Hirschman, Kemmerer and Chile: on ‘Prototypical’ (Foreign) Economic Advisors.

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PRELIMINARY DRAFT

Introduction

Albert O. Hirschman and Edwin Walter Kemmerer both worked as foreign economic advisors in Latin America. And both also wrote about the problem of economic expertise in what went beyond simple exercises in introspection: in this sense, consider Hirschman’s biographical essay on Jean Gustave Courcelle-Seneuil for the *New Palgrave Dictionary*, re-titled as a “Prototypical economic advisor” (1992), and Kemmerer’s Presidential Address to the American Economic Association (1927), which offer insightful analyses on this problem. In this paper we examine the arguments advanced by these authors and explore how they differ and in what dimensions they coincide. We will focus on these author’s work in/on Chile: Kemmerer’s practical work in the country during the mid-1920s, and his evaluations and recollections of it, and Hirschman’s important analysis of the problem of foreign experts in Chile originally dating from the early 1960s.

The academic work by Kemmerer and Hirschman go well beyond their endeavors as economic advisers or as appraisers of these types of activities, and yet this facet reflects an important underlying feature of their work. Such is clearly the case with Kemmerer’s work on money (Gómez Betancourt, 2010). In Hirschman’s case, his interest in these issues was permeated by research on development economics in Latin America. His academic work on this field started with *The Strategy of Economic Development* (1958), and continued with his *Journeys Toward Progress* (1963), an analysis of the process of policy-making in Latin America which in the end covered Brazil, Chile and Colombia. We will show in particular that the contemporary context in Chile during his visits in 1960 and 1962 turned out to be crucial for the way in which he framed his historical and theoretical analysis of policy-making in the country; specifically dealing with the problem of inflation. This is what we will examine first. After that, as we compare Hirschman’s and Kemmerer’s views on the problem of expertise, we will observe that Hirschman actually

* Universidad del Desarrollo; 2015-16 Visiting Fellow, James Madison Program, Princeton University. I am indebted to the Department of Rare Books and Special Collections at the Mudd Library, Princeton University, for permission to consult their collection of Albert O. Hirschman Papers (henceforth, AOHP) and Edwin Walter Kemmerer Papers (henceforth, EWKP). Of course, the usual caveat applies.


assessed the work in Chile by Edwin Walter Kemmerer. This is a point that should be kept in mind in what follows, as it will introduce a sort of asymmetry in our narrative: as Kemmerer discusses mainly his own experience, his recollections will necessarily be more apologetic even for a self-identified man of the progressive era of science.

The activities of foreign experts in Latin America have been addressed previously in the literature (Drake, 1994); the work in this respect by Kemmerer and Hirschman has likewise been addressed before (Drake, 1989; Bianchi, 2011). But these studies have not attempted a comparative analysis either in terms of intellectual history or economic history. Our focus on the Chilean case will allow us to uncover the source of Hirschman’s classification of the “prototypical” features of a foreign advisor. This turns out to be a very early modern exposition of the role of expertise in the field of economic development. In this sense, our work will highlight not only the relevance of economic history in understanding the problem of expertise in the study of development economics (Flandreau, 2003), but also the importance of considering the intellectual history of economics on this issue.

**Albert Hirschman and his journeys**

Albert O. Hirschman was born in Germany, but till the advent of World War II also lived in France, England and Italy. His first academic works, *National Power and the Structure of Foreign Trade* (1945) and *The Strategy of Economic Development* (1958) were published in the United States, where he had settled in 1941. After the war, Hirschman served as an economist in the Federal Reserve Board, “dealing with economic reconstruction in France and Italy, and with various schemes for European economic integration ... that were central to the Marshall Plan concept” (Hirschman, 1992, 5). However, working in and confronting the Washington bureaucracy inevitably turned to be too much for the freethinker Hirschman and, “at a certain point I got tired of circling around the same problems. In the meantime, my interests had shifted to other areas to which I had not devoted sufficient attention, such as the problem of development in the ‘backward’ countries” (Hirschman, 1998, 80). Thus, faced with the possibility of a change, he left for Colombia, where he first worked as an advisor of the Colombian National Planning Council, and later as a private consultant. This change of employment while in Colombia was not accidental. Soon after arriving in Colombia, the World Bank, which had

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1 These comments, from “A Dissenter’s Confession: The Strategy of Economic Development Revisited”, were originally published in a volume edited by The World Bank in 1984. For further biographical information on Hirschman see Adelman (2013).
recommended Hirschman for this job, advised him to be pro-active and formulate an economic development plan for this country. Hirschman resisted: “I felt that one of the things Colombia needed least was a synthetic development plan, compiled on the basis of ‘heroic’ estimates. This was a repetition, under much less favorable circumstances … of what I had most disliked about work on the Marshall Plan” (Hirschman, 1992, 8). It was this disagreement, then, that led him to resign his official post and start working on his own as a private consultant (Adelman, 2010, 2013).

All in all, these were productive years for Hirschman, especially regarding his work on development economics. Reflecting on his experience as a foreign advisor led him to react against “the visiting-economist syndrome; that is, against the habit of issuing peremptory advice and prescription by calling on universally valid economic principles and remedies – be they old or brand new- after a strictly minimal acquaintance with the ‘patient’” (Hirschman, 1992, 11). Thus, gradually, Hirschman was developing not only his own understanding of the process of development that, in turn, led him to academia and to The Strategy of Economic Development (1958), but also original insights on the different dimensions of the problem of development. In terms of his work on development economics, The Strategy was followed by Journeys Toward Progress (1963), and later by Development Projects Observed (1967). While an examination of this trilogy is beyond our present focus, it is important to note that it is in The Strategy that Hirschman first stresses the notion that the problem of economic policy (and development) must balance economics and politics, which is an idea he will return to in Journeys Toward Progress. As is well known, Journeys is composed of two parts. Part I, which deals with a narration of policy problems in the selected country-studies, is entitled “Three Problems in Three Countries”. The events examined are the regional imbalances existing in Brazil, the problem of land reform in Colombia, and the persistence of inflation in Chile. Part II, on the other hand, termed “Problem-Solving and Reformmongering” develops some theoretical generalizations on the politics of policy-making which Hirschman revisited in

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2 On these volumes see the interesting contribution by Bianchi (2007).

