁹ G. Porcile, 'The Challenge of Cooperation: Argentina and Brazil, 1939–1955', *Journal of Latin American Studies*, vol. 27, no. 1 (1995), pp. 129–59, p. 133.

¹⁰ R. T. Alemann et al., *Comercio internacional, integración y estabilidad monetaria. En homenaje al doctor Federico Pinedo* (Buenos Aires, 1996).

have taken a very different, more fortunate course. However, Argentine history is full of riddles. Pinedo himself did not regret the failure of his plan for very long because he and others soon came to the conclusion that changing circumstances had rendered it superfluous.

This apparent confusion is due to the fact that Pinedo's diverse initiatives are commonly regarded as being part and parcel of his reactivation programme which, indeed, failed in Parliament. However, much of what he proposed was not contingent on the fate of his *Plan de Reactivación*, and if it failed, it did so for different and more complex reasons. Equally, what failed in Parliament, i.e., the Pinedo plan proper, was indeed rendered redundant very soon.

The crisis

By mid 1940 the Argentine economy seemed to be heading for a major crisis. In spring, German troops had occupied large parts of Scandinavia, the Low Countries, and France. Italy soon entered the war, and the British, in a desperate effort to cut off overseas supplies to Nazi Germany and its allies, strengthened their naval blockade which left only a few of Argentina's traditional markets in continental Europe accessible to overseas trade. Certainly, the route to Britain, the single most important customer, remained open. But in view of the German submarine threat and the scarcity of shipping for civilian purposes, the British had to cut down their imports to the minimum necessary. Thus, within a few months, Argentina's export volumes fell off steeply. Millions of tons of maize and other products accumulated in harbours and railway stations. Accumulating stocks depressed rural price levels and threatened to plunge agriculture, still the mainstay of the Argentine economy, into an existential crisis.

As export volumes fell off steeply, imports followed suit. Supplies from continental Europe were almost completely cut off, and Britain found it increasingly difficult to export as her economy was progressively geared to war production. For vital needs, Argentina could turn to the United States. Thus, while total import volume was shrinking, imports from the United States were rising, and soon nearly doubled the pre-war average.¹¹

This reorientation of import flows was looked upon with a certain apprehension by the Argentine authorities allocating foreign exchange. They expected large deficits in the trade and payments balances with the United States, which would draw heavily on the dollar and gold reserves

¹¹ According to Argentine trade statistics, imports from the USA rose from an average of 209 (1935/39) to 450 million pesos in 1940 (at current prices), or from about 16 to 30 per cent of total imports. The steep rise in value terms was, of course, due to some degree to rising price levels, particularly to rising freight rates.

of the country. True, Argentina was going to have a substantial trade surplus with Britain and thus would earn surplus sterling. Yet, these sterling balances accumulating in the Bank of England were not convertible and were therefore useless for the current exchange dilemma.¹² At the same time, it was thought unlikely that the United States was going to raise its level of imports from the River Plate significantly. The United States had been difficult to trade with, and the economic structure of the *northern colossus* was hardly complementary to the Argentine. In a range of products, such as grains, the two countries competed on the few international markets left open to foreign trade. Moreover, the USA was well protected by various tariff and non-tariff barriers against imports such as meat from the River Plate.¹³ Efforts to reduce trade barriers between the two countries had failed only in January 1940, when negotiations on a new trade treaty were officially suspended.¹⁴ Therefore the Argentine authorities expected a rapid depletion of monetary reserves and resorted to a highly restrictive course in their handling of import permits and exchange regulations. They turned down requests not only for low priority imports such as consumption goods but also for machinery and intermediate products not considered indispensable. In September 1940, when Pinedo had just taken office, they even suspended granting import permits for *any* US-products for a few weeks.¹⁵

The crisis of the external sector was soon showing repercussions throughout the economic and social fabric. The sharp decline in the volume of foreign trade increased unemployment in the transport sector, particularly among port and dock workers. The building trades, which reacts very sensitively to business cycles, reported a sharp downturn in orders and announced massive layoffs for the near future.¹⁶ Certain industries slowed production down because necessary imports were no

¹² On the blocked sterling cf. J. Fodor, 'The Origin of Argentina's Sterling Balances, 1939-1943', in G. Di Tella and D. C. M. Platt (eds.), *The Political Economy of Argentina, 1880-1946* (New York, 1986), pp. 154-82.

¹³ The classical study on the peculiarities of Argentina's foreign trade relations is still J. G. Fodor and A. A. O'Connell, 'La Argentina y la economía atlántica en la primera mitad del siglo XX', *Desarrollo Económico* vol. 13, no 48 (1973), pp. 3-65.

¹⁴ The reasons for this failure are discussed in Cramer, *Probleme der Wirtschaftspolitik*, Ch. II. 1.4.

¹⁵ National Archives Washington, DC (hereafter NA) Record Group (RG) 59 835.5151/1223: Embajada de la República Argentina D.E. No. 118; 835.5151/1229: Memorandum for the file, 19.09.1940, p. 1; 635.11171/441: Newsletter No. 317 American Chamber of Commerce, 27.09.1940; 635.116/193: President of Southern Textile Machinery to Secretary of State Hull, 12.06.1940; 635.116/203 Hoffman Machinery Corporation to Department of State, 10.09.1940; 635.116/228: Hughes to Secretary of State, 22.11.1940.

¹⁶ See, for instance, the memorandum of representatives of the building trades directed to president Ortiz from July 1940 in: Unión Industrial Argentina, *Memoria y balance, 1940* (Buenos Aires, 1941), pp. 83-6.

longer available, either because of the direct interferences of the war or due to growing import restrictions for US-products. The latter was true, for example, for the assembly plants of General Motors, Ford and Chrysler, which reduced production in response to rising difficulties in importing chassis and other components from the United States.¹⁷ Those industries less dependent on imported raw materials and components were certainly able to profit from the foreign trade difficulties (which gave them almost complete protection against overseas competition) by expanding their market shares. These sectors could even increase their workforce. But on balance, as the general report on unemployment by the National Labour Department from September 1940 indicated, the war seemed to have a negative impact on employment, and the new jobs tended to be in branches with relatively low wage levels such as textile industries.¹⁸

The countryside was haunted not so much by unemployment as by a massive downward slide of agricultural prices. The quotations for maize, a traditional mainstay of Argentine exports accounting for about 20 per cent of total export earnings before the war, soon reached a point well below production costs. The quotations for other important products like wheat and linseed dropped rather less catastrophically but still brought considerable distress.¹⁹ With mounting pressures from producers, the government could hardly sit still. In September 1940, the Argentine Grain Board started to buy maize at a fixed minimum price to uphold the agricultural price level. Within a few weeks it acquired more than five million (metric) tons of the 1939/40 crop, much of which, for lack of foreign markets and storage capacity, was later sold as fuel to power plants and railways. In November and December, when the harvest season for wheat and other crops was about to begin, the Grain Board announced that it would buy any excess at a fixed minimum price. A few months later, another bumper harvest of maize threatened to flood the market and had to be handled nearly entirely by the Grain Board.²⁰

This was not the first time that the government came to the rescue of agriculture in times of crisis. It had done so since 1933, but the volumes

¹⁷ In October they even announced that they would shut down completely, throwing 2,500 men out of work, cf. *New York Times* 19.10.1940, p. 23.

¹⁸ Ministerio del Interior, Departamento Nacional del Trabajo, División de Estadística, *La desocupación en la Argentina 1940* (Buenos Aires, 1940), pp. 11–15.

¹⁹ P. P. Egoroff, *Argentina's Agricultural Exports During World War II* (Stanford, 1945). The livestock sector was much less affected. Meat exports would soon even profit to some extent from war conditions. But this was hardly visible at this moment.

²⁰ By the end of 1944, the Grain Board had handled a total of 55.5 million tons. For details see G. Malgesini and N. Alvarez, *Cereales y combustibles. Problemas de la economía argentina durante la II guerra mundial* (Buenos Aires, 1982).

of these operations and the concomitant financial burdens were without precedent. To finance such operations, the government in 1933 had introduced the so-called *Margen de Cambio*, a substantial profit margin it collected from buying and selling foreign currencies on the official exchange market where the bulk of the currencies earned through exports had to be negotiated.²¹ During the 1930s, these funds had amply exceeded the costs of agricultural support programmes. However, the government had turned to them frequently as an easy source of liquid funds to cover budget deficits and other expenses. As a result, of the 371 million pesos the Exchange Profit Fund nominally contained at the close of 1940, only 31 million were not tied up in loans to the government.²² This amount was far from sufficient to finance the massive operations of the Grain Board. Buying the surplus of the maize crop 1939/40 alone led to an operational loss of about 150 million pesos.²³

Financing agricultural support, then, was by no means easy, and doing so out of current revenues was out of the question, since the budget was already in a substantial deficit. Besides, the crisis was expected to bring a steep reduction of revenues for the near future.²⁴ Foreign capital markets could not be relied on during the war. Equally, floating government bonds on the domestic market was not, for the time being, an option. Local investors had reacted very nervously to recent events in Europe. In May and June, Argentine monetary authorities had to purchase government bonds on a massive scale in order to support quotations.²⁵ As a consequence, the government was obliged to turn to the banking system for large credits. The lender of last resort was, as usual, the state-owned National Bank. (The Central Bank's capacity to advance funds to the government was strictly limited by law).²⁶ The National Bank was the largest commercial bank by far, holding about 40 per cent of all deposits in Argentina. Because of its considerable liquid reserves, it was not easily

²¹ For a detailed analysis of the Argentine exchange control system see J. Prados Arrarte, *El control de cambios. El intervencionismo de Estado en la Argentina* (Buenos Aires, 1944).

²² H. R. Woltman, 'The Decline of Argentina's Agricultural Trade: Problems and Policies, 1929-54', unpubl. PhD diss., Stanford University, 1959, p. 167.

²³ Junta Reguladora de Granos, *Memoria 1940/42* (Buenos Aires, 1943), p. 22.

