Multidisciplinary Journal for Education,
Social and Technological Sciences

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

The Impact of the Great Depression in Ecuador

Cristian Paúl NARANJO NAVAS*, Andrés David NARANJO NAVAS**, Alegría Cumandá NAVAS LABANDA***

* Facultad de Ciencias de la Educación, Humanas y Tecnologías. Universidad Nacional de Chimborazo, Avda. Eloy Alfaro y 10 de Agosto, Riobamba, Ecuador. Email: cnaranjo@unach.edu.ec, paulnaranjo@icloud.com

** Departamento de Ciencias Políticas. Facultad Latinoamericana de Ciencias Sociales Sede Ecuador, Calle La Pradera E7-174 y Av. Diego de Almagro. Email: adnaranjofl@flacso.edu.ec, andynaranjob@hotmail.com

*** Facultad de Ingeniería. Universidad Nacional de Chimborazo, Avda. Eloy Alfaro y 10 de Agosto, Riobamba, Ecuador. Email: anavas@unach.edu.ec, cumita9@hotmail.com

Received: 12 October 2018; Accepted: 03 September 2019

Abstract

This investigation started with an inquiry: did the Great Depression impact Latin America similarly? Does the case of Ecuador represent a point of dissimilarity? Ecuador does represent an atypical case in the region. The data presented in this study shows that the impact of the Great Depression in Latin America was uneven: while the region declined sharply from 1929 to 1932, and since 1933 it registers signs of accelerated growth, Ecuador remained stagnant throughout the decade studied.

However, the development of some macroeconomic data are similar in the entire region because of the close commercial links with the United States of America. The evolution of foreign trade and public finances were similar: a profound reduction until 1932-1933, and then a quick recovery. Finally, the Great Depression represents a break point in Latin American: the growth of the region passes from depending on the external trade to a development that focused on the ingrowth.

Keywords: Ecuador, Great Depression, political economy, gold standard

Multidisciplinary Journal for Education,
Social and Technological Sciences

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

1. Introduction

This article presents a review of the impact of the Great Depression in Ecuador, making use of new economic statistics, as well as placing the case of Ecuador in the context of the Latin American region. This article has two main objectives: first, to construct a comprehensive regional context of the impact of the international crisis through the use of historical macroeconomic variables so that the study of the Ecuadorian case is not isolated; second, to present new economic statistics of the Ecuadorian case that had not been used in previous studies, these statistics will help to understand the real situation of the Ecuadorian economy from 1927 to 1937.

In addition, two hypotheses are proposed to understand the impact of the Great Depression in Ecuador. First, the composition of the Ecuadorian population became a support cushion that did not allow the international crisis to provoke signs of a decline in the Ecuadorian economy while the Latin American region deteriorated deeply until 1932; however, this same population composition became an extra burden that immobilized Ecuador's economic acceleration when recovery was a trend throughout the region. Second, the evolution of economic indices related to foreign trade is similar throughout the region, probably because the main commercial partner was the United States of North America, where the Great Depression originated.

2. Population

The first population census was conducted in 1950, thereafter; population data are officially published by the government of Ecuador. Before 1950, population projections are based on rear projections made by several authors. The population data of Ecuador have been estimated by Linda Rodríguez (1992), the Central Bank of Ecuador (2012) and MOxLAD Data Base (2015)[1].

---

[1] The Central Banck of Ecuador (2012) and MOxLAD (2017) explain that their estimates are overhead projections made based on information available in the Latin American Demographic

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Because of the existence of different sources, one must understand the numerical differences in the projections made by the different authors: for example, the estimates made by Central Bank of Ecuador (2012) for 1927 and by Rodríguez (1992) for 1926. Table 1 shows that the population for 1927 is 2.2 million people (Central Bank of Ecuador 2012), while in table 2, for 1926, a population of 2.9 million people is estimated (Rodríguez 1992). This difference must be understood not as a demographic problem occurred in these years, but as projections made by different authors.

For Ecuador, during the period studied, it was estimated that the total population was between 1.5 and 2.6 million inhabitants. As can be seen in Table 1, Ecuador's population grew at a rate of 2.6% per year, half a percentage point below the average in South America. The region grew at a rate of 3.05%. The country with the highest population growth is Argentina, with an annual average of 4.1%, while the country with the lowest population growth is Bolivia, with an annual average of 1.6%. If one takes into account the population of 1926 (table 2) for the regions of the coast and the mountains, and the approximate length of 60.039 km ^{2} for the coast, and 59.810 km ^{2} for the mountains, the population density is 18.57 For the coast, and 30.3 for the mountains. These data show that the population density in the sierra was 1.6 times that of the coast.

Center. MOxLAD, on it platform, adds that "the lack of census data also inhibited the realization of estimates before 1950 in the cases of Haiti and Ecuador" (2017). For Rodriguez (1992), data come from: Hamerly (1973); Paz y Miño (1926); and Directorate General of Vital Statistics and Census (1934). The latter source does not explain the methodology and sources of the published data.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Table 1. Population of Ecuador and South America, 1927-1930

Año	Population, Ecuador	Growth rate, Ecuador	Population, South America	Growth rate, South America
1927	2.257.357	100.0	70.246.000	100.0
1928	2.297.561	101.7	71.659.000	102.0
1929	2.338.481	103.5	73.141.000	104.1
1930	2.380.129	105.4	74.591.000	106.1

Source: author´s creation. Data from Ecuador come from: Central Bank of Ecuador, 2012: 212; For South America: MOxLAD, 2015. Data for South America include: Argentina, Brazil, Bolivia, Chile, Colombia, Uruguay, Venezuela, Peru, Paraguay and Ecuador

As can be seen in table 2, on the coast, where the main coastal port is located, Guayaquil, Rodríguez (1992) estimated a population of 445,000 people; in the region of the Andes, where the capital of the Republic is located, Quito, with an estimated 1,445,000 people; and, in the Amazon, 100,000 people. The indigenous population was the largest class in the country, although the ruling class had Spanish ancestry. Most of the population lived in rural areas, with less than a quarter living in cities. The most populated city was Guayaquil, with about 96 thousand inhabitants; and, Quito with an approximate population of 50 thousand inhabitants. In addition, approximately one third of the population in Ecuador were indigenous; a quarter of the population had some European ancestry; a little less than half of the population, were mestizos, with predominantly indigenous ties; and the remainder, a small percentage of the population were black, of whom the majority lived in coastal cities (Stevens, 1940).

Table 2. Population Densities of Ecuador, 1926

Provinces	Population	Porcentages
Coast	***1.115.264***	***38.07***
Esmeraldas	54.593	1.86
Manabí	347.847	11.87
Los Ríos	161.800	5.52
Guayas	483.508	16.51
El Oro	67.516	2.30
Mountain range	***1.814.050***	***61.93***

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Carchi	78.125	2.67
Imbabura	161.223	5.50
Pichincha	304.794	10.40
Cotopaxi	193.017	6.59
Tungurahua	227.181	7.76
Chimborazo	288.713	9.86
Bolívar	88.657	3.03
Cañar	94.743	3.23
Azuay	201.911	6.89
Loja	175.686	6.00
East	-	-
Galapagos Islands	-	-
Total	***2´929.314***	***100***

Source: Rodríguez 1992, appendix h.

Despite the fact that there were no population censuses in the 1920s and 1930s, the report of the General Directorate of Statistics of the Civil Registry and Census (1934), which does not explain the type of methodology was used, nor the origin of the data, estimated that the highest birth rate corresponded to the coastal province of Manabí, with a record of 56.37 per thousand inhabitants, while the highest mortality was in the province of Imbabura, with 31.94 per thousand inhabitants. The diseases that caused the most deaths were bronchitis, whooping cough, diarrhea and enteritis, measles and malaria. The highest mortality was between the ages of 0 to 4 years, the group most vulnerable to the consequences of the diseases mentioned were infants. Infant mortality accounted for 16.2 percent of total births.

Tabla 3. Birth, Mortality, and Marriage Rates, Ecuador, 1933

Provinces	Registered births	Natality per thousand inhabitants	Deaths in the year	Mortality per thousand inhabitants	Registered Married Couples	Nuptiality per thousand inhabitants
Carchi	2.667	41,13	1.428	22,02	445	6,86
Imbabura	5.306	40,85	4.148	31,94	1.044	8,04
Pichincha	10.720	40,93	8.003	30,56	1.720	6,57
León	6.129	34,66	4.141	23,42	1.129	6,38

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Tungurahua	6.596	35,70	5.048	27,32	1.142	6,18
Chimborazo	9.041	40,37	5.019	22,41	1.566	6,99
Bolívar	3.538	42,88	1.437	17,41	643	7,79
Cañar	3.476	32,28	1.593	14,99	615	5,71
Azuay	7.392	33,19	3.759	16,88	1.384	6,21
Loja	6.974	44,46	2.453	15,64	1.147	7,31
El Oro	2.799	43,08	1.107	17,04	326	5,02
Guayas	17.735	50,46	10.751	30,59	1.472	4,19
Los Ríos	5.430	51,94	3.112	28,77	173	1,65
Manabí	13.251	56,37	5.466	23,25	1.322	5,62
Esmeraldas	2.145	48,88	629	14,33	121	2,76
Total	103.199	42,77	58.094	24,08	14.249	5,90

Source: Peñaherrera, 1934: 7.

Economically active population

It is estimated that approximately 32% were part of the economically active population, that is, about 832,000 people. The first data on the economically active population for 1962 came from the population and housing censuses conducted in 1962. Research by the National Planning and Economic Coordination Board (1979) reveals that 32% of the total population can be considered as part of the economically active population.

As there is no official data for the 1930s, this figure has been taken to estimate the economic active population for the 1930s. For this reason, this data should be considered as a conjecture based on the first national censuses. By 1930, approximately 14% of the population lived in urban areas[2] (Bethell 1998, 31). If we take this percentage and extrapolate it to the economically active population, we obtain that around 116,480 people worked in the urban sector, and around 715,520 in the rural sector.