3 Why, incidentally, do the case studies in the Journeys deal only with Latin America? Because, in effect, an interest in Latin America runs through most of Hirschman’s work on development issues. The link lies in the fact that, as Meldolesi explains, “The Strategy of Development presented a well-argued case and reasonable set of proposals to the governments of underdeveloped nations. Hirschman was well aware, therefore, that these proposals would have to undergo a public decision-making process in those countries. Once the book came out, he began to explore this aspect” (1995, 89). The organization in 1959, by the Twentieth Century Fund, of a study group on Latin America economic problems, which Hirschman coordinated and which led to Latin American Issues: Essays and Comments (1961), was the avenue for this project. To the extent that the Fund agreed to undertake a more careful examination of policy-making processes across different Latin American countries, Journeys was an extension of this work. Thus, the book was the end result of trips to the region in 1960 and again in 1962. See, also, Adelman (2013), chapter 12.
several later writings. The reformulation of old themes, in particular of the visiting economist syndrome mentioned above, also appears in different essays reprinted in *A Bias for Hope* (1971); some of the articles in this volume are even prior to the *Journeys*, and show the evolution of some of his ideas.\(^4\) Thenceforth, Hirschman’s return to development economics has been explicitly termed that way; that is the case of several essays published in his *Rival Views of Market Society* (1992). We would argue that his article on Jean Gustave Courcelle-Seneuil for *The New Palgrave* represents his last reexamination of these issues.

Since it is in the context of his chapter on “Inflation in Chile” where we find the roots of Hirschman’s academic interest in experts in the problem of economic of development, in what follows we will focus on this work. However, we are fully aware that neither Hirschman’s work on development in general, nor his *Journeys* in particular, were only about Chile; indeed, this book is not only about economic advisors narrowly viewed.\(^5\) On this point it should suffice to recall that this latter book is dedicated to Brazilian and Colombian “reformmongers”, namely Celso Furtado and Carlos Lleras Restrepo. However, we will argue that in this work in/on Chile Hirschman offers a special lens for his reading of the problem of expertise.

**Chile in the early 1960s (and looking back)**

Inflation had been a chronic yet relatively moderate problem since the late 19\(^{th}\) century and throughout 20\(^{th}\) century Chile, at least until the mid-1950s. Indeed, the stabilization of the currency was the main reason why the Chilean government hired the “Kemmerer Mission”, that is a mission of economic and financial advisors led by professor Edwin Walter Kemmerer that would tackle these issues by means of a thorough institutional

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\(^4\) For example, in “Economic Policy in Underdeveloped Countries” (originally published in 1957), a direct product of his Colombian experience, Hirschman refers to the importance of understanding why underdeveloped countries adopt “seemingly irrational economic policies” (Hirschman 1971, 256); the focus on “hidden rationalities” would reappear in the *Journeys* and in “A Dissenter’s Confession” (1984).

\(^5\) Several economists who we will come across later in our narrative reviewed the *Journeys*. As can be expected from such an intriguing volume different issues were highlighted. The Chilean economist Aníbal Pinto found the Colombia case-study the most instructive: his view of the Chilean case was that it was still an ongoing story (in *El Trimestre Económico*, Vol. 31 (1), pp. 166-168, 1964); he was right. F.W. Fetter discussed Hirschman’s (contra-Lenin’s) argument relating the absence of revolution to inflation in Chile, arguing however that inflation had certainly created more problems than it had prevented (in *The Annals of the American Academy of Political and Social Science*, Vol. 351, pp. 256-257, 1964). And Dudley Seers, while agreeing with Hirschman’s view of the messiness of policy-making in developing countries, which forced economic advisers to be both modest and ingenious, seemed undecided about his recommendations (in *The American Economic Review*, Vol. 54 (2), pp. 157-160, 1964).
reform, in the mid-1920s (Fetter, 1931). The explanations that had been offered for the Chilean inflationary process during the 19th century were, however, contested. Hirschman himself disputes F.W. Fetter’s (1931) influential hypothesis regarding the role played by the free-banking legislation proposed by the government’s foreign advisor Jean Gustave Courcelle-Seneuil, and the interests of Chilean oligarchy in easy money as a way of inflating away their debts. In any case, as several parts of the Kemmerer recommendations were abandoned, or significantly overhauled over the years, in the mid-20th century the country’s monetary problems assumed a graver character, with significantly higher rates of inflation and an increasing sense of social unrest. For the most part this was a consequence of persistently undisciplined fiscal and monetary policies, and under the government of President Carlos Ibáñez, who had taken over in 1953, the situation had worsened in an environment where the management of economic policy was highly unsteady, as manifest, for one, through persistent changes in the government’s economic team. Finally, Ibáñez decided to hire a team of foreign experts to deal with this problem. As reported in the press during this period, several alternatives were considered in this sense, although the team finally chosen was that of Klein & Saks, a Washington D.C. consulting firm led by Julius Klein, former Under Secretary of Commerce during the Hoover administration, that had successfully advised the government of Peru and was considered to have good connections in financial and official circles in the United States.