²⁴ Total (federal) government expenditure in 1940 was about 1,317 million pesos while total income (without the *Margen de Cambio*) stood at 964 million pesos. On revenues, deficits and fiscal policy during the war years cf. R. Rennie, 'Argentine Fiscal Policy', *Inter-American Economic Affairs*, vol. 1, no. 1 (1947), pp. 51-76.

²⁵ For further details see Banco Central de la República Argentina (hereafter BCRA), *Memoria anual 1940* (Buenos Aires, 1941), pp. 3-6; BCRA, *Memoria anual 1942*, p. 27, note 16; NA RG 59 835.5171/6 Reed to Secretary of State, 10.05.1942, enclosure: Trends on the Buenos Aires Stock Exchange, p. 4.

²⁶ On the restriction to advance funds to the state cf. S. Aisenstein, *El Banco Central de la República Argentina y su función reguladora de la moneda y el crédito* (Buenos Aires, 1942), pp. 139-47.

shaken. But it was doubtful whether even the National Bank was able to shoulder these financial burdens for very long.²⁷

The international setting

News of the events in Europe sent shock waves through Argentina. In mid 1940 it seemed that if the war was to continue the Argentine export economy would face a crisis far worse than the depression of the early 1930s. Moreover, the spectre of Europe in ruins, impoverished after years of warfare, did not hold out positive perspectives for post-war times *either*. But what if this war was a short one, as the German propaganda tirelessly proclaimed, ending with an overwhelming Axis victory and leaving large parts of continental Europe under Fascist control? Within a few months, German promises went, international trade would resume, the bulk of Europe then being organised in a huge trading block with a far larger capacity of absorption than Britain ever had.²⁸ Obviously impressed by this scenario, Senator Matías Sánchez Sorondo, an exponent of the ruling *concordancia's* far right, pressed in June 1940 for a trade mission to be sent to Germany, Italy and Spain so that Argentina might profit from the 'new order' taking shape in Europe.²⁹ Of course the Germans, too, had not been easy to trade with in recent times with agricultural protectionism, 'autarky' and a narrow bilateralism on the rise.³⁰ But for some sectors of the Argentine political establishment, the spectre of such a huge trading block under German predominance held out a positive opportunity for Argentina. For them, a willingness to enter into large scale barter and clearing agreements would give Argentine exports an advantage over competitors like the United States who refused to accept German ASKI-Mark and insisted on the principles of multilateralism.³¹

²⁷ The Grain Board's debt accumulated very rapidly during the early war years, reaching a peak with nearly 950 million pesos by the end of 1942. For reasons that cannot be dealt with here, the level of debts was reduced after 1942. For further details see Malgesini and Alvarez, *Cereales y combustibles*.

²⁸ On German propaganda and trade promises see Cramer, *Probleme der Wirtschaftspolitik*, ch. II.1.4; R. Pommerin, *Das Dritte Reich und Lateinamerika. Die deutsche Politik gegenüber Süd- und Mittelamerika 1939–1942* (Düsseldorf, 1977), pp. 153–66.

²⁹ *Diario de sesiones del Senado 1940*, vol. I, p. 448. For a study of the right wing and their leading exponents see R. H. Dolkart, 'The Right in the Década Infame', in S. McGee Deutsch and R. H. Dolkart (eds.), *The Argentine Right* (Wilmington, 1993), pp. 65–98.

³⁰ On German–Argentine economic relations during the 1930s see A. Ebel, *Die diplomatischen Beziehungen des Dritten Reiches zu Argentinien unter besonderer Berücksichtigung der Handelspolitik, 1933–1939* (Genf, 1970); on general relations cf. R. C. Newton, *The 'Nazi Menace' in Argentina, 1931–1947* (Stanford, 1992).

³¹ Such views were expressed, for example, by Carlos L. Torriani, Director of the Section of Economic and Consular Affairs in the Ministry of Foreign Affairs, to a representative of the Associated Press, cf. NA RG 84 Buenos Aires Embassy Confidential Files 1940, box 6, vol. 5: Armour to Secretary of State, 26.07.1940, pp. 5–7.

For those less confident in the Axis propaganda, the present difficulties and uncertainties suggested strengthening economic ties with the Americas and particularly with the United States. Thus, by mid-1940 various representatives of the conservative administration and business circles were warning the US embassy in Buenos Aires that Argentina was facing an imminent economic destabilisation and was being lured by the Axis.³² As the best means to counteract the threat of fascism in the hemisphere they argued for a broadly conceived programme of economic co-operation including a considerable reduction of US trade barriers. Finance minister Pedro Groppo, Pinedo's predecessor, pressed for an immediate sign of good will, and suggested that large scale purchases of Argentine surplus products would impress the general public, even if these commodities were to be dumped into the sea.³³

'It is obvious that a concerted effort is being made [...] to bring pressure on the United States to do certain things for Argentina', ambassador Norman Armour reported in a telegram from June 1940 to the State Department,

but be that as it may I am convinced that the issues at stake are so important and the need for prompt and vigorous action so great that nothing should be permitted to stand in this (the?) [sic!] way of our undertaking immediately a program of our own designed to ensure the support of countries in this area....³⁴

By this stage the Roosevelt administration was certainly concerned about the political consequences economic destabilisation could bring about in Argentina or elsewhere in the hemisphere, and various schemes of assistance were under discussion.³⁵ However, the 'prompt and vigorous action', ambassador Armour had called for, was not forthcoming. A drastic reduction of trade barriers or a massive purchasing programme for Argentine surplus products would cause hostile reactions in the farming states of the West and Midwest that could usually muster strong support

³² Among these were Federico Pinedo and Alberto Hueyo; Carlos A. Benegas Louro and Raúl Prebisch from the Central Bank; Alejandro E. Shaw and other very influential members of the local business community; the respective memoranda of conversation are mostly found in: NA RG 84 Buenos Aires Embassy Confidential Files 1940, box 6 and 7, or in the decimal files of the State Department (NA RG 59) from June–Aug. 1940, particularly in files starting 611. or 835.

³³ NA RG 59 611.3531/1548: Memorandum of Conversation, pp. 1–2.

³⁴ Foreign Relations of the United States 1940, vol. V: Armour to Secretary of State, 17.06.1940, p. 465.

³⁵ On the preoccupations of the Roosevelt administration and the various schemes of hemispheric co-operation cf. D. G. Haglund, *Latin America and the Transformation of U.S. Strategic Thought, 1936–1940* (Albuquerque, 1984), pp. 164–222; W. L. Langer and S. E. Gleason, *The Challenge to Isolation, 1937–1940* (New York, 1952), pp. 272–80, 629–37; D. Green, *The Containment of Latin America. A History of the Myths and Realities of the Good Neighbor Policy* (Chicago, 1971), pp. 46–58.

in the Senate and elsewhere in the political arena. And Roosevelt felt little inclined to risk trouble in view of the impending presidential elections. To alleviate the acute foreign exchange crisis and thus bolster Argentina's import capacity, Washington signalled willingness to offer through the official Export-Import Bank, substantial dollar credits on short notice.³⁶ However, this sign of good-neighbourly assistance created little goodwill on the River Plate. Instead of opening its markets for competitive products, the influential daily *La Nación* complained, the United States preferred to hand out credits, expecting the countries south of the Río Grande to specialise in the production of the few and hardly profitable goods that this 'vast extension of the globe' couldn't grow itself.³⁷

Nonetheless, in view of the aggravating foreign exchange crisis, the government of ailing President Roberto M. Ortiz was soon compelled to ask for EXIM-credits in Washington. The country had to maintain its imports of equipment and machinery in order to keep its industries and transport system going, an official communiqué explained on 26 June. It further announced that the proceeds of these loans were to be used to help finance an innovation in economic policy: the government proposed to introduce an industrial credit scheme.³⁸

Shrinking imports forced the country and its industries to expand production, Groppo explained in an interview with *La Nación*. In an interview with *Noticias Gráficas*, Jorge A. Santamarina, the president of the National Bank and member of a well known conservative family of the landed elite, explained that developments in Europe and, therefore, the future prospects of Argentine exports were difficult to foresee. The only way to maintain satisfactory growth rates for the time being was *growing inwards*. 'Debemos crecer para adentro', was his formula, 'y el desarrollo industrial es la única forma de intensificar ese crecimiento.'³⁹

Before these plans could be carried out, however, the internal political scene shifted. In July, Ortiz, now completely blind, had to delegate presidential powers to Vice-president Ramón S. Castillo, who represented the *concordancia's* reactionary wing and soon set about reversing the re-democratisation process initiated by Ortiz. In September, Castillo replaced Ortiz's cabinet with his own team. For the ministry of finance he chose Federico Pinedo, an experienced politician who had already served during the depression of the 1930s and subsequently acquired a reputation for

³⁶ After the fall of France, the EXIM Bank's lending capacity was increased from \$220,000,000 to \$700,000,000; for details see I. F. Gellman, *Good Neighbor Diplomacy. United States Policies in Latin America, 1933-1945* (Baltimore and London, 1979), pp. 161-2.

³⁷ *La Nación*, 04.10.1940, p. 4.

³⁸ Cf. *Boletín Oficial de la Bolsa de Comercio de Buenos Aires*, 01.07.1940, pp. 61-2.

³⁹ NA RG 59 611.3531/1552: Newspaper Clippings: *La Nación*, 28.06.1940; *Noticias Gráficas*, 27.06.1940.

being fond of spectacular reforms.⁴⁰ In any event, Pinedo was obviously convinced that existing policies were insufficient to cope with the economic difficulties, and that only a broadly based emergency plan together with a thorough reorganisation of Argentina's foreign trade relations would achieve this.

Pinedo's initiatives to restructure Argentina's foreign trade relations

As early as June, well before his appointment, Pinedo had approached the US embassy. Like others, he had pressed for close economic co-operation, but his ideas went much further than those of his fellow conservatives (and, indeed, further than the literature has hitherto recognised).

