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COLLECTION

# 'Monetarism' and the Third World



# 'Monetarism': its effects on developing countries

editors: *Stephany Griffith-Jones and Dudley Seers*

## CONTENTS

	<i>pages</i>
<b>Foreword</b> <i>Dudley Seers</i>	1
<b>Editorial</b> <i>Stephany Griffith-Jones</i>	3
<b>Latin American Monetarism in Crisis</b> <i>David Felix</i>	6
<b>Monetarism in the UK and the Southern Cone: an Overview</b> <i>John Wells</i>	14
<b>The New Recycling: Economic Theory, IMF Conditionality and Balance of Payments Adjustment in the 1980s</b> <i>Philip Daniel</i>	27
<b>The New Leviathan: the Chicago School and the Chilean Regime 1973-80</b> <i>Philip O'Brien</i>	38
<b>Recent Experiences of Stabilisation: Argentina's Economic Policy 1976-81</b> <i>Luis Beccaria and Ricardo Carciofi</i>	51
<b>What Happens to Economic Growth when Neo-Classical Policy Replaces Keynesian? The Case of South Korea</b> <i>Tony Michell</i>	60
<b>Consumerism and the New Orthodoxy in Latin America</b> <i>Carlos Filguiera</i>	68

## BOOK REVIEWS

Two reviews of Bela Balassa's <i>The Newly Industrialising Countries in the World Economy</i>	
<b>I Re-thinking de-linking</b> <i>Geoff Lamb</i>	74
<b>II Do outward-looking policies really work?</b> <i>A. I. MacBean</i>	75

## Notes on Contributors

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## SUMMARY

### Latin American Monetarism in Crisis

David Felix

This article discusses the basic features of monetarist thinking, stressing the differences between their application to advanced capitalist countries and the semi-industrialised Latin American economies. The experience of Brazil—a rather heretic application of monetarist thinking since 1967—seems till 1980 to have obtained the most impressive results, particularly in terms of growth. The dogmatic application of monetarism in Argentina and Chile since the mid-1970s has yielded rather unsatisfactory results: recent developments (particularly in their increasingly vulnerable balance of payments situation) seem to point to a crisis in Southern Cone monetarism.

### Monetarism in the UK and the Southern Cone: an overview

John Wells

This article discusses common patterns—as well as differences—between the 'new orthodoxy' of monetarism applied in the United Kingdom and that of the Latin American Southern Cone. In both cases, it interprets this new orthodoxy as a conscious attempt to break out of the previous pattern of capitalist development, as well as the social and political framework which sustained it. This long-term objective accounts for the huge and, in purely technical terms seemingly unnecessary, scale of social cuts. The experience of the United Kingdom, Argentina and Chile are examined from this perspective; the historical background for each of these monetarist experiences is described in some detail.

### The New Recycling: Economic Theory, IMF Conditionality and Balance of Payments Adjustment in the 1980s

Philip Daniel

Proposals for new methods of recycling funds to deficit countries, and for increasing the roles of the IMF and World Bank in the process, now make the economic theory behind adjustment programmes a vital matter for IdCs. Lending on explicitly conditional terms seems likely to grow—has IMF conditionality changed in response to criticism? It is argued that the symptoms of conditionality have been examined more often than the underlying theory (the monetary approach to the balance of payments). Alternative and less uniform adjustment programmes are urgently needed, based on stronger links between macro-economic policy and development strategy.

### The New Leviathan: the Chicago School and the Chilean Regime 1973-80

Philip O'Brien

This article gives a broad overview of the political economy of Chile since the military coup of 11 September 1973. Its main concern is with analysing the Chicago economic model being imposed in Chile, and how this became the dominant strategy after the coup. It argues that there is an intimate connection between the Chicago economic free market model being implemented in Chile and the repressive political dictatorship. The first part of the article looks at the relationship between the Chicago-trained economists and the making of the coup. The second part analyses some of the key policy decisions taken and the relationship between economic and political changes. The third part explains and analyses the model itself, and exposes some of its main contradictions.