Interestingly, the Chilean press, and especially El Mercurio, that had both advocated and later turned to be a great defender of the idea of hiring a team of foreign experts, argued that the main reason as to why a foreign team was hired was that it was independent of local interests or ideologies, that could bias the opinions of domestic advisors. A few days after the “Klein-Saks Mission” arrived in Chile, an editorial in this newspaper claimed that:

Posiblemente los expertos extranjeros no vayan a expresar nada desconocido para nuestros técnicos ni nada que los últimos no pudieran, a su vez, sugerir, con base de conocimiento y experiencia. Pero lo cierto es que mientras aquellos vendrían, sin prejuicios de ningún género, a examinar objetivamente la situación y a recomendar, también objetivamente lo que hay que hacer para reorganizar el país económica, financiera y administrativamente, nuestros connacionales no estarian

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6 Fetter was, incidentally, a member of the Kemmerer Mission to Chile as private secretary to Edwin Walter Kemmerer. The volume we are referring to corresponds to Fetter’s Ph.D. dissertation at Princeton.
7 On the economic context of this era and the hiring of this mission, see the volume edited by Couyoumdjian (2011).
en esas condiciones ni podrían actuar en frio, sobreponiéndose al peso de resabios que todo lo envenenan y entorpecen. (El Mercurio, July 3, 1955)

Sometime later it further argued that:

Los expertos norteamericanos no tienen ningún punto de vista propio sobre la realidad nacional ni se proponen someterla a condiciones económicas determinadas. Entienden… que los problemas de Chile son distintos a los de cualquier otro país, no tienen un criterio preconcebido para juzgarlos y reconocen que el objetivo será encontrar una solución chilena para los problemas económicos y financieros chilenos. (El Mercurio, September 14, 1955)

It is important to note, in any case, that however valid these argument may be (and they were actually criticized in the country), they do not explain why the team finally hired was that of Klein & Saks. This is an issue that was explicitly addressed by the influential Chilean economist Aníbal Pinto, writing in Panorama Económico:

[En economía] no hay ‘recetas puras’. Y no las hay porque la Economía no funciona en el vacio o en lo abstracto, sino que en una realidad concreta y compleja, donde gravitan factores y variables político-sociales que son decisivos. Un economista no puede dar consejos cien por ciento esterilizados. (…) [Sobre la Misión Klein-Saks] se sabe perfectamente cuál es su orientación político-económica, aunque no se tiene conocimiento en círculos técnicos de su competencia. El ‘experimento peruano’ es su caballo de batalla, pero forman mayoría seguramente quienes tienen una visión crítica del mismo…. La tesis del diario citado [El Mercurio] podría haber tenido alguna substancia si se hubiera contratado expertos de algún lejano y ‘middle of the road’ país, como Noruega u otro por el estilo, con alguna remotísima (y para nosotros inexistente) posibilidad de crearse un nimbo de neutralidad, pero se torna casi ridícula al considerar la selección hecha por el gobierno. (No. 126, July 15, 1955)

Following this critique of the independence of foreign experts, in an article that he brilliantly entitled “¿De vuelta a Courcelle-Seneuil?”, Pinto would also see some parallels between this liberal experiment and the tenure in the mid-19th century of the French economist Jean Gustave Courcelle-Seneuil, who worked as a professor of political economics. Further, “La decisión que se ha tomado no es sino un signo de ignorancia de aquellos legos que creen todavía en las fórmulas mágicas y en los consejos providenciales y que se dejan arrastrar por la propaganda de experiencias ajenas y discutibles.”

In Panorama Económico No. 174, August 30, 1957. On Courcelle-Seneuil in Chile, see Couyoumdjian (2008); also see our discussion below.
economy and economic advisor to the Chilean government. Pinto was a structuralist economist, not sympathetic to economic liberalism, and was positing that the anti-inflationary advice advanced by the Klein-Saks Mission would be orthodox, focusing on fiscal and monetary reform (as it had been in Peru, and turned out to be in the country). But here it is interesting to note that in later articles Pinto also stressed that the fundamental role the Klein-Saks mission served was political.\textsuperscript{10} When the policies of the Klein-Saks mission started to show some results, Pinto addressed this question in a straightforward fashion:

Sin desconocer o subestimar la función desempeñada por la Misión … creemos que tal suposición [responsabilizarla del éxito económico] parte de un antiguo y persistente error sobre el problema: el de presumir que el gran escollo para contener o extirpar la inflación proviene de la ausencia de recetas técnicas eficaces.

La misma naturaleza de las medidas adoptadas es la mejor prueba de la equivocación al respecto. Ninguna ha significado una novedad… (…)

El nudo gordiano de la esterilidad a la acción se rompió por otro lado. No fue la irradiación del halo técnico, sino que la decisiva alteración de la balanza política lo que permitió acometer el proceso inflacionario desde un ángulo y lado correspondientes a la base sociopolítica que iba a servir de apoyo. (\textit{Panorama Económico} No. 145, May 25, 1956)

When Hirschman came to Chile in the early 1960s, the memory of the Klein Saks Mission was still fresh in the country.\textsuperscript{11} This is readily apparent in the chronicle of his interviews in Chile.\textsuperscript{12} As we see can gather from his article on “Inflation in Chile”, Hirschman seems to have been very impressed by the Klein-Saks episode, and in his archives he even kept several cartoons that appeared in the Chilean press on the Mission. We are thus ready to argue that this experience constituted a very rich learning process on his views of the political economy of foreign advisors.

\textsuperscript{10} At the same time, one should acknowledge that the government did obtain the required credibility for the management of its economic policy, as Edwards (2011) has claimed.