De la Torre (1993) estimated that, by 1936, 55% of the population of Quito was marginally employed: day laborers (10.4%), self-employed workers (23.5%) and domestic workers (21, 1%). The second most important category of labor was public sector workers: 16.6% in 1936 and 21.1% in the early 1940s.

[2] Leslie Bethell (1998) explains that this percentage applies to cities with over 20,000 inhabitants.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Table 4. Occupational structure in Quito, 1936

Occupation	Number	Percentage
Public employees	5.893	16,6
Private Employees	3.025	8,5
Industrial workers	1.651	4,6
Workshop workers	3.555	10,0
Day laborers	3.678	10,4
Freelance workers	8.133	23,5
Workshop owners	1.085	3,1
Servants	7.464	21,1
Unemployed	795	2,2
Total	**34.276**	**100,0**

Source: De la Torre 1993, 67

3. Economic policies during the Great Depression

The global crisis particularly affected the countries of Latin America given the close trade relationship it had with the United States of America. In the case of Ecuador, the economic crisis affected the foreign trade sector in particular because the United States supplied 45% of total imports and 47% of total exports (Feiker 1931, 1). The global crisis created commercial, financial, monetary and exchange shocks in Ecuador, which forced the government to make controversial decisions, decisions that were considered as possible solutions to the onslaughts of the Great Depression. These anti-crisis policies were implemented in a decade of strong political instability, as reflected by the fact that in nine years from 1929 to 1938 twelve different people were in charge of the governments[3]. This

[3] From 1929 to 1938, among presidents and managers of power, there are twelve people in charge of the executive branch (Salvador Lara, 2002). Most overthrows were led by the Ecuadorian army. People in charge of the executive branch were: Isidro Ayora Cueva (April 17, 1929- August 24, 1931); Crnl. Luis Larrea Alba (24 August 1931 October 15, 1931); Alfredo Baquerizo (October 15, 1931 August 20, 1932); Neptalí Bonifaz (August 20, 1932- August 28, 1932); Carlos Larrea Freire (August 28, 1932- September 2, 1932); Alberto Guerrero Martínez (02 September 1932- December 5, 1932); Juan de Dios Martínez (05 December, 1932- October 17, 1933); Abelardo Montalvo (20 October 1933- September 1, 1933); José María Velasco Ibarra (01 September 1934- 20 August

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

instability affected government decisions, as there was no way to establish long-term public policies. The decade of the 1930s was a turbulent decade, which was reflected in the extraordinary number of presidents, civilian and military dictators, "as the economy deteriorated, more and more Ecuadorians turned to the government for immediate solutions to economic problems and social aspects of the nation" (Rodríguez 1992, 198).

Anti-crisis policies had a time of slow decision-making because just a few months before the world crisis began, the American economist Edwin Kemmerer, along with most of his collaborators, had left the country after advising the government of Ecuador for the creation of the Central Bank, the only legal institute that had the power to issue currency, and for the establishment of the gold standard as a monetary system. On February 11th 1927, along with other economic norms, the Kemmerer Mission presents to the Government of Ecuador the draft of the Organic Law of the Central Bank of Ecuador; On March 4th, President Isidro Ayora signs the law; and on August 10th the Central Bank began its operations.

Edwin Kemmerer was considered an international authority on economic issues. From 1919 to 1930, the Kemmerer Mission advised the governments of Guatemala (1919), Colombia (1923), Chile (1925), Ecuador (1926), Bolivia (1928), and Peru (1930). The relationship between the government of Ecuador tightened sharply, so that "the absolute dependence that has since been created with the expert for the application of measures" (Almeida, 1994: 54) remained until 1932.

After the years in which the Kemmerer mission offered their advice, the Ecuadorian government began to make relatively independent decisions. The Ecuadorian government set aside the “Kemmerian" policies and began to make decisions based on its own expertise, including the abolition of the gold standard, the increase in the money supply, seizure and disinvestment of currency. Policies during the Great Depression were partly given by the Kemmerer's advice, partly by the expertise of national politicians, partly by the public

---

1935);Antonio Pons Campusano (August 21, 1935- September 25, 1935); Federico Páez (September 25, 1935- October 23, 1937); Gral. Alberto Enriquez Gallo (23 October 1937- December 2, 1938)

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

pressure that was tired of the government prostrating itself before the "monetary doctor" (Drake, 1995), and partly by the political instability that led the country to have 12 people in charge of the executive in less than a decade. Thus, anti-crisis policies went through two distinct stages from 1927[4] to 1938 that the first has been named as the stage of "influence of Kemmerer Mission, 1927-1932", and the second stage is known as the stage of "inconvertibility and instability, 1932-1938".

4. Influence of the Kemmerer mission, 1927-1932 [5]

Between 1927, the year in which the Kemmerer Mission ends its work in Ecuador, and February 1932, when the formal step for the abandonment of the gold standard was taken, it was the stage of the influence of the policies established by Kemmerer, which involved restructuring of the national financial system with its main axis located in the founding of the Central Bank of Ecuador. When the Great Depression was felt in Ecuador the anti-crisis economic policies did not differ from the policies structured in 1927: anti-crisis policies were the same before and during the international crisis. The Ecuadorian government had the solid concept that the tools left by the new financial system were sufficient to control the onslaught of the international crisis.

The economic policies influenced by the Kemmerer Mission had a central idea, maintaining the fiscal balance. When the international crisis began, this idea did not change, maintaining fiscal balance remained the main concern. This balance was synonymous with maintaining the gold system as a system that could be self-regulated through the increase or decrease of money circulation that could be controlled through the printing of money, through interest rates and through purchase and sale of currency abroad. These tools were the axes of a policy that was centralized in the money supply. This was a

[4] Although the international crisis began in 1929, we have decided to choose the year 1927 so that it can provide a clearer context for the policies that were implemented in this year and were maintained during the first two years of the Great Depression.

[5] 1932 is chosen as the end of the influence of the economic policies of Edwin Kemmerer and as the beginning of a decade of instability and inconvertibility.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

policy that sought to control the imbalances caused in the trade balance by controlling the money supply.

Economic policies during Kemmerer's influence period

The advice and policies of the Kemmerer mission had similar patterns in each country they visited. The common elements in all the countries visited by the Kemmerer mission were: the creation of central banks, superintendence of banks, and general comptrollers; and, proposals of laws by which the gold standard was stablished the main as monetary policy. These structural changes occurred from 1919 to 1930, Gozzi & Tappatá (2010) present these changes chronologically:

Guatemala (1919)

Institutions founded:

- Central Bank of Guatemala.

Established Laws:

- Monetary law of the Republic of Guatemala.

Colombia (1923)

Institutions founded:

- Republic of Colombia Bank.
- Comptroller General of the Republic of Colombia.

Established Laws:

- Bank Law of the Republic.
- Banking Establishments Law.
- Timbre Law (reorganized the operation of customs and established the Collection of National Revenues).
- Income tax law.
- Comptroller Law (transform the former Court of Auditors on the Comptroller General of the Republic).

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

- Act restraining force of the budget (limited the powers of Parliament to order spending public and leave the initiative in the hands of the executive branch).
- Law on number of ministries.
- Negotiable titles deeds law.

Chile (1925)

Institutions founded:

- Chile Central Bank.
- Superintendency of Banks.
- General Comptroller of the Republic of Chile.

Established Laws:

- Chile Central Bank Law.
- General Law of Banks.
- Monetary Law.
- Orgnic Budget Law.
- Comptroller General of the Dominican Republic Law.

Ecuador (1926)

Institutions founded:

- Ecuador Central Bank.
- Superintendency of Banks of Ecuador.
- Comptroller General of the Republic of Ecuador.

Established Laws:

- Organic Law of the Central Bank of Ecuador.
- Organic Law of Banks.
- Organic Law of the Mortgage Bank (Banco Nacional de Fomento).
- Internal Taxes Law.
- Coins Law.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

- Contracts Act on Agricultural garments.
- Customs Law.

Bolivia (1928)

Institutions founded:

- Bolivia Central Bank.
- Superintendency of Banks.
- Comptroller General of the Republic of Bolivia.

Established Laws:

- Reorganization law of the National Bolivian Bank.
- General Law of Banks.
- Monetary Law

Peru (1930)

Institutions founded:

- Central Reserve Bank of Peru.
- Superintendent of Banking Peru.

Established Laws:

- Law of the Central Reserve Bank of Peru.
- Banking Law of Peru.
- Monetary Law

The first central banks of Latin America were designed to fulfill three objectives: to maintain monetary stability; to preserve the stability of banks; and government funding on a limited basis (Jácome 2015). These objectives would be achieved through a currency issue associated with the gold standard which would lead to a stable exchange rate and a low inflation.

In the case of Ecuador, the Kemmerer mission carried out the economic policy stage from 1927 to 1932. The economist Edwin Kemmerer, along with his working group, had an undeniable participation in the founding of a new financial system in Ecuador. His advice

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

did not fail to influence the decisions on monetary policies that Ecuadorian politicians took even several years after his official visit.

Before the beginning of the international crisis, the gold standard was already established in Ecuadorian territory. The money supply was related to gold reserves. The existing circulation had to be backed by 50% of gold reserves. The money supply was in the hands of private banks until the founding of the Central Bank, which opened its doors on August 10th 1927. The foundation of the Central Bank was the central axis of the Kemmerer mission.

Immediately, the Central Bank organized policies around the money supply. With this purpose, printing money was the tool the government possessed for the regulation of the circulation of money.

On the other hand, the Central Bank balanced the money market also by regulating the discount and interest rate, raising it when there was an excess of cash and lowering it when the money was low (Morillo 1996). The use of this tool had a logical justification, by raising interest rates, the monetary circulation would be reduced, and as interest rates lowered, the monetary circulation would increase.

In addition to these instruments in hand, the Central Bank had the Law of Coins[6] in their favor, which provided the government with power, on the one hand to control the exchange rate, and on the other to buy and sell money abroad. The Central Bank of Ecuador could, by using the Coins Act, make automatic adjustments: if there was an excess of circulation, the government could sell unlimited currency in New York and London (Carbo 1927).