The gravity of the situation, Pinedo argued, called for a comprehensive solution, a Pan-American Customs Union. '[T]he best possible defense against totalitarianism would be, he said, a customs union', the US embassy recorded.⁴¹ Pinedo urged Washington to start exploratory conversations with Argentina as soon as possible. Even if not all the countries of the hemisphere were ready to join immediately and the trade barriers between the member states were to be abolished only gradually, he predicted that such a course of action would result in a rapid expansion of inter-American trade. His ultimate objective was a continental free trade area with a common customs barrier, possibly allowing countries of other regions to join. He was apparently thinking of Britain.⁴²

According to Pinedo, Argentina had come to a cross-roads, whatever the outcome of the war would be. A continued reliance on Europe for the bulk of her exports would endanger the economic future of the nation. 'Dr. Pinedo concluded by asserting again that Argentina's situation is a very precarious one', an embassy memorandum noted,

and that [...] Argentina will be at the mercy of an impoverished Europe which, no matter who 'wins' the war, will doubtless subject Argentina to the shackles of compensation trade and attendant political influence.⁴³

No doubt Pinedo was aware that his ideas were bound to meet massive resistance both in the United States and in Argentina. If the Roosevelt administration had found it so difficult to offer substantial tariff reductions or other trade concessions for Argentine products only a few months

⁴⁰ On Pinedo's reputation, particularly in financial circles, see Public Record Office, London (hereafter PRO), Foreign Office (FO) 371/24166: South and Central America, 02.12.1940 (Ovey), p. 1; Review of the River Plate, 25.10.1940, p. 3.

⁴¹ NA RG 59 611.3331/1536: Memorandum of Conversation, 11.06.1940, p. 2.

⁴² NA RG 84 Buenos Aires Embassy Confidential Files 1940 box 6, vol. 5: Pinedo to Ravndal, 17.06.1940 (Enclosure to despatch No. 808).

⁴³ NA RG 59 611.3331/1537: Memorandum of Conversation, 12.06.1940, pp. 3-4. See also F. Pinedo, 'Relaciones económicas interamericanas', *Revista de Economía Argentina*, vol. 41, no. 290 (1942), pp. 234-8.

before,⁴⁴ the idea of a customs union held little prospect of being received with enthusiasm. Pinedo evidently hoped that Washington's security interests in the region would be an overriding factor in determining its course of action. He '...recommended that the Congress of the United States grant the President emergency powers towards that end'.⁴⁵ As for Argentina, it was clear that his ideas would be coldly received by those who feared that such a course might limit Argentina's freedom of action in selling to Britain or in making independent commercial and clearing arrangements with a totalitarian trade block arising on the European continent.⁴⁶ Indeed, Pinedo expected such a strong resistance within the Argentine diplomatic corps and foreign office staff that he urged Washington to establish direct contact with President Ortiz.⁴⁷ 'Dr. Pinedo urged that pertinent exploratory conversations and negotiations should NOT REPEAT NOT [sic!] be conducted through the usual diplomatic channels...', an embassy report stressed.⁴⁸

Pinedo's efforts to persuade the US government to head a campaign for a Pan-American Customs Union were to no avail. 'It has [...] been pointed out to Señor Pinedo that the United States still hopes that a world-wide [...] unconditional favoured-nation trading system still is practicable', reported the *New York Times* some months later, when his overtures were leaked to the press.

To this Señor Pinedo replies that Great Britain is not likely to abolish imperial preference even if she wins the war and that Germany certainly will cling to preferential policies. Therefore, he argues, why does not the United States face facts and shift its policy to one that will give the Americas preference...?⁴⁹

Such arguments did not impress Washington, and Pinedo now in office, turned to a different, less ambitious project of regional economic

⁴⁴ i.e., during trade negotiations that had failed in January, 1940.

⁴⁵ NA RG 59 611.3351/1536: Memorandum of Conversation, 11.06.1940, p. 2.

⁴⁶ For the same reasons, Roosevelt's short-lived plan to establish a Pan-American commodity cartel to counter a German-led European trade cartel was received coldly in Argentina. For details and further references cf. Cramer, *Probleme der Wirtschaftspolitik*, ch. II.1.5.

⁴⁷ In contrast to many other high ranking representatives of the conservative establishment, Ortiz had left no doubts as to the reservations he held about Nazi Germany. José María Cantilo, his foreign minister, had only recently protested against the German invasion of neutral countries. Moreover, Cantilo tried to convince the Roosevelt administration and other governments of the hemisphere to change the international status of their countries from *neutrality* to *non-belligerency*. For details see J. S. Tulchin, *Argentina and the United States. A Conflicted Relationship* (Boston, 1990), pp. 67–76; S. E. Hilton, 'Argentine Neutrality, September, 1939–June, 1940. A Re-Examination', *The Americas*, vol. 22, no. 3 (1966), pp. 227–57; for the perspective of German diplomacy see Pommerin, *Das Dritte Reich*, pp. 124–8.

⁴⁸ NA RG 84 Buenos Aires Embassy Confidential Files 1940, box 6, vol. 5: Memorandum of Conversation, 18.06.1940, p. 1. ⁴⁹ *New York Times* 17.11.1940, p. 36.

integration: to prepare for a first step toward a South American Customs Union.

Within the general public, the idea of a customs union with the neighbouring states of Chile, Uruguay, Paraguay, Bolivia and Brazil had been highly popular for a long time. Its advocates emphasised the richness of natural resources such a *Unión Aduanera del Sud* would count on, and the economic potential it would be able to realise.⁵⁰ Aware of these high expectations and possibly somewhat sobered by his own recent experience in pushing for a Pan-American customs union, Pinedo warned that the difficulties ahead should not be underestimated:

Mucho se ha discutido en torno al establecimiento de un régimen de libre intercambio entre los países vecinos del continente, vinculándolos en una unión aduanera tan completa como fuera posible. Tal vez el mayor enemigo de esa sana idea haya sido la exageración de su enunciado o el desconocimiento de las situaciones de hecho que su aplicación habría afectado.⁵¹

Instead of pushing for a full-blown southern customs union, he therefore turned to a more modest project when trade negotiations with Brazil were opened in September 1940. By early October, they agreed a protocol to improve the bilateral clearing arrangements and to strengthen trade flows between the two countries. The protocol also recommended that the two governments promote the production of goods hitherto not produced in either Argentina or Brazil by according to them, for a period of ten years, a privileged status. Prospective manufacturers were to be given the guarantee that these 'new' products would not face tariffs or other protective devices when imported into the other country. It further recommended an investigation of the extension of this privilege to such goods that were already being produced in one of the two countries, while playing no or only a marginal role in the productive structure of the other. Neighbouring countries were to be invited to join in these arrangements.⁵²

Although these recommendations were not aimed exclusively at manufactured goods, it was, above all, industry that preoccupied Pinedo. The provision of an ample market was seen as a prerequisite for the establishment of new industries that would produce goods formerly imported from outside the region. Furthermore, it was hoped that such a process of import substituting industrialisation (ISI) on a *regional* level

⁵⁰ Cf., for instance, A. E. Bunge, *Una nueva Argentina* (Buenos Aires, 1987), pp. 297–324 (reprint).

⁵¹ *Diario de sesiones del Senado 1940*, vol. II, p. 321, point 13 of his report on the economic state of the nation accompanying his *Plan de Reactivación Económica*.

⁵² *Ibid.*; *Revista de Economía Argentina*, vol. 39, no. 269 (1940), pp. 353–4.

would reduce the danger of sponsoring enterprises obliged to produce at high costs because they could not exploit economies of scale when operating in a market as narrow as that of Argentina.⁵³

The subsequent experience with ISI amply justified Pinedo's apprehensions about state sponsored industrialisation in narrow, protected markets. However, his own efforts never bore fruit. This was not so much because Parliament chose to block them or because his stay in office proved to be too short to see them through. The success of the plans for economic integration with neighbouring countries was not contingent on the fate of his *Plan de Reactivación*. Strictly speaking, they were not part of the *Plan de Reactivación* which Congress was asked to pass.⁵⁴ Moreover, Pinedo's departure from office in January 1941 did not prevent the Castillo government from maintaining his initiatives. Indeed, in November 1941, an *Agreement for Progressive Free Trade* that contained the above-mentioned stipulations for 'new' products was signed by Argentina and Brazil.⁵⁵ The following years witnessed a number of treaties with other neighbouring countries, such as Chile and Paraguay, announcing more or less far-reaching steps towards a free trade area or a customs union.⁵⁶

Until quite recently, all these endeavours towards regional integration ended in failure. The reasons for this are too complex to be dealt with adequately here. Of course, one may speculate here that with someone like Pinedo leading the war-time cabinet in Buenos Aires, things might have turned out differently. A new foreign policy such as that demanded by Pinedo, could have avoided the confrontation with Washington after Pearl Harbor, when the Castillo government refused to break relations with the Axis.⁵⁷ This, in turn, would have enlarged the freedom of action Brazil and other neighbouring countries effectively had in fomenting their

⁵³ Porcile, 'The challenge of Cooperation', pp. 133–6; Cramer, *Probleme der Wirtschaftspolitik*, ch. III.1.2.; J. Villanueva, 'El doctor Federico Pinedo y la integración económica sudamericana', in Aleman et al., *Comercio internacional*, pp. 203–17; E. Baldinelli, 'Federico Pinedo y el comercio exterior argentino', in *ibid.*, pp. 83–107.

⁵⁴ He mentioned these initiatives in his report on the economic state of the nation that accompanied the legal provisions Parliament was asked to consider, but otherwise it played no role in the *Plan de Reactivación* proper.

⁵⁵ For an English version of the Treaty see *Review of the River Plate*, 23.11.1941, pp. 11–14.

⁵⁶ cf., for instance, H. Chalmers, 'Inter-American Trade', in S. E. Harris (ed.), *Economic Problems of Latin America* (New York, 1944), pp. 193–221.