\textsuperscript{11} Sometime earlier, Arnold Harberger, visiting Chile as part of the exchange program between the Department of Economics of the University of Chicago and the Catholic University, likewise noted that “La cosa de la cual más se habla en la economía chilena es la inflación y los esfuerzos recientes para detenerla (1956, 416).

\textsuperscript{12} AOHP, Box 40, Folder 3. Before leaving for Chile, Hirschman also met several people interested and knowledgeable on Latin American issues in the U.S.: amongst these, was Philip Glaessner, former member of the Klein-Saks team in Chile (“Washington Diary, June 2-3, 1960”, AOHP, Box 68, folder 14).
Was it through Aníbal Pinto that Hirschman learned about Jean Gustave Courcelle-Seneuil and his work in Chile? Hirschman met Pinto and acknowledged his comments on his chapter on Chile in the *Journeys*; at the same time he read Chilean history extensively as part of his background research for his book as is evident in his 1963 article and from an examination of his research files. This work would eventually lead to a biography of the French economist Jean Gustave Courcelle-Seneuil in the *New Palgrave Dictionary* (Hirschman, 1987), which represents a very acute discussion on the political economy of foreign economic advisors. In his *Rival Views of Market Society* (Hirschman, 1992), where this essay is reprinted, this article was entitled “A Prototypical Economic Advisor: Jean Gustave Courcelle-Seneuil”. In this work Hirschman centers on Courcelle-Seneuil’s work as an economic advisor. In an essay composed of six paragraphs, four deal with the period in which J.G. Courcelle-Seneuil worked as a foreign economic advisor for the government of Chile between 1855 and 1863.

Of course, looking back and examining where Jean Gustave Courcelle-Seneuil’s real contributions to economics lie is not an easy task. In his monumental volume on the history of economic thought, Joseph Schumpeter (1954) only considers Courcelle-Seneuil in a footnote, where he includes the intriguing comment that “[h]is work illustrates our old truth that it is one thing to be a good economist and quite another to be a theorist” (498n). Diego Barros Arana’s (1914) obituary of Courcelle-Seneuil, originally published in the *Anales de la Universidad de Chile* in 1892 is the seminal work in Spanish and, naturally, focuses mainly on his work in Chile. More recently, Luc Marco examines the work of Courcelle-Seneuil in the context of an analysis of 19th century economics in France. Here Courcelle-Seneuil’s term in Chile is only characterized as a “voluntary exile” (1990, 142).

Jean Gustave Courcelle-Seneuil (1813-1892) was a prominent member of the French liberal school. In this sense, Hirschman calls him a “stalwart defender of free trade and laissez faire” (1987, 707) principles which, as is well known, are wholly consistent with

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13 See, especially, AOHP, Box 40, folder 1, and Box 70, folder 4.
14 When Albert O. Hirshman was invited to contribute to the *New Palgrave*, he was not only invited to write a couple of thematic articles, but also the biography of the Nobel laureate development economist W. Arthur Lewis. The standard letter sent by the editors also included an invitation to write a biographical entry for any of a list of over 400 deceased economists (Peter Newman to Hirschman, November 7, 1983; AOHP, Box 5, Folder 2). Hirschman rejected the invitation to write the entry for Lewis, but instead expressed his interest in writing the article on Jean Gustave Courcelle-Seneuil (Hirschman to Peter Newman, November 14, 1983; AOHP, id.) As we can see, in the end this entry turned out to be much more than a biography of this 19th century French economist, and Hirschman was clear about this: “I think you should encourage your biographers to
the tenets of this school.\textsuperscript{15} His professional reputation was based on his work on banking theory, where he was a strong proponent of a free banking system (Courcelle-Seneuil, 1853), and he also wrote a treatise on political economy, *Traité théorique et pratique d'économie politique* (1858), which was “for a long time regarded as a standard work” (Gide and Rist 1915, 380). His liberal posture referred to above, and which he never abandoned led him to be considered as having an abominable influence on Chilean economic policy during the period in which he worked in the country. In this sense, the most complete account of Courcelle-Seneuil’s activities in Chile, Leonardo Fuentealba’s *Courcelle-Seneuil en Chile* (1945) has as its subtitle, “los errores del liberalismo económico”.\textsuperscript{16} This is, in turn, implicitly related to the notion that his hiring was a part of plan to surreptitiously introduce economic liberalism into Chile, although this was actually not the case as his appointment was almost fortuitous (Couyoumdjian, 2008).

**Hirschman on (foreign) economic advisors**

In his 1987 article Hirschman notes that “Courcelle-Seneuil is probably the earliest prototype of this genre [of foreign economic advisors] and his ironic career in Chile exhibits characteristics that were to remain typical of numerous later representatives” (1987, 707). According to Hirschman, these characteristics are: (i) the advisor’s sense of expertise and belief that he “knows the correct solutions” to virtually any type of problem; (ii) the sense of expectancy in the receiving country for some “magic medicine” that will solve these problems; (iii) the relevance of considering the value of the advisor’s “connections” in his home country’s financial markets; (iv) his attempt to implement in the country he is advising institutions that “exist in his mind only”; and (v) the fact that “history in general, and nationalist historiography in particular, is likely to be unkind to the foreign advisor” (id, 707).