These instruments began to be questioned when the crisis began because there was the general impression that it was a straitjacket that did not allow to create other types of policies. For this reason, the Ecuadorian government contacted Edwin Kemmerer to ask his opinion on the subject. In 1930, Kemmerer responded to the Ecuadorian government's request for the validity of established policies, in which Kemmerer asserted that the

[6] The Law of Coins was published in the Official Gazette N. 289, on March 1, 1927.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

automatic readjustment of the money supply, managed by the Central Bank, ensured the proper circulation of the currency, "and should not be altered despite protests. He denied that Ecuador was going through a deflationary process or that it had a monetary deficit. He urged his hosts to maintain the gold standard and high discount rates" (Drake 1995, 269). Kemmerer had denied the fact that there was a pronounced deflation that was caused by a reduction in the money supply. According to the same source (Drake 1995), Kemmerer encouraged Ecuadorian politicians to continue payments on the foreign debt.

These policies were maintained in spite of a diversity of proposals that began to appear. Among the most important proposals, Morillo (1996) refers to three of them: first, the Central Bank was encouraged to buy mortgage bonds; second, that the resources destined to the service of the external debt should be invested in diverse projects in Ecuador; and, third, a policy of rediscounts. None of these proposals were accepted, the government was going to be facing the crisis with the financial instruments that came along with the gold standard.

With Kemmerer's response, the Ecuadorian government felt the necessary justification for maintaining the gold standard despite the fact that reserves were declining and despite the fact that the deflationary process was undeniable. The financial policies of the Ecuadorian government were maintained until 1932. It was hoped that the monetary policy instruments, to say the printing of money, the regulation of the type of discount and interest and the purchase and sale of currency, were sufficient to control the impact of the Great Depression. Taking into account that the international crisis was felt in Ecuador from the unevenness in the trade balance, much of the effort to build an anti-crisis policy focused around the attempt to control the trade balance. Of all the instruments that the Ecuadorian government had at hand, the most used was the interest rate: when the trade balance was negative, the reserves decreased, and for that reason the Central Bank, and by repetition the rest of private banks, put in the market a greater amount of short-term loans, but with high and progressive interests.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

With respect to interest rates, in 1927, when the Central Bank was founded, it opened a line of credit for the associated banks with an interest of 10%, while for the general public the line of interest was 11%. Banks charged the public 12% and sometimes charged higher rates. In 1928, the interest rate fell to 8% for the associated banks and 9% to the public. The reduction in discount rates was a result of the reduction in exports of the main agricultural product, cocoa. By the early 1930s, the Central Bank had set an interest rate of 10% for the general public and 9% for the associated banks, which charged their clients a 12% interest. In 1930, the Central Bank decided to establish differentiated interest rates as follows: 7% for associated banks, up to 30 days; 8% for associated banks, up to 90 days, for industrial purposes; and 9% for the public, up to 180 days, with agrarian pledges (Morillo 1996). These rates were maintained until the first months of 1932.

In September of 1931, Great Britain decided to leave aside the gold standard, which caused serious repercussions in Ecuador, since an accelerated gold output began, the Central Bank lost about one million sucres during the same year. Following Britain's decision to abandon the pattern, gold, and after seeing an accelerated fall in reserves from the Central Bank of Ecuador, "most banks in Guayaquil had opted to make their loans dollar-based" (Morillo 1996, 74). This problem prompted the Ecuadorian government to modify the required percentage of 50% in reserves, to maintain the gold standard, to 25% of reserves in deposits and 50% of reserves for currency convertibility.

In this way, it can be clearly seen that the stage from 1927 to 1932 was characterized by a central idea: to maintain fiscal balance. This fiscal balance was synonymous with maintaining the gold system as a system that could be self-regulated through printing of money, interest rates, and the purchase and sale of currency.

Consequences of policies influenced by Kemmerer, 1927-1932

The consequences of the Kemmerer Mission's influence are established around the goal of maintaining fiscal stability that overcomes the instability of the international market. From the visit of the Kemmerer mission in October 1926, the gold standard was maintained as a

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

system of immovable conversion. The gold standard was designed to maintain the stability of the money supply and also maintain the value of the Ecuadorian currency, the value of the sucre. The consequences of this period are divided into five contexts: monetary circulation; variation of the gold reserves in the Central Bank of Ecuador; exchange rates; inflationary fluctuations; and, the evolution of the Gross Domestic Product.

With regard to monetary circulation

The monetary circulation, as shown in table 5, during the period of influence of the Kemmerer Mission, declined since 1927, year in which a circulation of 79 million sucres was registered. In 1929, the year of the beginning of the international crisis, the monetary circulation was 67 million sucres. These data clearly show that the money supply declined steadily before the international crisis began, opening the door for the founding of the Central Bank and its monetary policy: printing of new currency; and the regulation on discount and interest rates; exchange rates; and overseas transactions.

From 1927 to 1929, the reduction of the monetary circulation happened at the rate of -8.2% annual average; and, from 1929 to 1931, the reduction was at the rate of -17.9% per year. In 1932, the monetary circulation increased by 15 million sucres, registering 58 million sucres. The policies of financial rigidity caused a rapid fall of monetary circulation. In two years, from 1929 to 1931, the money supply was reduced by one third, which, in turn, produced a sharp devaluation.

Multidisciplinary Journal for Education,
Social and Technological Sciences

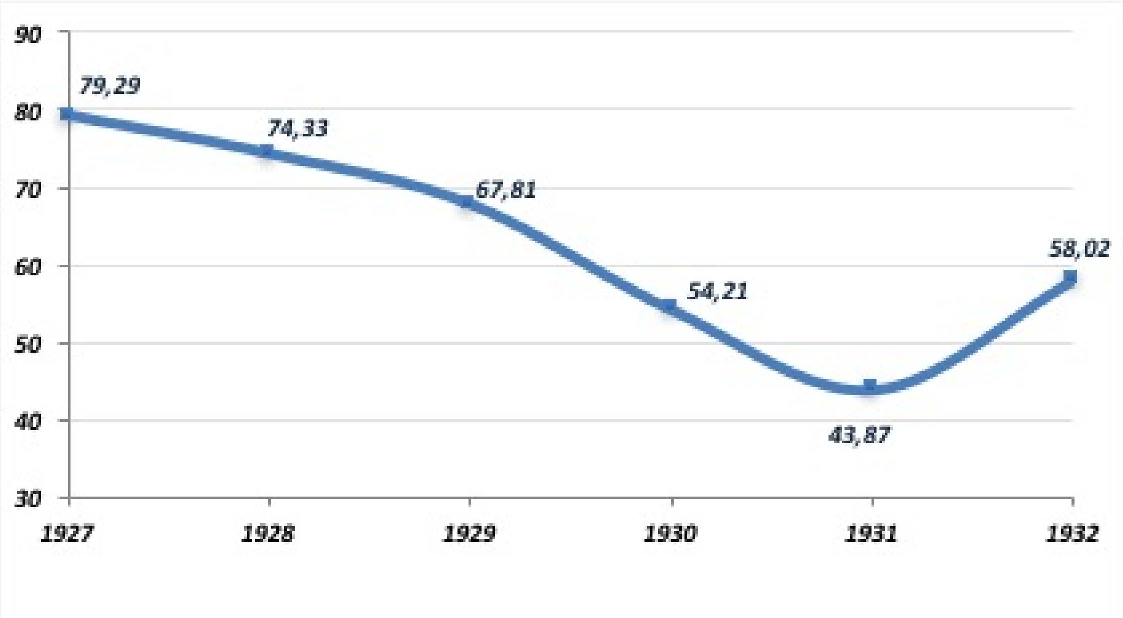
https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Table 5. Monetary circulation in sucres, 1927-1932

Año	Total
1927	79.290.000
1928	74.333.000
1929	67.812.000
1930	54.212.000
1931	43.870.000
1932	58.029.000

Source: Central Bank of Ecuador 1940, 150-151. The figures of the total money supply recorded in December each year.

Figure 1. Monetary circulation, millions of sucres, 1927-1932



Source: table 5.

With regard to gold reserves

Gold reserves shows a similar development to money supply developments: the gold standard needed reserved valued at 50% of total money circulation, then it is logical to see

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

that the evolution of money supply and gold reserves are directly related. From 1927 to 1929 the gold reserves decreased at a rate of 10.2% on average, while from 1929 to 1931, reserves reduced at a rate of 28.5% annually. Reserves moves from 44 million sucres in 1927 to 15 million in 1931. The steady decline in gold stocks gave way to abandon the gold standard in February 1932[7]. Table 6 shows the gold reserves in relation to monetary circulation. The percentage varies from 1927, when it was located at 51%, thereafter the percentage of gold with respect to the monetary circulation gradually lowered. This steady decline happened until 1932, year when the ratio was of 22%. Anti-crisis policies that remained until 1932 were not effective to keep gold reserves: reserves decreased inevitably in half in less than three years. Table 6 shows clearly the variation of the gold reserves, and also shows the percentage of total circulation. The logical consequence of the decline in gold reserves was the abandonment of the gold standard in 1932.