### Recent Experiences of Stabilisation: Argentina's Economic Policy 1976-81

Luis Beccaria and Ricardo Carciofi

Between April 1976 and March 1981 the Government of Argentina tried a series of stabilisation policies based upon monetarist principles involving control of wages, tight money supply, floating exchange rates and indicative devaluation. Inflation was never brought under control, global output was cyclical and foreign financial capital profited. However, the basic target over this five-year period was not just the reduction of inflation and the achievement of external equilibrium. The programme also sought drastic structural changes. This article discusses the global meaning of the strategy and its implementation, examines why it did not represent an economically viable (and socially acceptable) way of overcoming the constraints that have been arresting Argentina's economic growth since the mid-1950s.

## What Happens to Economic Growth when Neo-classical Policy Replaces Keynesian? The Case of South Korea

Tony Michell

In January 1979 Korea announced a tight money policy. This contrasted with 18 years of Keynesian policies which had resulted in high growth and double-digit inflation. This article traces the development of monetarism from its initial inception in Korea to its complete official endorsement in mid-1981. The impact on short term growth and Korea's ability to weather the oil price increases of 1979 are examined. The results so far appear disappointing in that inflation has been higher than in 1974-75, growth negative, and monetary targets consistently revised upwards. The government remains optimistic that the beneficial results are becoming apparent, but the question is posed as to whether the high growth trajectory based on export orientation of the past is consistent with the policies proclaimed.

## Consumerism and the New Orthodoxy in Latin America

Carlos Filgueira

The role played by imitative consumption patterns in developing countries has long been studied by Latin American economists; however, the subject has been neglected by sociologists. This article discusses the increase in consumption and the change in its pattern resulting from the application of monetarist models in the Southern Cone of Latin America. In particular, emphasis is placed on the increased demand, for all strata, for modern goods and styles of consumption.

## RESUMEN

### El monetarismo latinoamericano en crisis

David Felix

Este artículo analiza las características básicas del pensamiento monetarista enfatizando las diferencias existentes entre su aplicación en los países capitalistas avanzados y en las economías semi-industrializadas de América Latina. La experiencia de Brasil—una aplicación más bien herética del pensamiento monetarista desde 1967—parece haber logrado, hasta 1980, los resultados más impresionantes, particularmente en términos de crecimiento. La aplicación dogmática del monetarismo en Argentina y Chile desde mediados de los setenta, ha conducido a resultados bastante insatisfactorios. La evolución reciente de ambas economías, particularmente la creciente vulnerabilidad de sus balanzas de pagos, sugiere la existencia de una crisis en el monetarismo del Cono Sur.

### Monetarismo en Gran Bretaña y en el Cono Sur: una reseña

John Wells

Este artículo analiza tanto las pautas comunes como las diferencias de la nueva ortodoxia monetarista aplicada en Gran Bretaña y el Cono Sur de América Latina. En ambos casos, esta nueva ortodoxia es interpretada como una tentativa consciente para abandonar el modelo previo de desarrollo capitalista, así como la estructura social y política sobre las que se sustentaba. Este objetivo de largo plazo justifica la escala y el enorme costo social, aparentemente innecesarios desde un punto de vista exclusivamente técnico. Las experiencias de Gran Bretaña, Argentina y Chile son analizadas desde esta perspectiva y se describe con algún grado de detalle el trasfondo histórico de cada una de estas experiencias monetaristas.

### La nueva recirculación: teoría económica, condicionamiento del FMI y ajustes en las balanzas de pagos en la década 1980

Philip Danieł

Las propuestas de implementar nuevos métodos para recircular fondos hacia los países deficitarios y para incrementar el rol del FMI y del Banco Mundial en este proceso, hacen que la teoría económica, subyacente en estos programas de ajuste, sea una materia vital para los países menos desarrollados. ¿Ha cambiado el condicionamiento del FMI en respuesta a las críticas formuladas? Se argumenta que los síntomas de condicionamiento han sido analizados más a menudo que la teoría subyacente—el enfoque monetarista de la balanza de pagos. Se requieren con urgencia programas de ajuste alternativos y menos uniformes, basados en sólidos vínculos entre la política macroeconómica y la estrategia de desarrollo.