⁵⁷ The literature on the deteriorating relations with the United States is vast, cf., for instance, C. Escudé, *Gran Bretaña, Estados Unidos y la declinación argentina 1942–1949* (Buenos Aires, 1988); M. Rapoport, *Gran Bretaña, Estados Unidos y las clases dirigentes argentinas, 1940–1945* (Buenos Aires, 1983); on the myth of Argentina constituting a menace for the entire hemisphere see Newton, *The 'Nazi Menace'*.

economic relations with Argentina.⁵⁸ In such a scenario, the *political* environment within the hemisphere would have been more conducive to a South American economic integration. As to the *economic* environment, the resistance against a liberalisation of trade flows would have been much lower in the early 1940s than in later decades when the main countries of the region had reached advanced stages of ISI and had already developed quite large industrial structures dependent on high rates of protection.

Yet, this scenario makes many questionable assumptions: that Pinedo would have had the strength to overcome the *neutralistas* in the political and military establishment;⁵⁹ that the degree of political cohesion between the South American republics in question would have been high enough to overcome the frictions and irritations such free trade projects tend to produce;⁶⁰ and that the negative attitude of the United States towards *Argentine* efforts for a South American integration was in fact the decisive factor in their failure.⁶¹ In other words, while Pinedo's project of a South American economic integration certainly had visionary qualities, there is little reason to assume that things would have turned out much differently had he stayed in office.

A central component of Pinedo's efforts to restructure Argentina's foreign trade relations was his plan to promote 'new' exports. If the country was to greatly enlarge its trade volumes with the Americas, he argued, it had to diversify its exports because traditional exports such as meat or grains would not find many more customers within the hemisphere. This initiative was aimed particularly at the United States. 'El

⁵⁸ Thus, the Brazilian government hesitated to co-operate with Argentina because the predominant interest was to develop a privileged relationship with the United States; for details see Porcile, 'The Challenge of Cooperation'. On Brazil's relations with the United States see F. D. McCann, *The Brazilian-American Alliance, 1937-1945* (Princeton, 1973).

⁵⁹ To maintain neutrality was a major reason not for all, but for many of the military officers behind the coup d'Etat from June 1943. On the background of the coup see R. A. Potash (ed.), *Perón y el G.O.U. Los documentos de una logia secreta* (Buenos Aires, 1984), and his *The Army and Politics in Argentina, 1928-1945. Yrigoyen to Perón* (Stanford, 1969), ch. VI and VII.

⁶⁰ On the difficulties and on the failure of LAFTA and other agreements of regional integration, see, for instance, V. Bulmer-Thomas, *The Economic History of Latin America Since Independence* (Cambridge, 1994), pp. 297-308; G. Mace, 'Regional Integration in Latin America: A Long and Winding Road', *International Journal*, no. 43 (summer 1988), pp. 404-27.

⁶¹ As a matter of fact, the US-Argentine trade treaty signed in October 1941 included an exchange of notes to the end that Washington accepted Argentina's right to concede tariff preferences and other trade advantages to neighbouring countries; for details see Cramer, *Probleme der Wirtschaftspolitik*, Ch. VI.2.1. Until well into the 1960s, however, the United States actually disapproved of such schemes of Latin American integration, not only of those brought forward by the *Argentines*; on US policy see J. Grunwald, M. S. Wionszek and M. Carnoy, *Latin American Economic Integration and U.S. Policy* (Washington, 1972).

gran mercado de Estados Unidos ofrece enormes posibilidades. No hay ninguna razón lógica para que nuestra industria no pueda aprovecharlas', Pinedo declared.⁶² Indeed, the war-related disturbances of international trade held out opportunities for Argentina to supply goods that the USA traditionally imported in considerable quantities from Europe, such as wines and other alcoholic beverages, Italian-type cheese or leather products.⁶³

Yet, Pinedo recognised that it would not be easy to gain a firm footing in a highly sophisticated market such as the United States. He suggested establishing a new-type trade corporation, the main stockholders of which were to be representatives of leading US enterprises in Argentina such as the branch plants of Ford or General Motors, firms importing farm equipment from the United States or banks. These circles, he hoped, would have the knowledge and connections to develop a systematic approach to launching Argentine products in the North American market. In their turn, the companies participating in this scheme would benefit from a new foreign exchange regulation: the dollars earned by these new exports were to be made freely available to them for imports from the USA.⁶⁴ Whereas these companies were protesting against increasing import restrictions,⁶⁵ Pinedo invited them to contribute to the alleviation of the dollar shortage and thus enhance the country's import capacity.⁶⁶

The first reaction from the US business community was rather negative. 'The idea has been coldly received by American firms here', the *New York Times* reported in October.⁶⁷ The development of such a trade consortium would require time and study while the dollar shortage was obviously an immediate problem. Moreover, business representatives argued, automobile manufacturers were not necessarily qualified as exporters of Argentine wine and cheese.⁶⁸ On the other hand, Pinedo was able to put

⁶² *Diario de sesiones del Senado 1940*, vol. II, p. 332, point 42 of his report on the economic state of the nation accompanying his *Plan de Reactivación Económica*.

⁶³ Cf. Prebisch's explanations in NA RG 59 611.3515/21: Press Reception of the Argentine Trade Promotion Corporation, 09.08.1941, p. 2.

⁶⁴ Cf. NA RG 59 835.5151/1230: Tuck to Secretary of State, 17.10.1940 (Section One and Two); Review of the River Plate, 02.05.1941, p. 3.

⁶⁵ During most of the 1930s, companies denied devisen for import purposes on the official exchange could turn to the so-called 'free' market to buy exchange there, albeit at a price considerably higher than the official rates. Since the late 1930s, however, the 'free' exchange market was virtually closed for import purposes. For a detailed analysis see Prados Arrarte, *El control de cambios*, pp. 140–65.

⁶⁶ So he told a deputation of automobile importers in a meeting, cf. *Review of the River Plate*, 15.11.1940, p. 22.

⁶⁷ *New York Times*, 19.10.1940, p. 23.

⁶⁸ The First National Bank of Boston, *The Situation of Argentina*, 28.10.1940, p. 1; NA RG 59 611.3515/6: Division of the American Republics: The Pinedo Plan to Stimulate the Export of New Articles from Argentina, 29.11.1940.

considerable pressure on the companies in question: with things developing as they were, he told them, Argentina had little alternative but considerably to restrict her imports from the United States. For the following year (1941) he announced further stiff restrictions in the (official) allocation of foreign exchange, most of which were to fall on imports of automobiles and chassis, agricultural machinery and parts!⁶⁹

In view of these prospects, the companies soon expressed their willingness to adhere to the proposed corporation. This seemed ‘the less injurious course’, ambassador Armour reported in January 1941.⁷⁰ Thus, in May 1941, the *Corporación para la Promoción del Intercambio* (CPI) was founded along the lines indicated by Pinedo. In September the CPI took up business and opened offices in New York and other cities of the continent. Among the first products it promoted were hats, shoes and leather products.⁷¹

Yet, to understand fully the strategy devised by Pinedo and his brain trust, in which Raúl Prebisch, then director of the Central Bank, played a prominent role, it is important to note that they were rather pessimistic about the *immediate* gains of all these efforts to strengthen trade ties with the Americas. Pinedo cautioned against excessive optimism about developing alternative markets for traditional exports in the Americas when defending his *Plan de Reactivación Económica* in the Senate:⁷²

No creo que esté destinada a tener mucho éxito la idea de que se puede reemplazar, a corto término, la clientela de la Europa populosa, industrial y rica, por la clientela de países de otros continentes, algunos de los cuales producen, hasta en exceso, la mayor parte de los artículos que nosotros producimos; y otros, o tienen una población muy poco densa, o están sometidos a un nivel de vida tradicional y secularmente bajo.

As to ‘new’ exports, he obviously expected their volume to be too small to alleviate Argentina’s foreign exchange crisis significantly in the near

⁶⁹ His programme announced that the dollars earmarked for these import categories would be reduced from 72 million in 1940 to only 24 million pesos in 1941; cf. *Diario de sesiones del Senado* 1940, vol. II, p. 331. For the reactions of the US business community on this announcement see NA RG 59 835.5151/1230: Tuck to Secretary of State, 17.10.1940 (Section Two), p. 1.

⁷⁰ NA RG 59 611.3515/8: Armour to Secretary of State, 13.01.1941.

⁷¹ The CPI-statutes differed in some aspects from the original project, but these differences cannot be dealt with here; for details see NA RG 59 635/1212/1-1245: Argentine Trade Promotion Corporation (Enclosure); *Revista de Economía Argentina*, vol. 41, no. 276 (1941), pp. 195–9; Prados Arrarte, *El control de cambios*, pp. 166–71, 181–7; *Review of the River Plate*, 02.05.1941, p. 3, 12.09.1941, pp. 18–19; Chamber of Commerce of the United States of America in the Argentine Republic, *Trade Relations Between Argentina and the United States of America* (Buenos Aires, 1946), pp. 64–5.

⁷² *Diario de sesiones del Senado* 1940, vol. II, p. 463.

future. According to his memorandum on the economic state of the nation published in October 1940,⁷³ ‘se menciona la posibilidad de nuevas exportaciones, pero por el momento nada permite prever un aumento serio...’. For the following year, Pinedo and his advisors therefore expected a further massive contraction of exports which would compel not only drastic restrictions of dollar imports but also an emergency programme designed to safeguard the domestic economy against the depressive influences emanating from the crisis-ridden export sector.⁷⁴ This emergency programme was the *Plan de Reactivación Económica* or *Plan Pinedo*. Without such a plan, Pinedo argued, economic activity would continue to fall off, large scale unemployment would follow, the country would head for disaster: ‘Dejarse estar significa fatalmente el desastre’.⁷⁵

The Plan de Reactivación Económica

Pinedo pursued a Keynesian-type approach, seeking to avoid any measure that would further depress aggregate demand. He rejected the call for a sharp reduction of public spending that was being launched in influential papers such as *La Prensa*.⁷⁶ For the time being, budget deficits had to be tolerated. Later on, rising revenues brought about by an economic revival and by tax reforms, were going to take care of this.