Table 6. Gold reserves in the Central Bank of Ecuador, in sucres, 1927-1932

Year	Total	Value gold reserves (sucres)	Golden percentage relative to the total
1927	84.912.879	44.085.490	51,9
1928	79.195.465	38.029.255	48,0
1929	73.146.997	35.063.646	47,9
1930	60.816.151	28.639.062	47,1
1931	47.860.775	15.492.532	32,4
1932	75.984.779	17.408.986	22,9

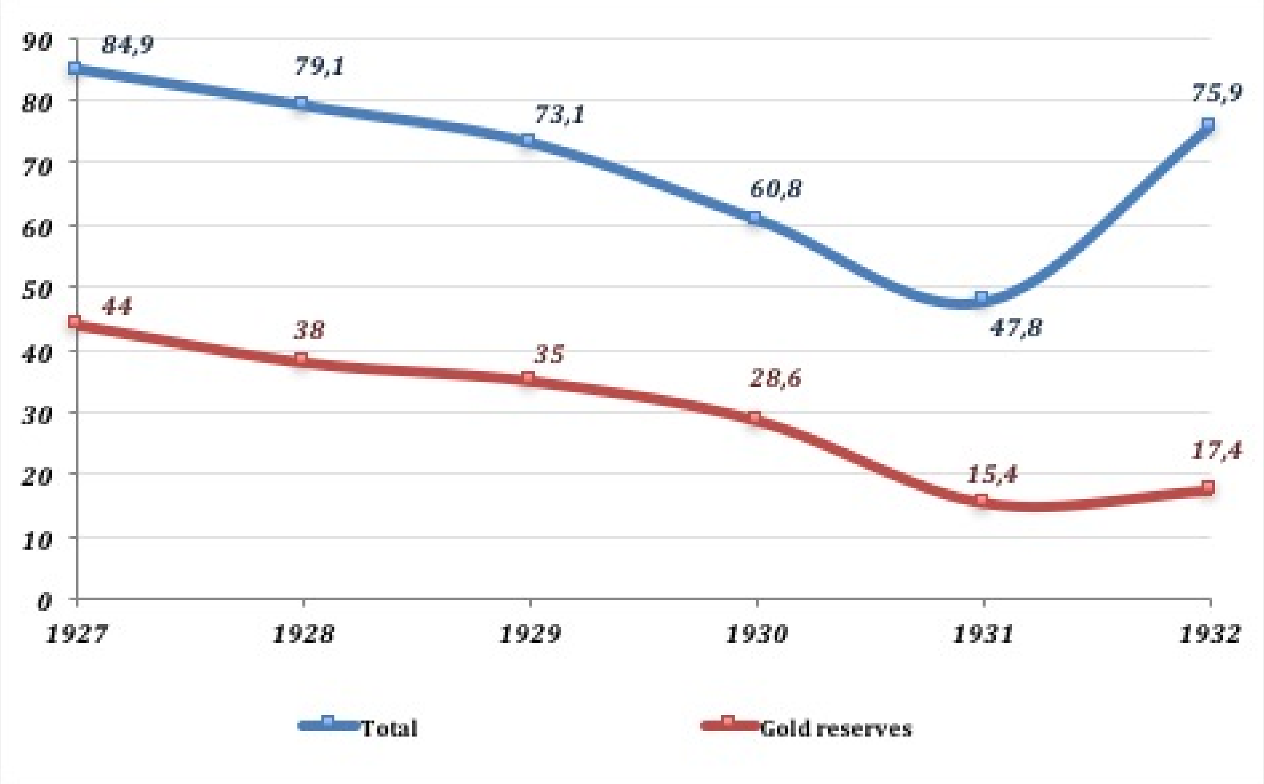
Source: author´s creation. Data are from: Central Bank of Ecuador 1940, 150-151; Drake 1984, 270. The total involves deposits in the Central Bank and sucres in circulation.

[7] The abandonment of the gold standard became official through Decree No. 32 of February 8, 1932. In November of the same year, Congress noted that the suspension of the gold standard was temporarily until a stable economic balance. Since November, the gold reserves of the Central Bank could not be less than 25% of monetary circulation (Morillo, 1996).

Multidisciplinary Journal for Education,
Social and Technological Sciences

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Figure 2. Gold reserves in millions of sucres, 1927-1932



Source: table 6.

With regard to exchange rates

The value of the gram of gold was directly related to the price of the sucre: the price of gold gram and the price of the sucre, did not fluctuate freely, but was established by the Central Bank of Ecuador. When the international crisis erupts, and gold reserves decreased, the value of gram of gold and the price of the sucre could be maintained only until 1932. The value per gram of gold remained at 3.32 sucres, from 1927 until 1931, while in the same period, the dollar was valued at 5 sucres. The value of the gram of gold and exchange rate begins to change in 1932 as a result of the abandonment of the gold standard.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

While nations[8] that left the gold standard early opened a space for the devaluation of the currency, Ecuador kept the price in unalterable values. Gold systems guaranteed a fixed exchange rate. From 1927 to 1932, the share price was maintained at 5 sucres per US dollar. This rigidity produced that export sectors started seeking for currency devaluation to restore competitiveness, while the state "was initially determined to not devalue the currency for fear of a social backlash" (Cueva 1991, 66). This devaluation did not occur until 1932.

Table 7. Exchange rate, 1927-1932

Year	Gram of gold valued in sucres	Sucres to the dollars	Gold reserves in dollars
1927	3,32	5,00	8.817.098,00
1928	3,32	5,00	7.605.851,00
1929	3,32	5,04	6.957.072,62
1930	3,32	5,05	5.671.101,39
1931	3,32	5,06	3.061.765,22
1932	3,42	5,93	2.935.748,06

Source: author´s creation. Data come from: Rodriguez, 1992: Appendix K; Drake, 1984: 270; Central Bank of Ecuador, 1940: 150-151.

As displayed in table 7, while the value of gram of gold and the exchange rate did not change until 1931, gold reserves decreased steadily. This scenario could not last in time. Policies based on fiscal stability collapsed in 1932, it became impossible to maintain the exchange rate as gold reserves had fallen dramatically in a few years; it was clear that the decline in gold reserves would cause a sharp devaluation.

[8] Argentina, Uruguay and Brazil in 1929; Venezuela in 1930; Mexico, Chile, Bolivia in 1931; Colombia, Nicaragua, Costa Rica, Peru and Ecuador in 1932 (Ossa, 1993).

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

With regard to inflation or deflation

The global crisis directly affected the fluctuation of prices because gold reserves decreased and therefore the money supply also decreased, resulting, ultimately, in deflating prices. In 1929, inflation stood at 4.24 percent over the previous year. Thereafter, there is a marked deflation.

Although the international crisis marks pronounced deflation until 1932, Ecuador presents vertiginous fluctuations before the Great Depression: in 1928, -11.4%; in 1929, an inflation of 4.24%. From 1929, there was a prolonged deflation process until 1932, reaching the lowest peak in 1931, with deflation -24.55 percent.

In 1932, a -10.96% deflation is recorded. This percentage could have been much higher, however, because of the abandonment of the gold standard in February of the same year, the money supply grew and deflation was not as high as in 1931. If the gold standard remained in 1932, deflation could have been at similar levels to 1931.

In the case of Latin America, taking into account the price indices of Argentina, Chile, Peru and Venezuela, deflationary trends appeared from 1928 to 1931, with an annual average of -8.21. The year of highest deflation was recorded in 1928, with a record of -18.92. The trend presented Latin America is similar to the trend in Ecuador; however, in the case of Ecuador, deflation presents a more dramatic evolution. This phenomenon can be understood by considering that the gold standard was in effect in Ecuador until 1932, while in most of Latin America, the gold standard was abolished in 1931.

Multidisciplinary Journal for Education,
Social and Technological Sciences

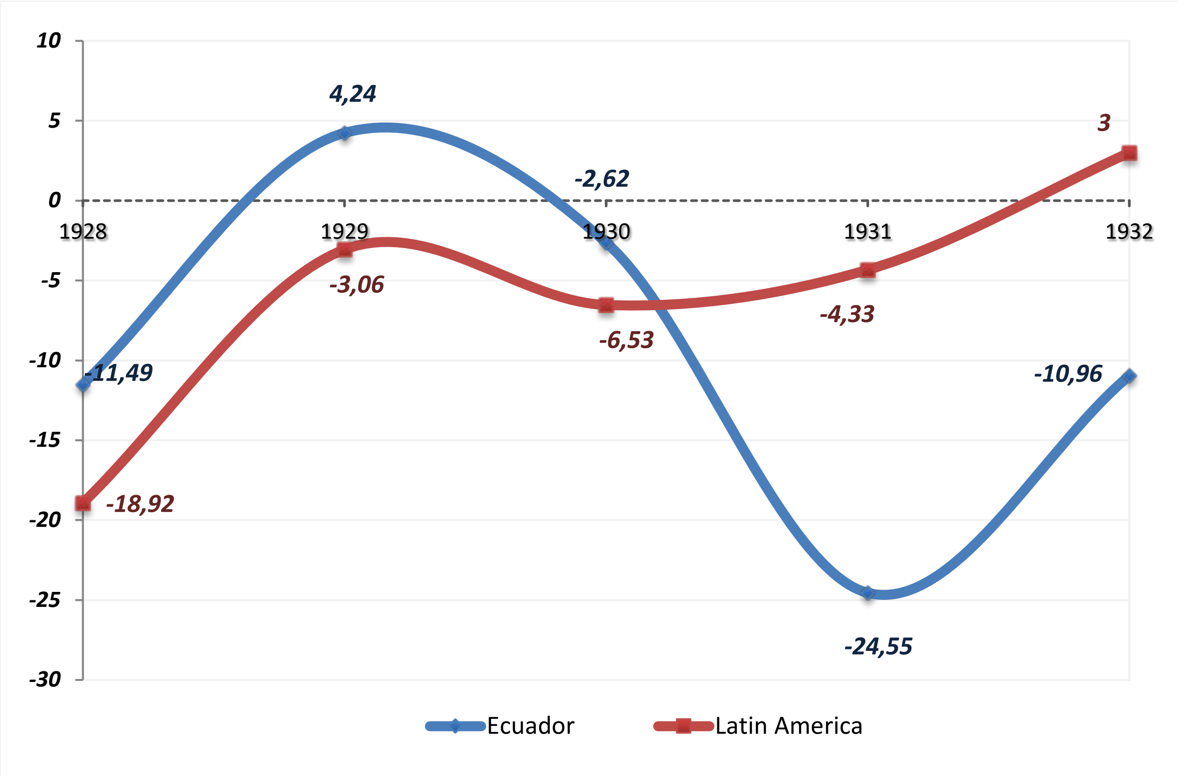
https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Tabla 8. Inflation rate in Ecuador and Latin America, 1928-1932

Year	Ecuador	Latin America
1928	-11,49	-18,92
1929	4,24	-3,06
1930	-2,62	-6,53
1931	-24,55	-4,33
1932	-10,96	3,00

Source: author´s creation. Data come from: Morillo 1996, 640; Mitchell 1999, 693. The inflation rate for Latin America has been calculated based on the price indices from Mitchell (1999, 693) for Argentina, Chile, Peru and Venezuela.