In his essay on Chile in the *Journeys*, Hirschman notes the roles foreign experts played in dealing with the problem with inflation in the country:

\begin{quote}
avoid hagiography –a bit of criticism makes these entries much more lively (I may have overdone it)\textsuperscript{15}
Hirschman to Peter Newman, January 28, 1985; AOHP, id.)
\end{quote}

\textsuperscript{15} On the French School of Political Economy, see, for example, Gide and Rist (1915). Note that J.G. Courcelle-Seneuil’s membership in the *Societé d'économie politique*, and his numerous original collaborations in the *Journal des économistes*, provide further support to the notion that he was an archetype member of this school. As Charles Gide, argues, “He [Courcelle-Seneuil] was virtually the pontifex maximus of the classical school; the holy doctrines were entrusted to him and it was his vocation to denounce and exterminate the heretics. During many years he fulfilled this mission through book reviews in the *Journal des économistes* with priestly dignity. Argus-eyed, he knew how to detect the slightest deviations from the liberal school” (quoted by Hirschman 1987, 707).
Concerned as it is with the elusive and highly technical subject of money, the problem has not only been fraught with controversy but has lent itself to the recurring hope that somewhere there might be an ‘expert’ who, like the specialist in a rare disease, will know just the right prescription or perform just the right operation. For this reason the foreign expert and mission play an important part in the history of inflation in Chile. (1963, 162-63)

Dealing with these problems requires a precise identification of the causes of the economic malaises, and of those who are responsible for their coming about. Who is to blame for the inflationary problems in Chile? Going back in history, Hirschman re-evaluates the conventional view regarding Courcelle-Seneuil’s nefarious influence on Chilean economic policy, noting that he “was able to translate his ideas into reality by drafting a series of basic laws in the fields of money, banking, tariffs and financial administration. Furthermore, as the University of Chile’s first professor of economics, he instilled apostolic zeal on his students” (id, 165), and yet, instead of commending him one would have to sympathize with him:

Poor Courcelle-Seneuil! His one-man technical assistance mission could hardly have been more successful, according to ordinary standards of performance. His advice was punctiliously followed, the laws he drafted were passed, his bust stands in the University of Chile and his influence as a teacher and publicist came to be widely felt. But just because of that, virtually every serious ill subsequently experienced by the Chilean economy, from inflation to monoexportation, has been traced to him (id, 166).

Hirschman, however, does not seem to feel comfortable with these claims and proceeds to (at least implicitly) vindicate the French economist. In a sense, this is related to his notion of “fracasomanía” (1963, 240); that is, the claim that Latin Americans have a tendency (a “mania”) to viewing their public efforts as ending in failure. The related idea of “self-incrimination”, from his earlier work on “Ideologies of Economic Development in Latin America” (Hirschman, 1961, 1971), also highlights Hirschman’s interest in the history of ideas, which he would never really abandon. Meldolesi (1995, 96) associates this idea to the modern concept of cognitive dissonance, but this has to address the problem of why experts are viewed as scapegoats and subject of blame when things go wrong (Hirschman, 1971, 268). At any rate, it is interesting to note that Hirschman also accuses Courcelle-
Seneuil for being overambitious. For example, as a conclusion to his discussion of the 1860 (free-) banking law, he raises the important point that whatever the consequences of this legislation:

Here, then, is a characteristic foible of the foreign adviser: usually he is accused of wanting to do over the country he advises in the image of his own; but in reality he often aims far higher and attempts to endow it with those ideal institutions which he has been unable to persuade his own countrymen to adopt. (Hirschman 1963, 168)

As he moves forward through Chilean economic history, Hirschman focuses next on the Kemmerer mission to Chile in 1925. Here Hirschman writes: “[i]t all reads like a fairy tale: the metallic standard ... was brought back to life by the magic touch of Professor Kemmerer, renowned money doctor, in what was perhaps the crowning achievement of his remarkable career” (1963, 175). Of course, the story is not quite like that, as we will see in a moment.

**The ‘Money Doctor’ in Chile**

Edwin Walter Kemmerer was the original “money doctor”, and very self-consciously so as is evident from his unpublished memories, entitled “The Autobiography of a Money Doctor” (Kemmerer, n.d.); as such, he visited several countries in Latin America and elsewhere (also, see Drake, 1989; Eichengreen, 1994; Kemmerer, 1993). Indeed, Kemmerer was involved in public activities and in offering economic and financial advice to foreign governments since early on in his career, before his appointment as Professor of Economics at Princeton University. As a man of the progressive era (Kemmerer, 1913; Gómez Betancourt, 2009), he was motivated by his confidence in progress through economic science, preaching an important gospel, in his case, based on his confidence in gold as a monetary standard, a central bank, and the working of the quantity theory of money (Kemmerer, 1916, 1916a, 1944). His views in this sense have even been labeled “moralistic” (Dalgaard, 1982, 42), and clearly point to the crusade Kemmerer felt he was embarking upon.

In the U.S. the progressive era unleashed a spirit of reform in the country. In the economic sphere, while generally orthodox on monetary issues, this era was strongly reformist in many other dimensions (Dorfman, 1949). Internationally, on the other hand,

\[18\] *New York Times*, December 6, 1925.
the establishment of the Federal Reserve System in 1913 was viewed as a paradigm in terms of institutional design. The Brussels International Financial Conference of 1920, called by the League of Nations also recommended the establishment of central banks throughout the world (Eichengreen, 1994). In all, the new economic environment after World War 1, with the ascendancy of the U.S., involved important commercial and geopolitical considerations (Drake, 1989; Rosenberg 1985). This extension of America’s international influence was accompanied by the work of economic experts that took part in different economic missions (Kemmerer, 1927; Rosenberg and Rosenberg, 1987). In general, these were tied, at least informally, to a desire to obtain closer financial links with the U.S. through what essentially represented a process of market signaling (Eichengreen, 1994). Thus, Kemmerer offered some quite straightforward explanations as to why American financial advisers were preferred. The arguments he offered in this respect were: (i) The belief that the United States was not aiming at international “political aggrandizement”; (ii) the remarkable economic progress and prosperity in the United States in recent years; and (iii) the desire on the part of the foreign government to “attract American capital” (Kemmerer, 1927, 4).19

Kemmerer’s activities as an expert were propelled by his work in Colombia (in 1923, and later, returning in 1930), where he was involved the establishment of a central bank and a general banking law. Later he worked in Chile (1925, returning informally in 1927), Poland (1926), Ecuador (1926-27), Bolivia (1927), China (1929) and Perú (1931). He was also member of the Dawes Commission in Europe, and was part of the Kemmerer-Vissering Gold Standard Inquiry Commission for the Union of South Africa (in 1924-25), and the Hines-Kemmerer Commission to Turkey (in 1934).