The Grain Board’s purchasing programme, initiated in September, was the most costly of the various strategies under consideration. However, agricultural price support alone was insufficient according to Pinedo. In order to maintain the level of economic activity and employment, he proposed to boost the building sector by encouraging housing projects for low-income families. For the following year, his plan promised at least 200 million pesos in cheap, long-term credits to both public and private housing initiatives. This was a considerable amount, given that total government revenue in 1940 stood at 964 million pesos,⁷⁷ and the total value of new buildings (for both housing and business purposes) in the metropolitan area was about 123 million pesos (1940).⁷⁸ Besides fulfilling an obvious social objective, the *casas baratas* project had the advantage of being less import-intensive than other building projects, and would

⁷³ cf. *Noticias Gráficas* 26.10.1940, p. 1.

⁷⁴ As Argentina’s foreign trade had remained relatively unhampered during the first few months of 1940, the full effect of the export crisis would only be visible the following year, they argued. ⁷⁵ *Noticias Gráficas* 26.10.1940, p. 1.

⁷⁶ *Plan de Reactivación Económica, Diario de sesiones del Senado* 1940, vol. II, point 4, p. 318.

⁷⁷ Without income deriving from the *Margen de Cambio* and other revenues not strictly defined as belonging to the national budget, and without the proceeds from loans; cf. Rennie, ‘Argentine Fiscal Policy’.

⁷⁸ Dirección Nacional de Investigaciones, Estadística y Censos de la República Argentina, *Anuario estadístico* 1948, vol. I (Buenos Aires, 1949), p. 473.

benefit almost exclusively the domestic providers of materials and services.⁷⁹

Another 50 million pesos were earmarked for low-interest credits to encourage both the process of import substitution and the development of manufactured, 'new' exports.⁸⁰ Pinedo tried to appease rural pressure groups jealously guarding the export prospects of the country by promising that the state would not stimulate every type of industry but only those based on domestic natural resources. It would take care not to diminish imports from countries such as Britain that Argentina depended on as markets. Yet, lacking a clearly defined scheme as to which particular industries were to be stimulated,⁸¹ the programme did not spell out how these objectives could be reconciled.⁸²

In order to encourage investments, it promised further reforms to comply with the major demands of the *Unión Industrial Argentina*. New regulations would effectively protect domestic industries against any crude dumping manoeuvres which might occur after the war. Broad drawback regulations would aid the export of manufactured products by reimbursing the taxes levied on the imports of materials needed to produce these 'new' exports.⁸³ Finally, the programme announced a reform of the system of import tariffs in order to align it more closely to the interests of domestic industries.⁸⁴ Pinedo conceded that state sponsored industrialisation in a small market such as Argentina risked creating an industrial structure that would produce at uncompetitively high costs, but he viewed his own efforts to arrange free trade agreements with neighbouring countries as counteracting such a development.⁸⁵

Although care was taken to avoid stimulating import-intensive activities, Pinedo's programme could not avoid stimulating the demand

⁷⁹ *Plan de Reactivación Económica, Diario de sesiones del Senado* 1940, vol. II, p. 374.

⁸⁰ *Ibid.*, pp. 320–2.

⁸¹ Pinedo mentioned certain examples such as paper industries. Yet, there is no indication that there existed a plan as to which industries were to be selected.

⁸² This aspect entailed indeed something of a problem of conflicting aims. A large part of imports from Britain still consisted of traditional manufactured products such as textiles for which there existed quite a potential for import substitution in Argentina. For a further discussion cf. Cramer, *Probleme der Wirtschaftspolitik*, ch. IV.2.2.

⁸³ At this time, certain limited drawback regulations already existed, benefiting very few industries such as the meat packing, flour and automobile industries, cf. A. R. Guerrero, *La industria argentina. Su origen, organización y desarrollo* (Buenos Aires, 1944), pp. 469–70.

⁸⁴ *Plan de Reactivación Económica, Diario de sesiones del Senado* 1940, vol. II, pp. 320–2. While there is no need to give much credit to industrialists and other interested parties who claimed that the Argentine tariff system aimed solely at revenue purposes and actually harmed industry, it is certainly true that it was rather incoherent and that it deserved a major overhaul. For further details of the Argentine tariff system see C. Díaz Alejandro, *Essays on the Argentine Economy* (Yale, 1970), pp. 277–308.

⁸⁵ *Plan de Reactivación Económica, Diario de sesiones del Senado* 1940, vol. II, p. 321, point 13.

for imports, which if left uncontrolled, would further aggravate Argentina's dollar problems.⁸⁶ Loans granted by the US Export-Import Bank and other agencies would only temporarily ease the external disequilibrium.⁸⁷ Therefore, the existing dollar and gold reserves had to be severely rationed, and only indispensable products were to be allowed in without severe quantitative restrictions.

Such a restrictive course would prevent import levels from rising and thus from dissipating the envisaged demand-induced revival of the domestic economy. As a result, the exchange and import control system acquired a new function, described by Prebisch in a lecture to Mexican bankers:

Esto representa [...] una clarísima evolución del concepto con que se aplicaría el control de cambios. En su concepción primitiva era un mero instrumento restrictivo para lograr el equilibrio del balance de pagos; ahora lo vemos aparecer como instrumento de una política de intensificación del movimiento económico interno.⁸⁸

Such restrictions on competing imports would sooner or later show effects similar to those of open protectionism.⁸⁹ This inward-directed potential, however, seems to have escaped the notice of the contemporaries.

One major outstanding question was how to fund the emergency programme. If the budget deficit and the high cost of agricultural support measures already constituted a substantial problem, how to raise the additional expenditures for housing and industrial credit schemes? For Pinedo, this was not to be achieved by further expanding *public* expenditure. 'Todo el programa que se propone se basa [...] en el concepto de acrecentar los gastos productivos, no en la administración pública, sino en el campo de la actividad privada.'⁹⁰ His plan proposed a method of financing that fully justified his reputation as an audacious and inventive reformer.

The financial scheme's pivotal part was a new agency within the Central Bank with all its own capital stock derived from the Bank's accumulated

⁸⁶ Ibid., p. 322, point 17.

⁸⁷ Ibid., pp. 329–31, point 37–40. By the time, the Pinedo Plan was being discussed in Parliament, Raúl Prebisch reached an agreement in Washington, that entailed EXIM- and other credits totalling 110 million dollars. For reasons that cannot be discussed here, the Argentine government never made use of them. For details on the Prebisch mission and the dollar loans see Cramer, *Probleme der Wirtschaftspolitik*, ch. III.3; IV.5.

⁸⁸ R. Prebisch, 'Análisis de la experiencia monetaria argentina (1935–1943). Conversaciones en el Banco de México S.A. en el año 1944', in Banco Central de la República Argentina (ed.), *La creación del Banco Central y la experiencia monetaria argentina entre los años 1935–1943*, vol. I (Buenos Aires, 1972), p. 401.

⁸⁹ It would affect relative price levels of exportables and importables, to say the least.

⁹⁰ *Plan de Reactivación Económica, Diario de sesiones del Senado* 1940, vol. II, p. 318, point 4.

profits and reserves. The new agency was to open a special account for the housing and industrial credit schemes, and it was to be entitled to use the proceeds of loans such as those offered by the United States, and to float bonds on domestic and foreign capital markets. The latter was obviously not an immediate option.⁹¹ A further means of raising funds – which he called ‘Mobilización de los recursos bancarios’ – made Pinedo’s scheme highly unorthodox. The commercial banks, both private and public, in his view, were unable to satisfy the demand for cheap medium- and long-term credits for investment. This was not because the banking system as a whole was short of funds; it held liquid reserves substantially above legal requirements, or ‘excess reserves’. But, for different reasons, the banks were unable or unwilling to enter the risky business of medium- and long-term credits.⁹² So, Pinedo’s emergency plan promised to mobilise ‘idle money’⁹³ for productive purposes: the newly created agency was to transform these ‘excess reserves’ (held in the Central Bank), into cheap medium- and long-term loans for housing and industry.⁹⁴

Moreover, if the agricultural support programme overburdened the National Bank, the new agency was to provide the necessary funding to the Grain Board.⁹⁵ The heavy financial burden would thus be spread through the banking system as a whole. Because Pinedo realised that such a mobilisation of the country’s ‘idle money’ was a novel and somewhat disturbing prospect, his plan included certain safeguards for the individual banks involved. They would be able to rely on the Central Bank in case a nervous public reacted with massive withdrawals.⁹⁶

Controlling the economic recovery was largely the task of the Central Bank. In order to avoid an overheating of the recovery process with a concomitant build-up of inflationary pressures, the monetary authorities

⁹¹ i.e., as long as domestic and foreign capital markets were virtually closed to large-scale borrowing; *ibid.* p. 322, point 17.

⁹² Cf. Cramer, *Probleme der Wirtschaftspolitik*, Ch. IV.2.4.

⁹³ This scheme seems to have been partly inspired by an article written by an official of the US Federal Reserve, cf. W. Thomas, ‘The Banks and Idle Money’, *Federal Reserve Bulletin*, vol. 26, no. 3 (1940), pp. 192–200.

⁹⁴ The new agency, however, was not supposed to offer these new credit lines directly to the public. Interested banks and other accredited financial institutions were to serve as intermediary agents between the Central Bank and the public. The individual banks had to approve the credit applications coming in (after guidelines from the Central Bank) and were ultimately taking the risk for these operations. Yet, in order to stimulate industrial investments deemed particularly important (for example industries related to military defence), the new financial agency was to be entitled to participate with its own capital stock and thus to reduce the risks for the individual commercial banks involved.

⁹⁵ *Plan de Reactivación Económica, Diario de sesiones del Senado* 1940, vol. II, p. 316, Article 6.