### El nuevo Leviant: la Escuela de Chicago y el régimen chileno 1973-80

Philip O'Brien

Este artículo entrega una amplia visión de la política económica chilena desde el golpe militar del 11 de septiembre de 1973. Concentra su

atención en el análisis del modelo económico de Chicago impuesto en Chile y como éste se convierte en la estrategia dominante después del golpe de estado. Se argumenta la existencia de una íntima conexión entre el modelo libremercadista de Chicago implementado en Chile y la política represiva de la dictadura. La primera parte del artículo versa sobre las relaciones entre los economistas entrenados en Chicago y la preparación del golpe de estado. La segunda parte analiza algunas de las decisiones políticas claves que fueron tomadas y las relaciones entre los cambios económicos y políticos. La tercera parte explica y examina el modelo en sí mismo, destacando algunas de sus principales contradicciones.

## Experiencias recientes de estabilización: la política económica

### Argentina 1976-81

Luis Beccaria y Ricardo Carciofi

Entre abril de 1976 y marzo de 1981 el gobierno de Argentina experimentó una serie de políticas de estabilización basadas en principios monetaristas, que involucraron control de salarios, restricción de la oferta monetaria, tasas de cambio flotantes y devaluación indicativa. Jamás se logró controlar la inflación, el producto global fue cíclico y el capital financiero externo resultó beneficiado. No obstante, el objetivo básico de este período de cinco años no solo fue la reducción de la inflación sino también el equilibrio externo. El programa también incluía la consecución de drásticos cambios estructurales. Este artículo analiza el significado global de la estrategia y su implementación y examina las razones de por qué ésta no constituye un camino económicamente viable—y socialmente aceptable—para superar las causas que han paralizado el crecimiento económico de Argentina desde mediados de la década de 1950.

## ¿Que pasa con el crecimiento económico cuando la política neoclásica sustituye a la keynesiana? El caso de Corea del Sur

Tony Michell

En enero de 1979 Corea del Sur anunció una estricta política monetaria, lo que contrastó con los 18 años de política keynesiana que dejaron como resultado un alto crecimiento y una tasa de inflación de dos dígitos. Este artículo examina el desarrollo del monetarismo en Corea del Sur desde sus comienzos hasta su completo afianzamiento a mediados de 1981. Se analizan el impacto de corto plazo en el crecimiento y la habilidad de Corea del Sur para enfrentar los incrementos del precio del petróleo en 1979. Hasta ese momento los resultados parecen decepcionantes ya que la inflación resultó superior a la de 1974-75, el crecimiento fue negativo y consecuentemente, las metas monetarias fueron incrementadas. El gobierno se mantiene optimista en que los resultados benéficos comienzan a aparecer, pero el problema radica en dilucidar si la trayectoria de alto crecimiento basada en las exportaciones del pasado, es consistente con las políticas actualmente preconizadas.

## El consumismo y la nueva ortodoxia en América Latina

Carlos Filgueira

El rol de la imitación de los patrones de consumo en los países en desarrollo, estudiado desde hace tiempo por los economistas latinoamericanos, es un tema que los sociólogos han descuidado. Este artículo examina el incremento y cambio de estructura del consumo, resultantes de la aplicación de los modelos monetaristas en el Cono Sur de América Latina. En especial, se enfatiza la demanda creciente por bienes y estilos modernos de consumo, en todos los estratos sociales.

## RESUME

### Le monetarisme latino-américain en crise

David Felix

Cet article présente les traits fondamentaux du monétarisme, et souligne les différences de la mise en oeuvre dans les pays développés et dans les économies latino-américaines semi-industrialisées. L'expérience du Brésil, cas assez hérétique de pensée monétariste depuis 1967, semble avoir obtenu jusqu'en 1980 les résultats les plus impressionnants, notamment en termes de croissance. L'application dogmatique du monétarisme en Argentine et au Chili depuis le milieu des années 70 a par contre donné des résultats peu satisfaisants, étant donné l'évolution récente (notamment la vulnérabilité croissante de leur balance des paiements), une crise du monétarisme semble probable dans ces pays.