In Chile, Kemmerer was hired in the context of a very unstable social and political situation in the mid-1920s (Couyoumdjian, 2011b). The problem of unstable currency, dating from the late 19th century, had led to several proposals for monetary reform throughout the years, but nothing had come out of this (Fetter, 1931; especially chapters 8-10). The Chilean government had first thought of hiring the “money doctor” in 1923, as he was finishing his work in Colombia. That was not to be for internal political reasons which eventually ended with the temporary resignation of President Arturo Alessandri, and the appointment of a military junta. The final negotiations for hiring a Kemmerer Mission took place while Chile was governed by the military, although when the Mission

19 Although one should also note not all the active economic experts were in fact American: in the case of Brazil, the experts hired by the government were European: Edwin Montagu (in 1923-24) and Otto Niemeyer (in 1931).
arrived, in July of 1925, Alessandri was back in government. At any rate, during this period the government was ruling under powers of exception, and all the legislation presented by the Kemmerer Mission were approved with no legislative discussion. This was a true window of opportunity for institutional reform in a direction that was very clear once Kemmerer was hired: at the very least there would be a Central Bank, a new Banking Law, and a return to a monetary system based on a gold standard.

In Chile there were great expectations on the arrival of the Mission, as can be gathered from the contemporary press. In his diary Kemmerer offers us his viewpoint in this sense: “People /are/ expecting great things of us. /I/ am overawed by sense of responsibility”; “Was greeted everywhere in streets … by crowds and expressions of appreciation, good-will & promised support.”

At the same time, and crucially given the political context in the country, the military offered strong support to the mission: “Pueden ustedes publicar que la espontánea presencia de toda la oficialidad de Santiago aquí, da para manifestarle a Mr. Kemmerer que deseamos el cumplimiento de la finalidad de la revolución en cuanto a la fijación de la moneda”. So did the President. And yet, the Mission had also been warned, from one of its local assistants, of the political problems they could face in the country.

The Mission worked hard, and progress was fast. After arriving at the beginning of the month, by late-July Kemmerer had drafted a first version of the Central Bank law, and also had a draft of the general banking law prepared by his team. This is all the more impressive, given that the mission was also holding meetings with many people who wanted to have a say on these issues. This suggests that several important elements of these reforms were already fixed before the Mission arrived. And indeed, these laws were

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20 On Chilean politics during this period see, for example, Collier and Sater (1996).
21 For example, *La Nación*, July 3, 1925; *El Mercurio*, July 3, 1925
22 EWKP, Box 291, folder 6, pp. 183-184. What is more, the Chilean government established the 4th of July as a national holiday in honor of the foreign mission!
24 EWKP, Box 291, folder 6, pp. 184, 189, 199.
25 Egidio Poblete to Kemmerer, August 10, 1925: “If you present to the government a serial (sic) of reports and bills, which shall not be published in the newspapers; it may happen that the Government will only approve as acts only those bills that convenient (sic) to the personal interest and meanings of the politicians that move around the Government.” He thus proposes some specific measures to avoid these problems, while adding that he was aware that his suggestions may probably be unwelcome, as “I am in the same situation of the soldier who started talking about strategy before Napoleon” (EWKP, Box 90, folder 4).
26 EWKP, Box 291, folder 6, pp. 199, 205, 208.
similar to the Colombian (and ultimately to the American) legislation. This, however, was to be expected, and in fact the main elements of the Colombian reforms were published in the Chilean press as the Mission was on its way. But this could lead to some problems. As Walter van Deusen, who had been part of the Kemmerer Mission in Colombia and came to see through the implementation of these institutional reforms in Chile, remarked to Kemmerer, the translation from English and the different usages of Spanish words in different countries, was proving to be problematic. The Money Doctor was dismayed and “humbled” at this news:

> When I think of the great care we took in drafting those projects, the number of times that I checked them and rechecked them in English, the numer (sic) of times and care with which they were read by Jefferson and Fetter in English, the careful reading by Philippi, the reading by all the other members of the Commission and then the care used in the translations which were read critically and corrected at least a half a dozen times, when I think of all this and then see the errors and inconsistencies which you have unearthed, I feel duly humble and very grateful.

Kemmerer to W.M. van Deusen (Quito, Nov. 7, 1926; EWKP, Box 89, folder 2).

None of this means that the Mission was inept or did not study the Chilean reality. Kemmerer and his team were well-prepared and had read extensively from official Chilean government reports, as well as from reports on the Chilean economy prepared by the U.S. Department of Commerce. This points, instead, to one of the problems associated to the “visiting-economist syndrome”, while also highlighting that, as Eichengreen has put it, in general, “the central recommendations of the Kemmerer missions remained remarkably constant over time” (1994, 113-114). In this same vein, one cannot help but noting that the final legislation proposed by the Kemmerer Mission was not very different from what had been proposed in previous national public debates. So what was the point of this Mission? On this issue, Fetter would write that, “In 1925 opinion in Chile was almost unanimous in favor of the stabilization of the currency and the establishment of a central

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27 This was a typical feature of the Kemmerer Missions; on these issues, see Kemmerer (1984), who has also noted the smooth communications the mission maintained with authorities, and the publicity associated to its work.