⁹⁶ *Ibid.*, p. 315, Article 5a.

were to adjust the volume of credit mobilised according to economic activity, and the original project avoided specifying the exact amount of funds to be channelled into the programme.⁹⁷ Moreover, it was thought necessary to gain tight control over the total volume of credit operations. For a specified period, the individual banks would transfer any increase of their deposits to the Central Bank. In addition, the Central Bank would (permanently) gain the right to raise general reserve requirements⁹⁸ without any limitation, ‘hasta llegar al 100% del efectivo en caso necesario’, as Prebisch explained later.⁹⁹ Seen together, quite a few of the provisions Parliament was asked to approve, aimed at an enlargement of the Central Bank’s prerogatives, partly for a specified emergency period, partly on a permanent basis.¹⁰⁰

It is not surprising that Pinedo’s unorthodox recovery programme received much public attention, not least because he himself was eager to gain publicity. Supporters emphasised the social and developmental aspects of his plan, comparing it to Roosevelt’s *New Deal*. Less impressed observers such as Marcelo T. Alvear, the veteran leader of the UCR, were quick to see Hjalmar Schacht’s example at work, and alluded to the pivotal role assigned to the Central Bank and to the financial scheme.¹⁰¹ None of the provisions of the *Plan de Reactivación Económica*, however, sparked as much public indignation as the proposed nationalisation of the British-owned railways, once the news of the former connection of its author to the British companies had broken. It is not easy to understand why Pinedo burdened his recovery programme with such a potentially explosive issue,¹⁰² which seemed to be wholly unrelated to economic recovery. However, nationalising the railways was seen as a way to safeguard the volume of exports to Britain, which was putting considerable pressure on the Argentine government to pledge that it would use the sterling

⁹⁷ Cf. Prebisch, ‘Análisis’, p. 406. The original draft was changed, however, by the finance commission of the Senate. The commission stipulated that housing should receive at least 200 million pesos in 1941. It further specified that this amount was to be distributed evenly throughout the republic; cf. *Diario de sesiones del Senado 1940*, vol. II, pp. 315–16 and 375.

⁹⁸ When the Central Bank was created, the reserve requirements were legally fixed at 8 per cent for long-term, and 16 per cent for sight deposits, cf. Aisenstein, *Banco Central*, pp. 161–164.

⁹⁹ Prebisch, ‘Análisis’, p. 409.

¹⁰⁰ For more details on the banking provisions see Cramer, *Probleme der Wirtschaftspolitik*, ch. IV.2.4.

¹⁰¹ For the (somewhat incoherent) positions taken by UCR-politicians see *ibid.*, ch. V.

¹⁰² ‘His plans’, the British embassy had correctly predicted, ‘including that of the railway settlement, will meet with a lot of die-hard opposition...’ PRO FO371/24166: British Embassy to Balfour, 23.10.1940. Questions related to the foreign-owned railways more than once turned into politically sensitive issues, cf. W. R. Wright, *British-owned Railways in Argentina. Their Effect on Economic Nationalism, 1945–1948* (Austin and London, 1974).

accumulating in Argentina's favour for such an operation.¹⁰³ Otherwise, the British insinuated, they would be unable to maintain current levels of imports from the Argentine.¹⁰⁴ Although Pinedo did not publicly mention British pressures, it was this aspect he referred to when defending his project in the Senate:

Se dice que Gran Bretaña puede mantener sus compras. Es cierto, muy probablemente pueda mantenerlas si la ayudamos, si hacemos algunas cosas que se necesitará hacer...¹⁰⁵

Public indignation did not prevent the conservative majority in the Senate from passing the *Plan de Reactivación Económica*, but it was brought to a halt in the lower house. The opposition refused to even consider it after the government, in mid-December 1940, had turned to fraud in a hotly contested province election in Santa Fe and one month later in Mendoza. As Llach has stated, the failure of the Pinedo Plan was the price the ruling elite had to pay for their incapacity for political reform. Yet, was it such a high price as he argued?¹⁰⁶

Although Pinedo had predicted that without a forceful reactivation programme, the country would head for disaster, the much announced disaster did not materialise. His plan was based on assumptions which seemed sensible in mid-1940, but which soon afterwards turned out to be mistaken. It had forecasted that a continuation of the war would bring massive deficits in the trade and payments balances with the United States that would compromise the country's gold and foreign exchange reserves if left unchecked. For various reasons, however, the situation developed very differently.

¹⁰³ A short Foreign Office minute neatly summarises the British position: 'The Treasury, Board of Trade and Governor of the Bank of England are desirous of effecting a settlement partly because the prospects of the main line railway companies become progressively bleaker as the time approaches for the expiry of the Mitre law and also, and more especially, because of their hope that a settlement could contribute towards solving the problem resulting from the accumulation of Argentine surplus sterling funds resulting from our large war time purchases which are not balanced by exports.' (The Mitre law gave certain privileges to the companies such as tax advantages and expired with the end of 1946.) PRO FO 371/24167: Minute 19.10.1940, Balfour. On this matter, cf. also R. García Heras, 'World War II and the Frustrated Nationalization of the Argentine British-owned Railways, 1939-1943', *Journal of Latin American Studies* vol. 17, no. 1 (1985), pp. 135-55.

¹⁰⁴ This was not the only demand put forward, cf. PRO FO 3371/24163: Draft Agreement Between the Government of the Argentine Republic and the Government of the United Kingdom; FO 371/24163: Waley to Fraser, 04.11.1940.

¹⁰⁵ *Diario de sesiones del Senado* 1940, vol. II, p. 463. Other concessions relating to Anglo-Argentine payments agreements had already been made by this time, for details see Cramer, *Probleme der Wirtschaftspolitik*, ch. IV.3.

¹⁰⁶ cf. Llach, 'El Plan Pinedo', p. 517.

Table 1. *US imports from Latin America (in million of US-\$ at 1938 prices)*

	1940	1941	1942	1943	1944	1945	1946
Argentina	83.3	150.1	119.0	109.8	134.1	125.0	126.2
Brazil	105.2	165.7	131.1	173.1	221.8	230.5	264.7
Chile	64.9	100.6	111.0	107.1	116.4	100.1	54.7
Mexico	75.8	88.6	98.3	145.6	154.8	171.3	150.9

Sources: Foreign Commerce and Navigation of the United States.

Deflator: US wholesale prices as in B. R. Mitchell, *International Historical Statistics. The Americas 1750–1988* (London, 1993) p. 691.

Table 2. *Shares of specified national markets in Argentine export trade (per cent of total export value)*

	1939	1940	1941	1942	1943	1944	1945
United Kingdom	35.9	38.2	32.5	33.6	35.6	39.9	26.0
United States	12.0	17.8	37.0	28.5	24.3	22.7	22.2
Brazil	4.3	5.3	5.9	5.9	6.5	9.3	9.5
Other Latin America	4.1	6.7	9.0	12.3	13.3	11.6	11.9
Axis and occupied countries ^a	27.7	15.6	—	—	—	—	8.6
European Neutrals ^b	5.2	6.6	6.8	9.9	6.7	7.5	9.7

^a Germany, Italy, France, Belgium, Netherlands, Denmark.

^b Spain, Sweden, Switzerland.

Source: H. R. Woltman, 'The Decline of Argentina's Agricultural Trade: Problems and Policies, 1929–54', unpubl. PhD diss., Stanford University, 1959, p. 147.

Towards the end of 1940, exports to the United States started to rise at an unexpected rate as the war accelerated the recovery of the US economy from the depression and a massive expansion of military production increased the demand for imports in general and for certain critical raw materials in particular. Moreover, the war redirected many of US import needs towards Latin American suppliers (Table 1). For Argentina, this development benefited both certain traditional exports such as wool or leather, and non-traditional exports such as wine and alcoholic beverages, European-type cheese, tungsten and zinc.¹⁰⁷ Thus, although the Roosevelt administration had not responded with 'prompt and vigorous action' to Argentine calls for economic co-operation, commercial interchange between the two countries developed vigorously: in 1941, the United States was not only Argentina's most important supplier, but also her most important customer, surpassing even Britain (Table 2 and 3). This trend was partially reversed after 1941 due mainly to political reasons. After Pearl Harbour the United States expected Latin America to sever diplomatic relations with the Axis. When the Castillo government

¹⁰⁷ For details on a single-commodity base for this rise of exports see W. P. Schuck, *Argentina at the Turn of 1940/41* (Buenos Aires, 1941), pp. 26–7.

Table 3. *The regional distribution of Argentina's foreign trade (per cent of total export value)*

	Exports/imports to/from Europe		Exports/imports to/from USA		Exports/imports Americas without USA	
1939	76.3	60.3	12.0	16.4	9.3	16.1
1940	65.0	38.1	17.7	30.0	13.3	22.0
1941	41.3	27.6	37.0	35.2	16.6	26.7
1942	44.6	31.0	28.5	31.2	21.2	30.8
1943	43.1	37.5	24.3	19.0	24.5	36.4
1944	49.0	22.5	22.7	15.1	25.4	51.8
1945	46.9	30.2	22.2	13.8	27.5	37.2

Source: ECLA, Economic Survey of Latin America 1949 (New York, 1951), p. 102.

Table 4. *Argentina's balance of payments 1939–1943 (in million current paper pesos)*

	1939	1940	1941	1942	1943
'Free' currencies	147	– 130	409	340	735
'Blocked' currencies ^a	12	65	63	165	443

^a After 1939, this saldo reflects mainly the balance of payments with Britain.