Figure 3. Inflation in Ecuador and Latin America, 1928-1932



Source: table 8

As displayed in figure 3, the Latin American region recorded deflationary rated until 1932. The restriction of the money supply had a logical consequence, a deflationary

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

phenomenon. However, the case of Ecuador is unique because the trend is more pronounced than in Latin America. In the case of Ecuador, this deflation caused a steady growth.

With regard to Gross Domestic Product

In table 9 can be noted that the nominal GDP 1927-1932 presents high and low peaks: peak low in 1931, with a decrease of -26.34%, and the highest peak is recorded in 1929, an increase of 13, 52%. On the other hand, the change in real GDP, systematically reduced until 1932. Each year recorded an average decline of 2%.

The change in GDP at constant prices presents a clearer picture of the evolution of the Ecuadorian economy as inflation picture does not influence measurement. Data from 1927 to 1932 show that there was a progressive increase in GDP until 1929. Thereafter, GDP grows at a rate of 0.65 points in 1931 and 1932. This variation shows that the anti-crisis policies produced a deflationary phenomenon that caused no negative growth of the real GDP until 1932.

To strengthen our data, it is important to mention the research made by Twomey (1983), who analyzed the evolution of the domestic production of six countries in Latin America, namely Argentina, Brazil, Chile, Colombia, Honduras and Mexico, concluding that after 1929 "the decline in production was greater in Chile, except in Colombia, while Honduras did not experience a typical cycle during the early part of the decade" (1983, 221). In Honduras, the Gross Domestic Product increased from 1929 to 1931 by about 4%, while Colombia registered a stagnation in 1929 and 1930, and from 1931 its GDP grows steadily (1983, 222). The evolution of Ecuador's GDP is also an outlier because no recorded percentages of decline was registered during the decade of the thirties, but rather, it has an average minimum growth.

As it is visible in figure 4, the evolution of real GDP of Ecuador and Latin America has similar trends from 1930. However, Latin America has a much more pronounced trend than that of Ecuador: in 1931, Latin America presents a variation of -14.4%, while Ecuador

Multidisciplinary Journal for Education,
Social and Technological Sciences

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

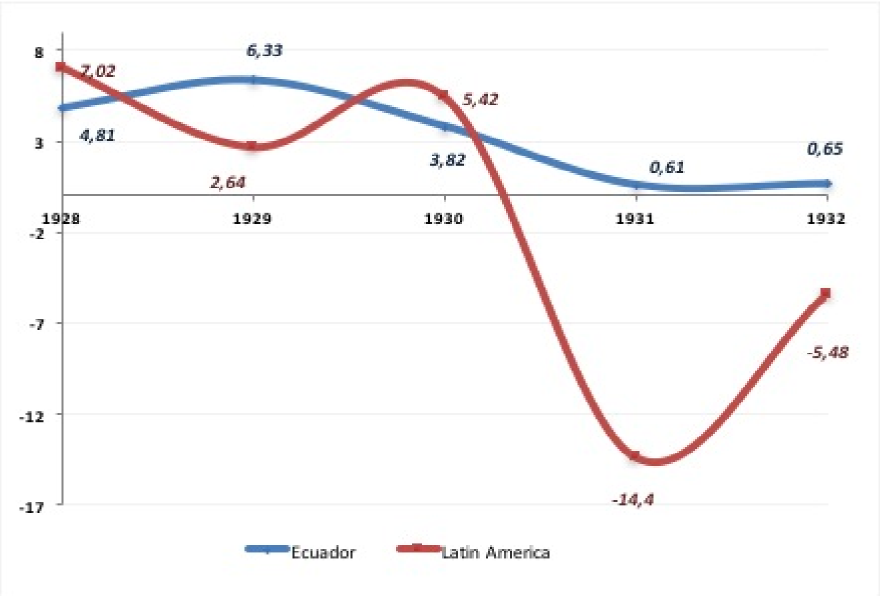
recorded a variation of 0.61%. These data confirm the hypothesis that the impact of the Great Depression in Ecuador was minimum compared to the impact on the rest of the region.

Table 9. Evolution of Gross Domestic Product, Ecuador and Latin America, 1927-1932

Years	GDP Current prices (thousands of sucres)	GDP Current prices (%)	GDP Constant prices April 78- may 79= 100 (Thousands of sucres)	GDP Constant prices (%)	Variation Real GDP Latin America
1927	440	-	8.406	-	-
1928	402	-8,71	8.810	4,81	7,02
1929	456	13,52	9.367	6,33	2,64
1930	457	0,18	9.726	3,82	5,42
1931	336	-26,34	9.785	0,61	-14,40
1932	305	-9,4	9.848	0,65	-5,48

Source: author´s creation. Data for Ecuador come from: Morillo, 1996: 687. Data for 1970 are based in Latin America and sourced Base MOxLAD, 2015; it includes: Argentina, Brazil, Chile, Colombia, Uruguay, Venezuela and Peru.

Figure 4. Variation Real GDP, Ecuador and Latin America 1928-1932



Source: Table 9.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Policies from the Kemmerer mission were similar in the countries where he had influence, however, this influence was limited by the governments of each country, which eventually decided to leave the gold standard, some early, some late: Argentina, Uruguay and Brazil in 1929; Venezuela in 1930; Mexico, Chile, Bolivia in 1931; Colombia, Nicaragua, Costa Rica, Peru and Ecuador in 1932 (Ossa 1993). The decision to leave the gold standard opened up the possibility for governments in Latin America to increase the money supply as an anti-cyclical policy, while countries that did not leave the gold standard quick, deflationary processes appears, which minimized the decline of the GDP. Therefore, it cannot be said definitively which policy was the the most appropriate for the region. In the case of Ecuador, keeping the policy around the gold standard until 1932 produced that real GDP did not display negative growth.

5. **Inconvertibility and instability, 1932-1938**

The second period of the anti-crisis policy is known as the stage of "inconvertibility and instability," which stretches from 1932 to 1938, years in which the expertise of Ecuadorian politicians determined monetary policies. The two periods of the anti-crisis policies, namely, the period of the kemmerian influence and the period of inconvertibility and instability, make clear differences in decision-making: the first stablished an extremely rigid system, where economic tools focused on monetary policy and instruments that were adaptable enough to cope with the crisis; the second period is characterized by an extremely unstable system, which moves from the abolition of the gold standard, the management of interest rates and increased credit for an aggressive public debt, the seizure of foreign exchange, export and import control: these policies intended to stable the trade balance, while trying to control inflation.

The main measures taken during the period of inconvertibility and instability to face the international crisis were four:

1. The abandonment of the gold standard, that is to say, the bank reserve that was needed for the printing of currency was halved.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

2. The Ecuadorian government forced, through a series of decrees and laws, the Central Bank of Ecuador to make large loans that allowed to solve the fiscal gaps and allowed to increase the monetary circulation.
3. Government control of exports and imports from the second half of the decade
4. Control of the foreign exchange market from 1933.

Abolition of the gold standard

The money supply was linked to gold reserves; the existing circulation had to be backed by 50% of gold reserves. This policy continued until 1932, when the gold standard was disable because the social pressure against the Kemmerian policies measures was growing rapidly. The expansion of money supply and credit was required, "even the superintendent of banks thought that Kemmerer did not understand the devastating contraction of the money supply and prices, and that the Central Bank should ignore its recommendation that further limited the currency and the credit" (Drake 1995, 269).

To understand why this system worked for three years after the international crisis erupted, it is to be considered the fact that the Kemmerer mission had a consolidated international fame as it had structured the financial system of some countries in Latin America as Guatemala, Colombia and Chile. In all these countries, including Ecuador, the gold standard had the approval of Edwin Kemmerer. When the international crisis began, many voices rose against the financial advices structured by Edwin Kemmerer during his visit to Ecuador in 1926.

An emergency law that stablished a reserve of 50% was approved in December 1931. Until then, the gold reserves were to represent 50% of total deposits and currency in circulation. Finally, in February 1932, the Ecuadorian government changed the required percentage of 50% to 25%. This decision was influenced by the decision of Britain to leave the monetary system based on gold reserves in 1931. Britain's decision influenced Latin America, which leave systematically their monetary systems based on gold reserves. In Ecuador, the decision to leave the gold standard also came from public pressure seeking ways to increase

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

the money supply, with the purpose to increase the money supply that would control deflation.

In 1937, the government raised the gold lace 30% of the monetary circulation. In addition, it was decided to calculate limits of the necessary money supply through a system based on population estimates computing "to compute this limit is taken into account enforceable demand obligations in national currency to the Central Bank and is considered the census statistics whose population at the time was estimated at two and a half million people. It was concluded that the figure of 40 sucres per entailed a volume of 100 million sucres of this kind of current, enough to meet the most reasonable payment needs" (Morillo 1996, 112). These limits allowed inject the Ecuadorian economy about 150 million sucres.

Public debt

Decree No. 33 of February 1932 ordered as a measure to stop deflation, monetary inconvertibility. In the same decree, the government ruled one of the first loans that would come in a few years: the government ordered the Central Bank to grant a loan of 12 million sucres, which would serve in part to create the Agrarian Fund, an institution in charge of granting loans for agriculture (Stancey 1990, 55). The loan was delivered in twelve installments at the rate of one million per month. This loan was intended to increase the circulation of money focusing on some areas: five million were allocated for roads and infrastructure, five million for agricultural investment, one million for international debt, and one million for commercial and industrial investments, which was meant to seek help for the export industry (Morales, León Camacho & Oleas Montalvo 1997).