28 Los Tiempos, June 22, 1925.

29 "I have promised to write you about the experience here and in Colombia with the banking laws... (...) The part most difficult in a matter of this kind is the translation from English to Spanish. It is best if possible to write the law in English and have it re-written in Spanish, rather than have a translation. Another thing to keep in mind is that in the different Spanish speaking countries they use very different words for the same thing. (...) Get a banker there and get him to check the words used and see if they are the words current in Ecuador and Bolivia.” (Santiago, W.M. van Deusen to Kemmerer, August 26, 1926; EWKP, Box 89, folder 2). The list of errors are dealt with in several letters from Van Deusen to Kemmerer.
bank, but no one plan could win general support. It was this state of affairs that led to the appointment in that year of an American financial commission…” (1931, 170). On the other hand, Hirschman writes: “The conclusion is therefore inescapable that the mission served principally as an umpire, or perhaps even as a random device: in other words, it was the means for choosing one out of a number of competing proposals” (1963, 177).

In this sense, the Kemmerer Mission’s main role was political: the “transfer of technology” involved here was actually minimal (Drake 1989, 95). This is, indeed, consistent with the view expressed many years later by former President Alessandri, who dismissed the mission’s original contributions (quoted by Hirschman, 1963, pp. 177-178). The same could be said of the later Klein-Saks Mission, although the political conditions were quite different in both episodes.

Hirschman claims that even though Chile was facing exceptional political circumstances, the hiring of the Kemmerer Mission was still acutely necessary; at the same time, this state of affairs did help its work (1963, 176). This is a strong argument that suggests that even a non-democratic regime faces political constraints.31 This, in turn, gives rise to a paradox: “[American economists] believed their profession a scientific one and wished to keep it separate from the debasing institution of politics. Yet they found their best considered projects either frustrated by political and economic conflict or effected precisely where the political power of government was actually the greatest and more autocratic” (Seidel, 1972, 544).

As Seidel (id., 544-5) remarks, earlier in his career Kemmerer would have been very uncomfortable in this context (Kemmerer, 1916a), but later on he became more pragmatic, and privileged his instructional/reformist role, in a given political setting. As he remarked: “Think of it, no constitution to restrain one’s recommendations and no Congress to mess them up! How American public officials would revel in such a situation (...) It is difficult to imagine a situation more favorable to accomplish something worth while.” (Princeton Alumni Weekly, Vol. XXVI, No. 12, p. 296).

30 Prepared under the direction of Julius Klein, who later became a partner at Klein & Saks: for example, see in EWKP, Box 94.
31 Which is also the argument made, decades later, in the context of the Pinochet regime in Chile, by Robert Barros (2002). Note, in any case, that in his research fiches Hirschman reflected on the fact that advisers experience success “when exec. very strong (Kemmerer) or very weak (Klein-Saks)”; AOHP, Box 68, folder 14.
At the same time, in a speech in the *Academia de Ciencias Económicas de la Universidad Católica* in Santiago, in 1925, he acknowledged that his Mission in Chile did not pretend to have presented anything essentially that was new, adding that:

Muchas de las características fundamentales de nuestras reformas han sido ya propuestas por economistas chilenos. Pero en Chile, como ocurre en otros países, es muy cierto el proverbio de que ‘nadie es profeta en su tierra’, y muchos de los economistas y estadistas de Chile habrán visto aceptadas y promulgadas en las leyes que hemos presentado al Gobierno, las mismas ideas que habrían sido rechazadas cuando fueron propuestas por ellos.

Un hombre de fuera, y que por tanto se halla libre de vínculos de familia y de intereses de circulo, y libre asimismo de prejuicios en contra suya, muchas veces puede obtener que se acepten sus recomendaciones, cuando las mismas recomendaciones, presentadas hasta con las mismas palabras por hombres del país, llevarian camino de ser rechazadas.” (reprinted in *El Diario Ilustrado*, October 6, 1925)

This is a point Kemmerer also made in his Presidential address to the American Economic Association. Here he also used a medical doctor analogy, distinguishing between the “general practitioner type” of advisor, who diagnoses, prescribes medicine, and then takes care of the “patient”, and the “diagnostician or consultant type” which “merely diagnoses the difficulties, prescribes remedies, and then goes away, either leaving to the nationals of the country itself the full responsibility of administering the treatment, or perhaps recommending the appointment of advisers of the general practitioner type to help carry out the treatment recommended” (Kemmerer, 1927, 5). This latter is a shorter process (and may also be more lucrative), which highlights the prestige and networks the “doctor” brings with him. This was the practice Kemmerer himself used: generally, the Kemmerer Missions consisted of a mix of academic and practitioner experts on banking, taxation, customs, in addition to the money doctor himself and a Secretary to the Mission, all convened by Kemmerer who would be the President of the Commission. In their visit to Chile, for a three and a half months stay, the Mission was to be paid $30.000, plus

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32 “Then again the foreign economist can view the problems with absolute objectivity. He is disinterested. He has no political ambitions, and is therefore free from local political bias. He probably has no investments or business connections in the country, and he is therefore free from the bias of business interests. As a rule he has no relatives and few if any personal friends in the country whose interests are likely to warp his judgment. He goes abroad a free man without commitments and without local prejudices. It is chiefly for this reason that the public places so much confidence in the foreign economist, not because it believes that he has greater economic knowledge than its own nationals. As a matter of fact, if identically the same advice were given by their own economists it would have nothing like the chance of being adopted that it has when given by foreigners.” (Kemmerer, 1927, 2).
transport and lodging, with $15,000 going to Kemmerer. This seems a quite significant amount, but it may be less significant in the context of the national budget of a developing nation, and even considering the role the Mission was to play in the country.