### Le monétarisme en Grande-Bretagne, en Argentine et au Chili

John Wells

Cet article présente les similarités ainsi que les différences entre la nouvelle orthodoxie du monétarisme appliquée au Royaume-Uni et celle

des pays du cône latino-américain. Pour ces deux cas, il considère la nouvelle orthodoxie comme une tentative consciente de briser l'ancien moule du développement capitaliste, ainsi que le cadre socio-politique qui le supportait. Cet objectif à long terme explique les réductions énormes, et qui, en termes purement techniques, ne paraissent pas nécessaires, des dépenses sociales. L'expérience du Royaume-Uni, de l'Argentine et du Chili est étudiée dans cette perspective et leur historique donné de façon assez détaillée.

**Le nouveau recyclage: théorie économique, conditionnalité du FMI et ajustement des balances des paiements dans les années 80**

*Philip Daniel*

Les nouvelles méthodes proposées pour le recyclage des fonds aux pays déficitaires, et pour l'accroissement qui en découle du rôle du FMI et de la Banque mondiale, font désormais de la théorie économique qui sous-tend les programmes d'ajustement une question cruciale pour les PVD. L'octroi de crédits assortis de conditions explicites deviendra probablement plus fréquent. Le FMI a-t-il en réponse aux critiques, modifié cette conditionnalité? L'auteur estime que les symptômes de la conditionnalité ont été étudiés plus souvent que la théorie sous-jacente (l'approche monétariste aux problèmes de balance des paiements). Il faut instaurer d'urgence d'autres programmes d'ajustement moins uniformes, basés sur des liens renforcés entre la politique macro-économique et la stratégie du développement.

**La nouvelle menace: l'école de Chicago et le régime chilien 1973-80**

*Philip O'Brien*

Cet article présente une vue générale de la politique économique du Chili depuis le coup d'Etat militaire du 11 septembre 1973. L'auteur se préoccupe surtout d'analyser le modèle économique de Chicago imposé au Chili, qui est devenu depuis lors la stratégie dominante. Il avance qu'il existe un lien étroit entre ce modèle et la dictature politique répressive. La première partie porte sur les rapports entre les économistes formés à Chicago et la préparation du coup. La deuxième partie analyse quelques-unes des orientations prises et le rapport entre l'évolution économique et l'évolution politique. La troisième partie explique et analyse le modèle lui-même, et expose ses principales contradictions.

**Expériences récentes de stabilisation: la politique économique de l'Argentine 1976-81**

*Luis Beccaria et Ricardo Carciofi*

Entre avril 1976 et mars 1981, le gouvernement de l'Argentine a tenté une série de politiques de stabilisation basées sur les principes monétaristes

et impliquant contrôle des salaires, change flottant, et dévaluation pré-annoncée. L'inflation n'a jamais été jugulée, la production globale était cyclique et les capitaux financiers ont prospéré. L'objectif principal de cette période de cinq ans n'était toutefois pas seulement de réduire l'inflation et d'équilibrer la balance des paiements. Le programme visait également à instaurer de draconiennes réformes structurelles. L'auteur étudie le sens profond de cette stratégie, les raisons pour lesquelles elle ne constitue pas une façon économiquement viable (et socialement acceptable) de surmonter les contraintes qui ont mis un terme depuis le milieu des années 50 à la croissance de l'Argentine.