From February 1932, anti-crisis policies focused on government intervention in the resources of the Central Bank, which had the intention of injecting more funds to the Ecuadorian economy, but it also had the intention to cover recurring tax holes. Ecuadorian government debt at the end of 1932 was of 40 million sucres. Since then, government debt grew significantly due to the use of resources from the Central Bank. Thus, this period was

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

inaugurated with the repeated government intervention in the Central Bank requiring high loans.

Eight loans from the Central Bank was given to the Ecuadorian government from 1932 to 1937, with a total of 44.8 million. These loans were made according to the following schedule: February 8th 1932, 12 million sucres; on December 29th 1932, through an Emergency Law, 13 million went to the Mortgage Bank of Ecuador, bank administered by the government[9]; on December 30th 1933, there was a new loan of 6.4 million sucres, at two per cent of interest; in February 1934, 2.5 million sucres were lent for fiscal debts; on May 13th 1937, 1.7 million was loaned; on June 24th 1937, 3 million sucres; and on August 21st 1937, 6.2 million. On August 19th 1937, the "Government debt balance is consolidated at 268,000,000 with a 3 percent annual interest, and with a fixed payment, from 1938, of 750,000" (Stancey 1990, 62). Recurring debts to the Central Bank of Ecuador made it possible to have a bigger money supply, however, on the other hand, these debts were just trying to momentarily cover fiscal gaps.

Seizure of foreign currency, import and export control

Ecuadorian government policies during this period were not focused solely on the loans for the Central Bank loans to cover its fiscal gap and to inject resources into the economy, but it was also related to the seizure of foreign currency. On the 30th April 1932 the government, seeing that the price of foreign currency climbed rapidly, it published the Decree No. 90, by which the centralization of 80% of foreign currencies available in private banks and exporters was ordered. This 80% were immediately transferred to the Central Bank, which was the only institution responsible for buying and selling currencies. The seizure took turns with a value of 5.95 sucres for purchase and 6.00 sucres for sale (Carbo 1978). That

---

[9] By 1936 the Mortgage Bank of Ecuador had canceled half the debt, the other half to the Central Bank was forced to accept shares in the bank as payment.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

is, the Central Bank took over the foreign exchange market, in addition to generate an effective devaluation of 20% since 1927.

On November 22th 1933, the Ecuadorian Congress approved the Partial Disincentive Law, with which the economy turned to the open currency market, but still the seizure of 25% of the total value of exports of certain products were ordered. This policy was trying to boost exports, especially agricultural exports (Central Bank of Ecuador 1935).

In August 1936, the centralization of all the exchange market was decreed. The government established that the Central Bank would be in charge of the exchange market, plus the control of all exports and imports. Through Decree 596, signed by Federico Páez, head of the executive function of the Ecuadorian government, mandated that "from this date, only the Central Bank of Ecuador can buy and sell freely foreign currencies" (Wither 1936, Art. 1).

The 596 decree was intended to improve the trade balance by limiting imports. In June 1937, the Central Bank decided to "implement a prior deposit before granting official permits for the importation of goods (50% of the total value)" (Morillo 1996, 107). On July 31st, it was decided to annul the seizure on the market of currencies, but control over international trade was maintained through the establishment of requirements and permits for imports and exports.

Consequences of policies at the stage of inconvertibility, 1932-1938

In March 1932, the Ecuadorian government received a large loan from the Central Bank. The loan was 12 million sucres, delivered in twelve parts, one million per month (Morales, León Camacho & Oleas Montalvo 1997). This loan exemplifies the economic objective of this period: increase the money supply. These policies produced the increase in money supply and gold reserves; which in turned caused the sucre devaluation; the detonation of inflation; and an insignificant growth of gross domestic product.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Regarding the monetary circulation

At the time of inconvertibility and instability, the money supply had a direct connection with the decision of the abolition of the gold standard. From 1932, the money supply rose steadily. In 1932, 58 million sucres, thereafter, it increased annually by 12 million sucres. The largest increases in circulating was recorded in 1934 and 1936, an increment of 24 and 26 million sucres respectively.

In table 10, the figures reveal that money supply rose continuously from 1932. From 1932 to 1938 the circulation increased 100 million sucres, which means an increase of 150 percent of the value recorded in 1932. These figures reveal that the decision to leave the gold standard, plus the aggressive public debt, made possible the increase of the money supply.

Table 10. Monetary circulation, Ecuador, 1932-1938

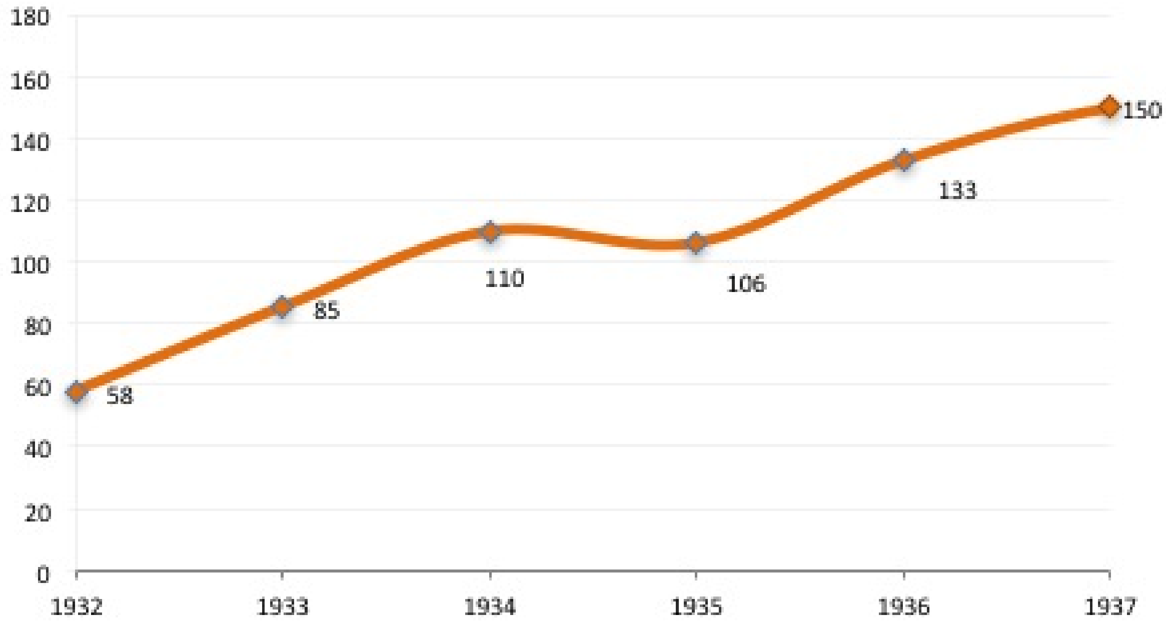
Año	Total
1932	58.029.000
1933	85.324.000
1934	109.886.000
1935	106.179.000
1936	132.827.000
1937	149.827.000
1938	154.229.000

Source: Central Bank of Ecuador, 1940: 150-151. The figures of the total money supply recorded in December each year.

Multidisciplinary Journal for Education,
Social and Technological Sciences

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Figure 5. Monetary circulation, Ecuador, in millions of sucres, 1932-1938



Source: Table 10

The increase in the money supply directly affected the annual inflation. After leaving the previous monetary system, money supply increased prices at high averages when it is compared with the rest of the region. The increase in the money supply was a direct result of aggressive public debt.

With regard to gold reserves

Since 1932, gold reserves are constantly increasing. This year, the gold reserves amounted 17 million sucres. From 1932 to 1936, gold reserves increased by an annual average of 6 million sucres. In 1937 and 1938 reserves decline 3 million sucres, recording, for two years, a total of 39 million sucres. From 1932 to 1938, reserves increased by 22 million sucres.

In 1927, gold reserves accounted 44 million sucres (table 6), and in 1937 accounted 39 million sucres (table 11). These figures show that, ten years later, the reserves decreased

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

by 5 million sucres: the reserves of 1937 and 1938 amounted less than the reserves in the decade of the twenties.

The relationship between gold reserves and total capital (money supply more deposits in the Central Bank) fluctuated constantly. The lowest peak is in 1933, recording a ratio of 16%. The highest peak is 1935, with a ratio of 28%.

Table 11. Gold reserves in the Central Bank, 1932-1938

Year	Monetary circulation	Central Bank deposits	Total	Value gold reserves (sucres)	Golden percentage of total
1932	58.029.000	19.984.779	78.013.779	17.408.986	22,32
1933	85.324.000	26.165.454	111.489.454	18.340.216	16,45
1934	109.886.000	27.647.751	137.533.751	27.156.303	19,75
1935	106.179.000	30.267.780	136.446.780	38.830.834	28,46
1936	132.827.000	34.363.210	167.190.210	42.526.686	25,44
1937	149.827.000	39.563.215	189.390.215	39.890.498	21,06
1938	154.229.000	34.465.799	188.694.799	39.798.376	21,09

Source: author´s creation. Data are from: Central Bank of Ecuador, 1940: 150-151. Deposits at the Central Bank consist of three sources: according to the Central Baco (Central Bank of Ecuador, Feb., 1940), total deposits come from the sum of: first, government entities and special accounts; Second, deposits of private banks; third, other transactions. The total value is the sum of the sucres in circulation plus deposits at the Central Bank. The percentage of gold comes from the amount in circulation plus deposits.

Although gold reserves steadily increased, the percentage of gold, relative to the monetary circulation, with variations, does not exceed 28%. This upper limit implies that it would had been impossible to increase the money supply with the previous monetary system: 50% of the monetary offer had to be supported in gold reserves.