Source: Central de la República Argentina, Memoria anual (Buenos Aires, 1939–1944).

refused to comply, Washington replied with economic sanctions.¹⁰⁸ But, Argentina's imports fell much steeper than exports, and the country did not experience any shortage of dollars, on the contrary.¹⁰⁹ Moreover, from 1941 onwards considerable inflows of 'hot money' contributed substantially to ease Argentina's foreign exchange position.¹¹⁰

Pinedo's brain trust had expected the payments deficit in the 'dollar and free exchange accounts' to be as high as 370 million pesos for 1940 and 475 million pesos for the following year.¹¹¹ Instead, the deficit for 1940 turned out to be 130 million pesos, which was easily covered by existing reserves (Table 4). From 1941 Argentina's balance of payments showed

¹⁰⁸ On the sanctions see C. Escudé, 'U.S. Destabilisation and Economic Boycott of Argentina During the 1940s', in G. Di Tella and D. Cameron Watt (eds.), *Argentina between the Great Powers, 1939–46* (London, 1989). For a analysis of the economic effects see Cramer, *Probleme der Wirtschaftspolitik*, ch. VII and X.

¹⁰⁹ Until about 1945/46, these economic sanctions consisted mainly of export restrictions. As the United States was the single most important supplier of goods left during the war, these restrictions led to a very considerable decrease of Argentine imports. In real terms, imports decreased to less than 40 per cent of their pre-war level.

¹¹⁰ Much of these capital inflows seems to have been dollar inflows from the United States where continental European capital owners withdrew their liquid assets in anticipation of a 'freezing order'; cf. NA RG 59 835.5171/6: Reed to Secretary of State, 30.05.1942, enclosure 1: André Weisman, Trends in the Buenos Aires Stock Exchange, pp. 4–5; on the magnitude cf. also BRCA, Memoria anual 1941, pp. 19–21.

¹¹¹ *Diario de sesiones del Senado* 1940, vol. II, pp. 330.

Table 5. *The gold and foreign exchange reserves of the Argentine Central Bank, 1942–45 (in million current paper pesos)*

	1942	1943	1944	1945
Gold	1,997	2,851.4	3,373.3	4,099.5
Foreign exchange guaranteed by gold clause (blocked sterling)	262	713.9	1,117.6	1,570.2 ^a
Other currencies ^b	– 27 ^c	201.1	116.0	32.4
Total	2,232	3,766.4	4,606.9	5,702.1

^a Including blocked French francs worth 29.1 million pesos.

^b All other currencies, incl. 'free' currencies such as dollars and blocked currencies not guaranteed by a gold clause. (Britain had guaranteed the value of the Argentine sterling holdings in London with such a gold clause).

^c This deficit reflects mainly a deficit in the balance of payments with Brazil and other countries with whom compensation treaties without a so-called 'gold clause' existed.

Source: Banco Central de la República Argentina, *Memoria anual* (Buenos Aires, 1942–1946).

growing surpluses in both the 'blocked' (mostly sterling) and 'free' exchange (mostly dollar) accounts. These large surpluses translated into a rapid increase of the country's gold and foreign exchange reserve (Table 5).¹¹² At the same time, however, these surpluses also gave rise to significant inflationary pressures¹¹³ and brought about an economic environment that called for a very different strategy of crisis management than the one Pinedo had advocated.¹¹⁴

Symptoms of an economic recession, such as the sharp downturn of orders in the building trades and a certain increase in bankruptcies during 1940, turned out to be short-lived. The pattern of employment developed far more satisfactorily than had been foreseen by the Labour Department, not least because throughout the economy import substituting activities of a quite labour-intensive type soon began to thrive.¹¹⁵ Increases in

¹¹² While the surplus with the United Kingdom resulted in a rapid increase of blocked sterling, the surplus in the trade and payments balances with the United States showed up not in rising dollar reserves but in growing gold stocks (Table 5). The Argentine Central Bank's statutes regulated that only a certain fraction of its reserves could be held in foreign exchange. As it was unable to translate the blocked sterling into gold, it turned to changing the dollar holdings into gold in order to fulfil this statutory obligation.

¹¹³ On inflationary pressures emanating from large balance-of-payment surpluses see R. Triffin, 'Monetary Developments in Latin America', *Federal Reserve Bulletin*, vol. 31, no. 6 (1945), pp. 519–31; Bulmer-Thomas, *Economic History of Latin America*, pp. 251–2.

¹¹⁴ On the problems economic policy making faced after 1941 see Cramer, *Probleme der Wirtschaftspolitik*, ch. 7–11.

¹¹⁵ Import-substituting activities were by no means confined to the manufacturing sector which usually attracts the attention. To a considerable extent, also raw materials and particularly fuels had to be substituted by domestic products. Thus, in order to make up for dwindling coal and oil imports, the country turned to using wood, charcoal and

monetary reserves translated into a rising liquidity in local capital markets, easing the procurement of funds to finance budget deficits¹¹⁶ and agricultural support programmes that had to be continued for a number of products such as maize, wheat and linseed.¹¹⁷ Prebisch explained later that ‘De un momento de sombrío pesimismo, de negras perspectivas, como fue 1940, pasamos, con unos meses de transición, a una situación opuesta’. Giving the country further impulses through an artificial mobilisation of bank deposits proved to be quite unnecessary. Indeed, Prebisch seemed nearly relieved that the Pinedo Plan had not been implemented:

Basta reflexionar lo que habría ocurrido de haberse iniciado el plan de construcciones y si al poder de compra lanzado en esa forma se hubiese agregado el nuevo poder de compra derivado del aumento de las exportaciones: se habría dilatado exageradamente la circulación, con las consecuencias perniciosas que tiene siempre. Lo peligroso en estos planes es detener el impulso cuando sobrevienen factores [...] que hacen innecesario proseguirlo.¹¹⁸

This is the background for Pinedo’s later, conspicuously scanty comments on his plan, about which he remarked:

...del que no voy a hacer la apología. Lo creí necesario en su momento, pero no todas las hipótesis en que se basaba se realizaron.¹¹⁹

Beyond this, Pinedo had other reasons to be rather unenthusiastic about recalling these events. Since the 1930s he had taken a very active role in

other substitutes during the war. This particular substitution process caused severe ecological damages, for it wiped out wide areas of forests. At the same time, however, it brought about 19,000 jobs in the North and Northeast between 1939 and 1944, according to a Central Bank estimate; cf. BCRA, Departamento de Investigaciones Económicas, *Informe preliminar sobre los efectos que tendría en las actividades industriales internas la libre reanudación de las importaciones* (Buenos Aires, 1945), p. 35.

¹¹⁶ Thus, calm returned to the local market for government bonds. In contrast to many other countries of the region, Argentina’s rather developed capital market allowed her to fund budget deficits to a substantial degree through bond issues to the non-bank private sector and thus to avoid a monetisation of the deficit. Financing budget deficits certainly remained a considerable problem during the war years, as the rapidly increasing floating debt and other indicators show; for details cf. Cramer, *Probleme der Wirtschaftspolitik*, ch. XIII and X; but in contrast to the expectations of 1940, the financial situation proved to be manageable.

¹¹⁷ i.e., against what was feared 1940, the National Bank was able to shoulder the substantial financial burden of agricultural price support.

¹¹⁸ Prebisch, ‘Análisis’, p. 410.

¹¹⁹ Pinedo, *En tiempos de la república*, vol. I, p. 190; Pereyra advanced a different interpretation of Pinedo’s remarks. According to Pereyra, Pinedo was referring to the political circumstances of the time which did not allow him to succeed. Yet, there is no strong evidence for such a view, cf. H. J. Pereyra, ‘Pinedo y el Plan Económico de 1940’, *Todo es Historia*, no. 131 (April 1978), pp. 6–28.

bringing about what contemporary observers called the *economía dirigida* ('managed economy') and therefore had come under heavy criticism from the standard-bearers of laissez-faire liberalism such as the influential daily *La Prensa* to whom he responded¹²⁰ '[Y]a está lejos en el tiempo la época del laissez faire, laissez passer'.¹²¹ A few years later, however, while battling against the rising tide of Peronism, he himself became a vehement critic of state interventionism.¹²² Thus, when Perón moved to expand governmental control over the banking system in 1946, Pinedo flatly denied the need for any change: 'Nuestro sistema bancario no requiere cambios fundamentales',¹²³ The Peronist government turned the Central Bank into a state agency and 'nationalised' the bank deposits,¹²⁴ thereby gaining very considerable means to steer credit and capital flows towards manufacturing and other targeted sectors. These reforms certainly went further than anything Pinedo had advocated, but attentive contemporary observers could not help noting that Pinedo's ideas for mobilising bank deposits and targeting them for selected purposes showed a certain similarity to the reforms he now opposed so vigorously.¹²⁵

Pinedo's subsequent lack of enthusiasm for his plan must also be viewed against the background of a severe charge of having failed to accommodate import policies to changing external circumstances. In a sense, it is ironic that Pinedo, who pressed for a thorough rapprochement with the United States, shared the pessimistic expectations as to trade opportunities with the United States. This deep pessimism meant that Argentine authorities continued to restrict dollar imports until well into 1941 when alternative supply sources for essential products had already been closed. When they finally abolished controls, it was too late to produce significant results, for the United States had started to restrict its exports due to the necessities of its economy mobilising for war.¹²⁶ A study of the import control system published in 1944 charged that by failing to see that under war conditions the primary objective should not have been the guarding of foreign exchange reserves, but the maintenance of import flows, the authorities had committed a very serious mistake.¹²⁷ Thus, after 1940, Prebisch and Pinedo were widely held responsible for

¹²⁰ *La Prensa* also took a leading role in breaking the news on Pinedo's earlier connection with the British railroads in December 1940. ¹²¹ *Crítica* 26.11.1940, p. 9.

¹²² Cf., for instance, his *El fatal estatismo*, (Buenos Aires, 1956), (2. ed.). He also turned against his former collaborator Raúl Prebisch; see his critique against ECLA-positions in: *La CEPAL y la realidad económica en América Latina* (Buenos Aires, 1963).

¹²³ *La Prensa*, 27.04.1946, p. 6.

¹²⁴ Technically, this meant introducing a 100 per cent reserve requirement.

¹²⁵ Cf., for instance, the analysis of the Peronist banking reform by the US-embassy, in: NA RG 59 835.516/4-2946: Tewksbury to Secretary of State, 02.05.1946, enclosure.

