

Straining at the Anchor: The Argentine Currency Board and the Search for Macroeconomic Stability, 1880–1935. By Gerardo della Paolera and Alan M. Taylor. Chicago: University of Chicago Press, 2002. xviii + 275 pp. Index, notes, bibliography, figures, illustrations, tables. Cloth, \$35.00. ISBN 0-226-64556-8.

Reviewed by Klaus Veigel

On the eve of World War I, Argentina had to be regarded as a modern country. Fifty years later, with a disappearing middle class, rising poverty, and high unemployment, Argentina's economy appears closer to the economies of its Latin American neighbors than to those of advanced European or North American nations. Economic historians have disagreed over the reasons for and the exact timing of this decline. In his seminal study, *Essays on the Economic History of the Argentine Republic* (1970), Carlos Díaz-Alejandro argued that the decisive break occurred during the Great Depression, when the government gave up its liberal free-trading attitudes. Others stressed Argentina's dependence on capital imports from Great Britain during the *belle époque*. They hold that World War I was the turning point for Argentine economic fortunes, because it ruined British finances and caused the world's financial center to shift from London to New York, which was less inclined to lend freely to a potential rival in global markets.

With this present volume, Gerardo della Paolera and Alan Taylor shed more light on the Argentine economic decline. They examine Argentine monetary policy between the late nineteenth century and the creation of the *Banco Central* in 1935, arguing that Argentine prosperity was closely linked to a stable and credible monetary policy. Their study emphasizes the history of the *Caja de Conversión* (Conversion Office), which operated between 1890 and 1935, and the reasons for its success as a credible monetary institution. The Conversion Office closely resembled present-day currency boards; its most important task was to stand ready to exchange the gold in its reserves for paper currency. As the Conversion Office was not allowed to issue money without gold backing, it was unable to conduct independent monetary policy. Its creation in 1890 was a result of the economic and monetary experience of the 1880s, notable for sharp boom-bust cycles driven by macroeconomic mismanagement. Consequently, "Argentine authorities sought to permanently lock monetary policy in a realm safely outside political control—and then throw away the key" (p. 99).

The Conversion Office continued to operate until 1931, when economists and policy makers came to believe that the Great Depression could only be overcome with the help of active monetary policy. Recent scholarship has argued that monetary heterodoxy was the best response

at the time and that adherence to the gold standard aggravated the Great Depression in countries such as the United States, Germany, and France. Economies that had abandoned the gold standard without a protracted struggle rebounded more quickly. Argentina was a case in point. With the devaluation of the peso in 1931 and the creation of the Argentine *Banco Central* under the guidance of Raúl Prebisch, Argentina recovered faster than other advanced economies in North America and Europe.

Della Paolera and Taylor challenge the conventional wisdom that “the breaking of the gold fetters” was a cause for rejoicing, as John Maynard Keynes had suggested. They acknowledge the short-term success of the monetary heterodoxy but assert that abandoning the nominal anchor ultimately had disastrous consequences because it undermined the precious credibility of monetary institutions and enabled postwar governments to engage in uncontrolled deficit spending. After the end of the Second World War, Argentina returned to an unstable monetary policy with boom-and-bust cycles and slow growth, comparable to the situation in the 1880s.

Straining at the Anchor is more than a monetary history of Argentina up to the Great Depression. It clarifies specific problems that Argentina, as an open, peripheral economy, faced in a world of high capital mobility, and it addresses wider theoretical questions, such as the impact of the gold standard in peripheral economies and the importance of a nominal anchor in the monetary policies of developing countries. Its central conclusion is that one of the most important macroeconomic challenges for a small open economy is the task of building institutions and commitments to support stable monetary and fiscal policies. “If such actions are successful, an economy can gain price stability for the long run—in other words, a firm *nominal anchor*—and all of the benefits that go with it” (p. 10). By contrast, if credible institutions are absent, the economy suffers higher rates of inflation, more instability in the banking sector, and a higher frequency of currency crises.

The study efficiently uses modern international macroeconomic analysis but still remains accessible to noneconomists. A limitation of the economic approach, however, is that it underestimates the impact of political and social transformation on economic and monetary policy over this period. With industrialization, a rising working class, and the emergence of populism, the institutional and political environment changed, making adherence to a nominal anchor increasingly costly; politicians therefore felt they could no longer afford to lock monetary policy into a realm outside political control. Another weakness of the book is that it was written well before the breakdown of the peso-dollar parity in December 2001. References to the seemingly successful stabilization achieved by the former secretary of economics, Domingo

Cavallo, and the contention that Argentina “stands as a prototype of other would-be reformers around the world” (p. 18) will certainly confuse readers familiar with the present situation in Argentina. Failure to anticipate the present crisis should not distract from the value of *Straining at the Anchor*, as it adds considerably to our understanding of Argentine economic and monetary history and provides a thoughtful case study of a currency board operating in an open economy on the periphery.

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