Regarding the exchange rate of the sucre with the dollar

After the decision of the Ecuadorian government to abandon the gold standard, the price of the sucre to the dollar ranged significantly in the first two years. In 1932 and 1933, the sucre was traded at about six per one US dollar. This represented an increase of 20% over the price recorded in 1931.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

In 1934 the biggest devaluation of the thirties happened. This year, the price of the sucre was of 10.80 per dollar. Since then, the price of the sucre remained relatively stable. In 1938 the second most pronounced devaluation of the decade was recorded. This year, the exchange rate was of 14.13 sucres per US dollar, a devaluation of 27% over the previous year. During the decade of the thirties, it can be seen clearly that there were two major picks in the devaluation of the sucre. The first major devaluation was recorded in 1934 when it passes from 6 to 10.80 sucres, and the second was in 1938 when the sucre was devalued from 11.39 to 14.13. To understand the devaluations of the sucre, we need to take into account that the government decided to control the currency market in 1932. This measure was repealed the following year, letting the market react to partial freedom of demand and supply of foreign exchange, yet the government still controlled 25% of the transactions. Given that the foreign exchange market was partially self-regulated in 1933, the depreciation of the sucre came the following year. Thus, the first major devaluation of the decade was over 40%. Reacting to the devaluation in 1934, as a measure to prevent another one, the government decided, for the second time, to control de transactions of currency and the total control of exports and imports. The centralization of foreign exchange market allowed the Central Bank to manage partially the devaluations of the following years (Stancey 1990).

Table 12. Exchange rate, 1932-1938

Year	Gram value of gold in sucres	Sucre to the dollar	Gold reserves in dollars
1932	3,42	5,93	2.935.748,06
1933	3,44	6,00	3.056.702,67
1934	4,65	10,80	2.514.472,50
1935	10,05	10,55	3.680.647.77
1936	11,67	10,48	4.057.889.88
1937	11,78	11,39	3.502.238.63
1938	12,37	14,13	2.816.587.12

Source: author´s creation. Data come from: Rodriguez 1992, 206; Central Bank of Ecuador 1940, 150-151.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

With regard to inflation or deflation

With regard to inflation or deflation in 1932 was the last time in the decade that deflation occurred. In this year, the deflation recorded was of -10.96, an alarming figure which forced the Ecuadorian government to give up its economic policies. Thereafter, inflation rates have fluctuated unstably, with some years in which inflations were very high, and other years whose inflation levels were reasonable.

As displayed in table 13, in the years 1933, 1934 and 1936 were the years where inflation was very high, in the first years and inflation of 34 percent was recorded, while in 1936, an inflation percentage of 19.20 was recorded. From 1932 to 1938, the economy lived years of significant inflationary fluctuations. The inflationary rated were a direct consequence which arose from the anti-crisis policies taken since the abolition of the gold standard.

Table 13. Price Index and inflation, Ecuador and Latin America, 1932-1938

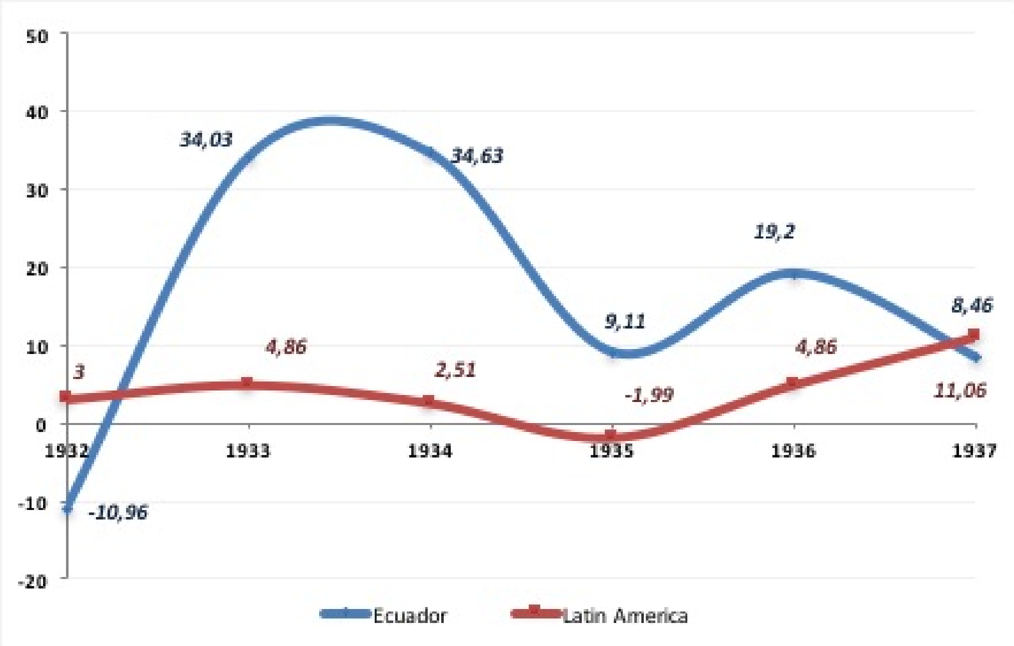
Year	Price index in Ecuador	Inflation in Ecuador	Inflation in Latin America
1932	2,12	-10,96	3,00
1933	2,84	34,03	4,86
1934	3,82	34,63	2,51
1935	4,13	9,11	-1,99
1936	4,92	19,20	4,86
1937	5,33	8,46	11,06
1938	5,33	0,21	-4,00

Source: author´s creation. Data come from: Morillo 1996, 640; Mitchell 1999, 693.

Latin America, on the other hand, presents fluctuating inflationary signs: years of deflation followed by years of inflation. Thus, from 1932 to 1934, Latin America recorded an average annual inflation of 3.45, the following year a deflation of -1.99, and in 1936 and 1937, the region recorded an inflation of 4 and 11 points. As seen in figure 6, the trend of inflation in Ecuador, with respect to Latin America, is similar, although the trend of inflation in Ecuador is much more pronounced than that recorded in the region.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Figure 6. Inflation, Ecuador and Latin America, 1932-1938



Source: table 13

The inflationary trend in the region was the product of increasing the money supply, and this came as a result of the abandonment of the monetary system based on gold reserves. Inflation in Ecuador eliminated the economic growth registered at current prices; therefore, as we shall see in the next section, recovery of the Ecuadorian economy was very slow, a stationary growth for the decade.

Relative to the growth of gross domestic product

In table 14, it can be noted that the nominal GDP, 1932-1937, has an average growth of 18%. Although it seems an annual extraordinary growth, this scenario changes when it is taken into account GDP at constant prices. Real GDP, based on prices in April 1978-May, growth has an average of two points.

The change in GDP at constant prices presents a clearer picture of the evolution of the economy: data from 1932 to 1937 show that there was a progressive increase in GDP until

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

1936, in 1937 there is a decrease in real GDP due to currency seizure policies. The change in real GDP from 1932 to 1937 shows that the anticrisis flexibility and increased money supply policies helped little to the recovery and growth of the Ecuadorian economy.

As seen in figure 7, the real GDP of Latin America recovered faster than the one recorded for Ecuador: from 1933 to 1937, while Latin America average annual growth was of 5%, Ecuador grew at 1.7%. This scenario shows that although Ecuador did not record negative growth rates until 1932, his recovery was much slower than in Latin America.

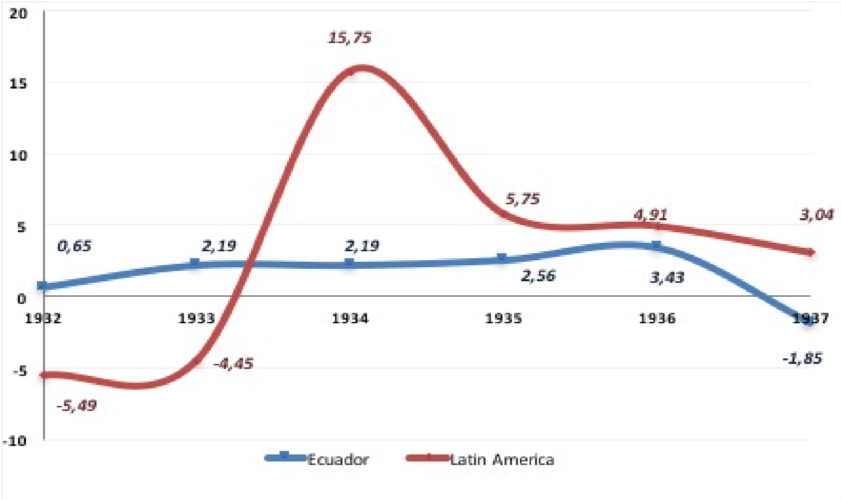
Table 14. Evolution of Gross Domestic Product, Ecuador and Latin America, 1932-1937

Years	GDP Current prices (thousands of sucres)	GDP variation Current prices (%)	GDP Constant prices April 78- May 79= 100 (Thousands of sucres)	GDP variation Contant prices (%)	GDP variation Latin America
1932	305	-9,40	9.848	0,65	-5.49
1933	437	43,33	10.064	2,19	-4.45
1934	600	37,26	10.284	2,19	15.75
1935	649	8,30	10.548	2,56	5.75
1936	801	23,29	10.910	3,43	4.91
1937	851	6,27	10.708	-1,85	3.04

Source: Morillo 1996, 687

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Figure 7. Variation of Real GDP, Ecuador and Latin America, 1932-1937



Source: table 14

Monetary policy was the main tool that Latin America had to face the Great Depression. As prices of raw materials, international reserves and tax revenues fell, the anti-cyclical policies implemented induced "to suspend and subsequently abandon the gold standard, and enter capital controls and a ban on the export of gold" (Jacome 2015, 13).

Economic policies in Latin America, from 1932, represent a breach of the principles of free market and non-intervention. Economic policies during the first years of the international crisis, following the pattern set by the free market: "stimulate demand and thereby boost production by a deflationary policy. With this policy a decline in prices by reducing the money supply and tighten credit, state expenditures are reduced and the budget balance is desired" (Ponce, 2015: 13). After the collapse of the gold system, reactivation policies focused on a substantial increase of money lending from the central banking, in the case of Colombia, private credit policy also became very active. With this purpose, by 1932, in Colombia, three entities were created: Agrarian Fund, Central Bank Mortgage, and Colombian Corporation Credit (Ocampo 1996).

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

In the case of Ecuador, the economic policies from 1932 had important similarities with the policies of the Latin American region: leave the gold standard with one main objective, to increase the money supply. For this, the central government played an important role through an aggressive borrowing from the Central Bank of Ecuador. This stage brought heavy inflation rates, which kept real GDP growth at rates below the region.