¹²⁶ On the beginnings of US export restrictions (about mid-1941) cf. BCRA, *Memoria anual 1941*, pp. 3–5, 29–34. ¹²⁷ Prados Arrarte, *Control de cambios*, p. 345.

the failure of the country to build up sufficient stocks of critical materials such as oil or rubber to be able to weather the war without acute shortages.¹²⁸

While it soon became clear that a reactivation programme was unnecessary, not all the recommendations of the Pinedo Plan turned out to be superfluous, and this is particularly true for the plan's industrial aspects. In 1941, the Castillo government called in a commission to study a general reform of the import tariff system,¹²⁹ and it sent a number of bills to Parliament for a new industrial credit scheme,¹³⁰ anti-dumping¹³¹ and drawback measures.¹³² 'El país se industrializa. Se industrializa deliberadamente y por imposición de las circunstancias', the government declared and announced that after the war Argentina's foreign trade would not resume traditional patterns.¹³³ Following the same argument, the Central Bank announced that foreign exchange accumulated during the war was to be used 'rationally' by giving preference to imports of non-competitive products, of raw materials, of intermediate components and capital goods necessary for a thorough modernisation of the Argentine economy and its industries: 'No hay por qué seguir importando lo mismo que antes si ahora se produce razonablemente aquí.'¹³⁴ Most of the legislative reforms envisaged by the Castillo government, however, came to nought as a result of the political stalemate which started in 1940.¹³⁵ The industrial programme was not revived until after June 1943, when a military government was able to simply decree what it deemed necessary to further the industrial development of the country.¹³⁶

By this time, the industrial programme had changed its character to some degree. The promotion of manufactured exports no longer constituted a central theme. This was due not only to the particular

¹²⁸ For further details on the critique from military, political and business quarters see Cramer, *Probleme der Wirtschaftspolitik*, ch. IV.5.

¹²⁹ Cf. the declarations of Pinedo's successor, Carlos Alberto Acevedo, about the objectives of this reform in *Acción Económica* 13 (Nov. 1941), p. 9. However, it took the commission years to develop a plan for such a reform.

¹³⁰ *Diario de sesiones de la Cámara de Diputados* 1941, vol. III, p. 576.

¹³¹ *Ibid.*, vol. III, pp. 719–20.

¹³² *Ibid.*, vol. II, p. 108.

¹³³ *Ibid.*, 1942, vol. I, pp. 531–2.

¹³⁴ BCRA, *Memoria anual* 1942, p. 30.

¹³⁵ All the bills mentioned died in Parliament after having been treated favourably by the corresponding parliamentary committees. For a detailed account see Cramer, *Probleme der Wirtschaftspolitik*, ch. VI. What did prosper, however, was a law to support industries run by the military. On the foundation of the *Dirección General de Fabricaciones Militares* see, for instance, S. Kissinger, 'Zur Funktion der argentinischen Streitkräfte im Industrialisierungsprozeß unter besonderer Berücksichtigung spezifischer Industrialisierungspläne, ausgearbeitet von Angehörigen der Streitkräfte zwischen 1922–1949', unpubl. PhD diss., FU Berlin, 1982.

¹³⁶ For detailed discussion of industrial policies after June 1943 cf. Cramer, *Probleme der Wirtschaftspolitik*, Ch. IX and XI.

ideological complexion of the military government. It was also due to the fact that economic circumstances had changed after 1940. Growing balance-of-payments surpluses reduced the pressure to develop new exports and new markets. Growing import difficulties led to a scarcity of consumer and capital goods, of intermediate products and non-domestic raw materials. Efforts to expand industrial exports soon came into stiff competition with the necessity of securing the needs of the domestic market and its consumers.¹³⁷ Well before June 1943, the enthusiasm for sponsoring new exports began to wane. Already the Castillo government felt compelled to turn to export prohibitions to safeguard domestic consumption levels.¹³⁸

Also the *Corporación para la Promoción del Intercambio* soon lost impetus. A few months after the CPI had started operations, in December 1941, the United States entered the war; obtaining shipping space became increasingly difficult; at the same time, tightening US export restrictions severely curtailed the flow of goods to Argentina. Therefore, the new trade corporation found itself very soon in a rather unexpected position: of earning foreign exchange that it could not spend on imports. In view of this new situation, the CPI increasingly turned to other activities, such as sponsoring surveys on the Argentine economy and its capacity for industrial development.¹³⁹

Conclusion

In 1940, a young and dashing politician from the governing conservative alliance, finance minister Federico Pinedo, came up with an array of reform projects designed not only to counteract immediate economic dislocations caused by the war, but also to put economic growth onto a more secure footing by trying to accommodate the Argentine economy to a changing and difficult international environment. As it soon turned out, the recovery programme proved to be unnecessary. Economic recovery came about spontaneously, albeit aided by some government intervention, particularly agricultural price support, which was initiated independently from Pinedo's plan. Thus, the failure of his reactivation programme in Parliament did not have the disastrous effects he had announced.

¹³⁷ It is worth noting that already the above mentioned industrial credit bill of 1941 declared that preference would be given to enterprises that produced for the domestic market; cf. *Diario de sesiones de la Cámara de Diputados* 1941, vol. III, p. 575, Article 1.

¹³⁸ For details see Cramer, *Probleme der Wirtschaftspolitik*, Ch. VII.4.2. These early export restrictions, however, did not yet prevent the value of 'new exports' from rising. The peak was reached in 1943 when finished and semi-finished products together constituted nearly 25 per cent of total exports (Table 6).

¹³⁹ cf. *The Review of the River Plate*, 17.03.1943; one of the investigations commissioned by the CPI was: J. Hopkins, *La estructura económica y el desarrollo industrial de la Argentina* (Buenos Aires, 1944).

Table 6. *Composition of Argentine exports according to the degree of processing (as percentages of total export values)*

Year	Raw materials	Processed products		
		Primary ^a	Semi-finished ^b	Finished ^c
1937	76.4	21.3	1.8	0.5
1938	63.1	33.2	2.6	1.1
1939	63.9	32.2	3.0	0.9
1940	61.2	31.6	5.2	2.0
1941	44.1	43.4	7.9	4.6
1942	31.7	50.7	10.8	6.8
1943	31.4	44.2	14.0	10.4
1944	31.6	50.7	8.0	9.7
1945	37.9	41.6	10.5	10.0
1946	63.8	15.8	16.7	3.7
1949	78.1	13.4	7.9	0.6

^a Covers products such as: frozen, salted, and canned meats; powdered, condensed and evaporated milk; butter, cheese and casein; fats and tallow; flour; oilseed residues and cakes; cotton fibre and linters; petroleum products; sugar.

^b Covers products such as: tanned leathers; washed and combed wool; cotton, wool and silk yarns; piece fabrics of cotton, wool and silk; animal and vegetable fats for industrial use.

^c Covers products such as: fabrics in other forms and garments; essences, perfumes and hygiene and toilet articles; dyes, paints, varnishes and inks; chemical, pharmaceutical substances and products for industrial and medicinal use.

Source: ECLA, Recent Development and Problems of Argentine Industry (Mexico D.F., 1951), p. 137.

More consequential than this was the failure to accomplish a long-term restructuring based on an economic integration with neighbouring countries, a strengthening of economic relations with the United States, and on industrial exports. While the war years saw a significant increase of trade with the Americas (Table 2 and 3), based partly on the exports of 'new', industrial exports (Table 6), this trend proved to be short-lived. The reasons for this failure are complex. They certainly cannot be reduced to the fact that Pinedo and the conservative forces were defeated politically. While there is no need to argue that a conservative administration would have followed Perón's extreme *mercadointernismo* (Llach), there is no reason to assume that with such a conservative administration the course of events would have been *radically* different in the sense that Argentina would have either (a) resumed the traditional growth pattern of pre-1930 *laissez faire*, or (b) entered a vigorous strategy of export-oriented industrialisation as the Asian NICs did.¹⁴⁰ The

¹⁴⁰ It is often ignored that the Asian NICs started out with an industrialisation scheme that was not dissimilar to that which predominated in Latin America after the war. On the early strategy of ISI in Asia and the later switch to export oriented policies *after*

historical alternative to Perón seems to have been not so much the traditional ‘oligarchic’ model exclusively concerned with exports of Pampean commodities (as early Peronist supporters would have named it),¹⁴¹ or the open, competitive economy based on Argentina’s comparative advantages (as liberal-conservative critics would have called it), but rather a more conservative model of ISI. Such a conservative model of ISI would not have rested on such a massive redistribution of income and extremely expansionist fiscal and monetary policies as Perón followed immediately after the war. Whether or not such a conservative variant of ISI would have led to significantly higher rates of growth and less instability, cannot be answered here, yet it certainly would be a worthwhile exercise in counterfactual history.

the difficulties of ISI had become clear, see Ching-yuan Lin, ‘East Asia and Latin America as Contrasting Models’, *Economic Development and Cultural Change*, vol. 36, no. 3 (1988), pp. S153–S196. The question then is not so much why Perón did not re-initiate an outward-oriented growth strategy in the 1940s, but rather why Argentine and other Latin American governments opted for a deepening of the ISI process later on, when the problems with ISI had become clear. For a discussion of these aspects see S. Haggard, *Pathways from the Periphery. The Politics of Growth in the Newly Industrializing Countries* (Ithaca and London 1990).

¹⁴¹ Many observers would argue here that a conservative government would never have punished agricultural exports as Perón’s *Instituto Argentino para la Promoción del Intercambio* (IAPI) did. (IAPI implemented a massive transfer of resources from export-oriented agriculture to other, targeted sectors.) However, by 1942 even the *concordancia* had developed a far-reaching scheme to tax exports. The mechanism proposed had more than a superficial resemblance to IAPI; for details see Cramer, *Probleme der Wirtschaftspolitik*, Ch. VIII.3.