**Qu'arrive-t-il à la croissance économique lorsque la politique neo-classique remplace Keynes? Le cas de la Corée du Sud**

*Tony Mitchell*

En janvier 1979, la Corée a annoncé une politique de l'argent stricte, après 18 ans de politique keynésienne qui avaient débouché sur une forte croissance et une inflation à double chiffre. Cet article retrace le développement du monétarisme depuis son apparition en Corée jusqu'à son officialisation vers le milieu de 1981. Il étudie son incidence sur la croissance à court terme et sur l'aptitude de la Corée à absorber l'augmentation du prix du pétrole de 1979. Jusqu'ici les résultats paraissent décevants. L'inflation est plus élevée qu'en 1974-75, la croissance négative, les objectifs monétaristes constamment relevés d'un cran. Le gouvernement espère toujours que les avantages vont apparaître, mais la trajectoire de forte croissance, basée sur l'exportation, du passé est-elle compatible avec la politique adoptée?

**L'économie de consommation et la nouvelle orthodoxie en Amérique latine**

*Carlos Filgueira*

Le rôle joué par les habitudes de consommation imitatives dans les pays en voie de développement est étudié depuis longtemps par les économistes latino-américains. Ce sujet a toutefois été négligé par les sociologues. Cet article porte sur l'accroissement de la consommation et sur l'évolution entraînée par la mise en oeuvre de modèles monétaristes dans le cône sud-américain (Argentine, Chili). Il souligne l'accroissement de la demande, touchant les couches sociales, pour les produits et styles de consommation modernes.

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## Foreword

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Dudley Seers

It is quite eerie to read Anglophone economists discussing monetarism as if it had not been vigorously debated for more than a quarter of a century in Latin America, and as if there had not been numerous attempts there to apply monetarist doctrines starting, let us say, with the Klein-Saks programme for Chile of 1957. One feels one is seeing the re-run of an old film. Eminent economists in Britain and the United States repeat long familiar arguments (falling often into errors long since overcome in Latin America). They cite empirical evidence, for example the relation between the quantity of money and prices, as if the world were bounded by the North Sea, the Rio Grande del Norte and the coast of California and British Colombia. The tacit assumptions are that nothing of importance happens in foreign parts and that, naturally, the native economists are of no consequence.

For example, the *Economic Journal* of March 1981 carries papers and comments by four very well-known Anglophone economists, originally presented at a Royal Economic Society conference in July 1980, on 'Monetarism—an Appraisal'. These reveal almost total ignorance of what has happened in other parts of the world or been written elsewhere by monetarists (for example, Kafka and Olivera in Latin America) or their critics (eg Prebisch and Sunkel). There is no geographical limitation in the title: 'Monetarism in the UK and the USA—an Appraisal', would have been at least not incompatible with the exclusion of the rest of the world. (Those reared in a true science such as herpetology would be surprised if a conference on 'Poisonous Snakes' concentrated exclusively on the adder and the rattlesnake.)

In the main papers, David Laidler (who gives the appearance of reviewing relevant published material) and James Tobin cite between them more than 100 bibliographical references, of which (apart from the North Holland Press and the OECD) all but one were published in Britain, Canada or the USA, none at all even in French, Italian or Spanish periodicals. There is no mention of the documents of the IMF, the high priests of monetarism.

Why did the Royal Economic Society not invite at least one paper from an economist of a country with long experience of monetarism? Why did neither of the conference discussants, Robin Matthews and James Meade, nor the *Economic Journal* referees, point out

that both authors are clearly guilty of the gravest of academic crimes: not knowing the literature! (These authors are, of course, not alone in this: leading Cambridge economists refer to each other's work almost exclusively, indeed often only to their own previous publications.)<sup>1</sup>

Anyone reading that symposium would believe the crucial professional controversy in the world today to be between the two wings of Anglophone neo-classicism, Keynesian and monetarist economists. There is much discussion of whether they have or have not drawn closer together as a result of recent experience. This is a discussion that seems agreeably chummy, but it must give the impression (to those in the real world) of being very much *en famille*: what the monetarists have increasingly to worry about is structuralist not Keynesian criticism, and they will continue to ignore this at their peril.