The Great Depression marked the beginning of the end of the easy growth based on exports of primary goods (Veliz 1980, 157). The reconstruction of the economies of Latin America, after the impact of the Great Depression are characterized by the tendency towards internal development, through protectionism and industrialization development strategies that would depend on the lead of government, leaving aside the principles of free market that contextualized the principles of growth in the region until 1929.

6. Conclusions

At the beginning of this research, we wondered whether Ecuador suffered with the impact of the Great Depression or whether, on the contrary, it is an atypical case of the region. To answer these initial concerns, it is necessary to remember the composition of the population. If the majority of the population lived in rural areas, and a large part of these people lived in a system of exchange of products that they cultivated for family use, it is undeniable that their subsistence did not change before or during the international crisis. This population cushions sustained the economic growth (real GDP) of the nation without registering negative data.

However, the same population composition, which served as a cushion to sustain the economic growth of the nation, became a heavy weight to carry that did not allow the nation to recover at levels similar to those recorded in the rest of the region. This recovery depended primarily on the external sector, taking into account that the main trading partner was the United States of America.

Ecuador does represent an atypical case in the region, however, it is not the only one, Colombia and Honduras also do not show signs of economic decrease. These data show

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

that the impact of the Great Depression on the Latin American region was uneven: Ecuador, Colombia and Honduras are countries that show a lower impact.

On the other hand, the symptoms of the international crisis were similar throughout the region. The evolution of foreign trade data and public finances were similar: a sharp decline until 1932-1933, and then a rapid recovery. There is, however, a small dissimilar behavior; the region leaves the gold standard in different years, thus changing the rhythms of economic growth.

The Great Depression represents a break in the Latin American region in its way of conceiving development. During the 1920s the growth of the region focused on trade relations with the Nordic countries, those countries where prosperity seemed inexhaustible. However, when the crisis erupts, the region begins to wander through changes that will lead to try to reduce dependence from the hegemonic countries. The Great Depression would represent the beginning of another period, focusing growth on the inward, and fostering industrialization as the most important tool of this new approach.

This study on the impact of the Great Depression in Ecuador shows several economic statistics, which have recreated the historical development of the nation for a decade, and has created a logical context through which economic policies can be understood and linked with the results. However, certain issues remain unclear due to lack of sources, thus, it has not been possible to recreate statistics for unemployment, poverty, inequality, etc. Certainly, these topics will be grounds for future research of our own or other authors.

References

Almeida, R. (1994). Kemmerer en el Ecuador. *Serie Tesis - Historia*. Quito, Ecuador: Facultad Latinoamericana de Ciencias Sociales Sede Ecuador.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Banco Central de Ecuador. (1937). Decretos. *Boletín Mensual , Año XI* (122), 1-20.

Banco Central de Ecuador. (Enero de 1940). Consumo Interno. *Boletín Mensual, Año XIII*, N.150-151.

Banco Central del Ecuador. (1939). Notas Informativas. *Boletín Mensual , Año XIII* (145), 1-30.

Bethell, L. (1998). *Latin America: Economy and Society Since 1930*. Cambridge: Cambridge University Press. https://doi.org/10.1017/CBO9780511626074

Bethell, L. (1991). *Historia de América Latina. América Latina: economía y sociedad, c. 1870-1930*. Barcelona, España: Editorial Crítica. https://doi.org/10.1017/CHOL9780521266529

Brian News Service. (1932). Edwin W. Kemmerer. Washington, 1942: Library of Congress Prints and Photographs Division.

Carbo, L. (agosto, 1927). *Boletín del Banco Central*. Quito: Banco Central del Ecuador.

Carbo, L. (1953). *Historia monetaria y cambiaria del Ecuador: desde época colonial*. Quito, Ecuador: Banco Central del Ecuador.

Carbo, L. (1978). *Historia monetaria y cambiaria del Ecuador.* Quito, Ecuador: Banco Central del Ecuador.

Cueva, A. (1991). La crisis de 1929-32: un análisis. En R. Thorp, *La crisis en el Ecuador. Los años treinta y ochenta*. Quito, Ecuador: Corporación Editora Nacional. Instituto de Estudios Avanzados, 61-77.

De la Torre, C. (1993). *La Seducción Valasquista*. (F. L. Ecuador, Ed.) Quito, Ecuador: Ediciones Libri Mundi.

Dirección General de Estadística, Registro Civil y Censo. (1934). *Informe realizado por Peñaherrera, A. para la Dirección General de Estadística, Registro Civil y Censo.* Quito: Ministerio de Gobierno y Estadística.

Dirección General de Estadística, Registro Civil y Censo. (1933). *Boletín General de Estadística, Año III, Num.6.* Quito: Imprenta Nacional.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Dirección Nacional de Estadística. (1944). *Ecuador en Cifras 1938-1942*. Quito, Ecuador: Imprenta del Ministerio de Hacienda.

Drake, P. (1984). La Misión Kemmerer en el Ecuador: revolución y regionalismo. *Revista del Banco Central del Ecuador , VII* (19), 211-280.

Drake, P. (1995). *Kemmerer en los Andes: las misión kemmerer, 1923-1933*. Quito, Ecuador: Banco Central del Ecuador.

Feiker, F. (1931). *Economic and Financial Conditions in Ecuador.* U.S. department of Commerce, Bureau of Foreign and Domestic Commerce. Washington: United States Government Printing Office.

Gozzi, E., & Tappatá, R. (2010). *Fit & Proper Consulting.* Recuperado el 10 de 2015, de Primera iniciativa de reforma financiera profunda en América Latina. La Misión Kemmerer: http://www.fitproper.com/documentos/propios/Mision_Kemmerer.pdf

Hamerly, M. (1973). *Historia social y económica de la antigua provincia de Guayaquil 1763-1842*. Guayaquil, Ecuador.

Jácome, L. (Marzo de 2015). Central Banking in Latin America: From the Gold Standard to the Golden Years. IMF Working Paper/15/60. *International Monetary Fund.* https://doi.org/10.5089/9781484303184.001

Junta Nacional de Planificación y Coordinación Económica. (1979). *Desarrollo y Educación en el Ecuador 1960-1978*. Quito, Ecuador.

Mitchell, B. (1993). *International Historical Statistics The Americas 1750-1988* (2 ed.). New York: Stockton Press.

Morales, J. F., León Camacho, P., & Oleas Montalvo, J. (1997). *Setenta Años del Banco Central del Ecuador Pasado, Presente y Proyección al Futuro*. Quito: Banco Central del Ecuador.

Moreno, M. (1992). Economías y sociedades de plantaciones en el Caribe español, 1860-1930. En L. Bethell, *América Latina: economía y sociedad, 1870-1930* . Barcelona: Editorial Crítica, 163-199.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Morillo Batlle, J. (1996). *economía monetaria del Ecuador.* Quito, Ecuador: Imprenta Mariscal.

MOxLAD. *Base de Datos de Historia Económica de América Latina Montevideo-Oxford*. (P. L. Bertola, Productor) Recuperado el 01 de 10 de 2017, de MOxLAD: http://moxlad-staging.herokuapp.com/home/es#

Ossa, F. (1993). La creación del Banco Central de Chile en 1925: antecedentes previos y los primeros años de operación. *Revista Estudios de Economía , 20* (1), 69-101.

Paz y Miño, J. (11 de julio de 2011). Revolución Juliana. *El Telégrafo* .

Paz y Miño, J. (2004). Lección de los Estancos. *Taller de Historia Económica , V* (VI), 1-3.

Paz y Miño, J. (2013). *La Revolución Juliana en Ecuador (1925-1931). Políticas Económicas.* Quito, Ecuador: Academia Nacional de Historia.

Paz y Miño, L. (Marzo de 1926). Población. *El Telégrafo.*

Pazmiño, B., & Ignacio, C. (1929). Empleados del Banco Central del Ecuador, Quito. (Archivo Histórico del Guayas, Ed.) Quito: Ministerio de Cultura y Patrimonio.

Peñaherrera, A. (1934). *Informe de la Dirección General de Estadística, Registro Civil y Censo al Sr. Ministro del Ramo.* Quito: Ministerio de Gobierno y Estadística.

Ponce, J. S. (1988). *Crisis Económica del Ecuador Análisis Comparativo de los Períodos Históricos.* Quito: Banco Central del Ecuador.

Ponce Alberca, J. (2015). La evolución económica (1918-1939): la Gran Depresión. *Lecturas de clase* . Sevilla: Universiad de Sevilla.

Registro Oficial N. 289. (01 de marzo de 1927). Quito, Ecuador.

Rodríguez, L. A. (1992). *Las Finanzas Públicas en el Ecuador (1830-1940).* Quito: Ediciones Banco Central de Ecuador.

Stancey, E. L. (1990). *Evolución de la Política del Banco Central del Ecuador 1927-1987.* Quito: Ediciones del Banco Central del Ecuador.

Stevens, R. B. (1940). Commercial Policies and Trade Relations of Individual Latin American Countries. En R. B. Stevens, *The Foreign Trade of Latin America* (Vols.

https://doi.org/10.4995/muse.2019.7766
ISSN: 2341-2593

Section 6.- Ecuador, 2-40). Washington D.C., The United States: United States Tariff Commission.

Twomey, M. (1983). The 1930s Depression in Latin America: A Macro Analysis. (U. o. Michigan, Ed.) *Explorations in economic history* (20), 221-247. https://doi.org/10.1016/0014-4983(83)90031-1

Véliz, C. (1980). In *The Centralist Tradition of Latin America*. Princeton University Press. https://doi.org/10.1515/9781400857302

Villavicencio, Manuel (1858). Geografía de la República del Ecuador. Nueva York: Robert Craighead.

Wither N, F. (1936). *Decretos Supremos No. 596, 629 y 873 sobre Control de Importación, Exportación y Cambios.* Decretos, Ministerio de Hacienda, Quito.