There is an even more curious feature of much current professional discussion in these parts, which is glaringly exemplified by the symposium in the *Economic Journal*. A macro-economic policy is usually evaluated simply by its impact on the country where it is adopted. Effects on volumes and prices of imports, and the balance of payments, are discussed as if there were no foreign exchange problems in the outside world. It is understandable that politicians and officials should write in this way, but is it necessary to remind academic economists that one country's imports are the exports of another and that to ease one country's foreign exchange deficit is to aggravate deficits elsewhere?

The charge that British monetarists have to face is not the comparatively trivial one of causing the long overdue retirement to a museum of some specimen of industrial archaeology in Lancashire's textile mills, or forcing a couple of million workers here to live off unemployment benefits. It is that their policies have played a large part in initiating a world slump of catastrophic scale. Although the decline in activity in the industrial countries is (so far at least) much shallower than half a century ago, it has had a far more severe impact in many other parts of the world, especially Africa, because these are now more completely integrated into the world economy. Tens of millions

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<sup>1</sup>A convenient starting point for Anglophone economists who want to discuss the effects of monetarism and know no Spanish or Portuguese would be *Inflation and Growth: the Heart of the Controversy* (eds. Baer and Kerstenetzky, Irwin for Yale, 1964).

who previously had been merely malnourished in countries where there is no social security whatever, have been reduced to near or actual starvation.

The charge can be detailed. Item, that British (and later US) monetary policy did involve reducing imports of raw materials and foodstuffs, contributing to declines in their price and aggravating the already severe foreign exchange problems of exporters of these products. Item, that the reduction in the demand for manufactures did contribute indirectly to the same consequences by helping spread the recession throughout the industrial countries, which have collectively presented Africa, Asia and Latin America with the payments deficit that is the counterpart of the OPEC surplus of (recently) about \$100 bn per annum. Item, that the British and US Executive Directors did encourage the IMF to scold not the governments of industrial countries, as might seem only fair, but those of the Third World—and, moreover, upbraid them for having courageously shouldered more than their share of this deficit. Item, that the interest rates on the consequent debt, because of monetary policy in the industrial countries, did further aggravate the deficit of the Third World. Item, that because many governments have had to go to the IMF for assistance in meeting their deficits, they have had to adopt open door development strategies and monetarist policies, irrespective of social needs or economic structure. Item, that neo-classical influences, originating overseas and purveyed through many other channels academic and official, did prepare the ground for such pressures. Item, that these policies could only be put into effect in many cases by military dictatorships, some of which are harshly repressive.

This long charge sheet of the various ways monetarism has affected developing countries is so serious that

quibbling about the appropriateness of Keynesian remedies for the author's local economy appears callous. (Nero did at least produce some music while Rome burned; not just debate what instrument he should use and whether 'fine tuning' would enable him to play a sweeter melody to his court.) There are in fact possible lines of defence—and if monetarists have difficulty in identifying them, the rest of us would no doubt be glad to assist. But due recognition that, somehow or other, a case has to be cobbled together would be welcome.

Those who read this *Bulletin* will be put in a position to avoid such parochialism. Case studies of monetarist policy are provided and an analysis of the influence of the IMF. Indeed readers will be introduced to problems that have not yet occurred to the main body of the Anglophone profession, even about their own economies. For some years Latin American economists have been faced by a paradox that emerges clearly from several of these papers—putting it baldly, the co-existence of monetarist policies and chronic inflation. In the 17 years of monetarist aspirations since the Brazilian coup; prices have risen more than a hundred fold. What makes the paradox more striking is that the explanation cannot lie in the trade unions, the favourite whipping boys of Anglophone economics, because these have been weakened if not destroyed as part of strategies of economic liberalism. It is predictable that later in the 1980s the same paradox will be discussed in the *Economic Journal*—and once more as if there had been zero experience or debate elsewhere.

*Postscript.* Since the above went to press, I learned of Professor Tobin being awarded the Nobel Prize for Economics. At such a time it would be churlish of me not to say that, despite my criticism of a particular paper, this well-merited award gives great pleasure to all who know him and his writings.