In all, Kemmerer was very proud of his work. His Chilean mission was reviewed (by himself) in the Princeton Alumni Weekly (Vol. XXVI, No. 12, December 16, 1925), and in the Journal of Political Economy (1926). Here he highlighted the country’s monetary and fiscal reforms, the latter being a central part of the monetary and financial stabilization efforts. And he would stand by his work till the end: when in the aftermath of the Great Depression Walter van Deusen, from Santiago, was writing that “everything seems to be going bad”, Kemmerer would write back that “unless there are political or psychological factors of a serious character of which I know nothing that would prevent, I should think that the bank should maintain convertibility in gold draft fully and freely without any qualification”. Around this time, he also lamented that in Latin America “The finances of most of the countries are in the hands of alchemists, the medicine men and the wizards.”

In closing

While, as Jeremy Adelman has reminded us, in general “there was no Hirschman theory, no model” (2013, 654), in light of his work on Chile Albert Hirschman may be viewed as a precursor in the modern literature on the problems of foreign visiting advising, which eventually even came to be seen as a new “export product” from advanced countries where economic science first “flourished” (Hirschman, 1987, 707). In this paper we have argued that together with his own experience in Latin America, Chile was a learning ground for Hirschman’s work on the political economy of foreign advisors.

Nowadays, of course, the recognition that foreign economic advisors act in a political setting is more or less conventional (Drake, 1994; Schneider, 2008). And there has been important work in development economists on these issues; some more recent (Easterly, 33

33 Who had just received a raise in his salary from Princeton University, to $7,000, EWKP, Box 90, folder 6. On the terms of the contract, see EWKP, Box 38, folder 8. In addition these missions also included Kemmerer’s private secretary. Kemmerer also had a long-term arrangement with the financial firm Dillon Read & Co., which, however, would be suspended once he was hired by a foreign country (EWKP, Box 38, folder 8).
34 W.M. van Deusen to Kemmerer, January 16, 1931; Kemmerer to W.M. van Deusen, August 17, 1931; EWKP, Box 90, folder 6.
35 Kemmerer to Philip Wernette, May 4, 1932, EWKP, Box 45, folder 3.
36 His insights even seem to be consistent with the work by Angner (2006) on overconfident economists as experts.
2014), other older (Bauer, 1972). Like Hirschman and Kemmerer, some experts working in the field have also reflected on their experiences of the problem of international economic advising, even offering some practical advice in this sense: the work by Lauchlin Currie (1981), who coincided with Hirschman in Colombia, is a prominent example. Dudley Seers has likewise pointed out many important issues in this sense (Seers, 1962). Seers not only noted the fragility of the political context within which experts act, and the fact that in this environment experts are prone to make policy and political mistakes, but also the intrinsic limitations of short-term visits, and the “personal deficiencies” by experts, scathingly commenting that “those available for posts in underdeveloped countries are often people who have not succeeded in finding satisfactory niches at home” (1963, 327).

During the tenure in the country of the Klein-Saks Mission, a Chilean periodical remarked that the country had a significant experience with these types of missions, and that they all ended up proposing the same thing, namely, “economizing” on public resources. In this sense, it suggested instead that a good starting point would be to “terminate the imports of foreign advisors” (Topaze 1174, April 15, 1955). Kemmerer would probably have claimed that this argument would fail on at least two grounds: there would be no possibility of signaling the seriousness of public policy to foreign financiers, and there would be no one to assume the foreign mission’s political role as an impartial expert. The medical analogy he felt so comfortable with is once more relevant here; but note that in this context the money doctor is actually a doctor concerned with public health issues, as opposed to being a private practitioner. The activities of a money doctor involve significant externalities. Kemmerer, the progressive economist, presumed that all money doctors knew the correct remedies to the problems they encountered (as well as performed the correct diagnoses), and were adequately motivated.

Hirschman would agree, and forcefully so, on only part of this second point: he was obsessed with the role of politics in policy-making. The issue he most strongly stressed

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37 On the differences between Hirschman and Currie in their work as experts for the World Bank in Colombia, see Sandilands (2015). Soon after this episode, Hirschman started to work as an independent consultant in Colombia (Adelman, 2010).

38 Somewhat differently, and focusing on the Klein-Saks Mission, Aníbal Pinto noted that: “Los señores Klein-Saks son “empresarios” que cobran la parte del león por juntar los expertos que pueden pillar a mano y disponibles y que, lógicamente, por lo general no figuran entre los más sobresalientes. (…) Un símbolo de lo que era intelectualmente la Misión, fue el simpático, jovial y enérgico Prescott Carter [who was a former official at the National City Bank of New York], un distinguido “hombre práctico”, que en substancia no tenía la menor idea de los problemas centrales que tenía en sus manos y que sólo podría aportar una maraña conmovedora de prejuicios, lugares comunes e ingenuidades.” (Panorama Económico No. 192, July 4, 1958)
was the opportunity for learning about policy-making under a democracy. This process was to be curtailed by a foreign advisor, who would in effect impose an external solution to the existing social problems (Hirschman 1963, 209). But, returning to the specific problem at hand, Hirschman would also note that the cures for inflation are, in general, a contested issue: his discussion of the importance of the distributive consequences of inflation, and his evaluation of structuralism and cost-push theories of inflation in the context of the Chilean experience in the 1950s and 1960s point precisely to this issue (1963, 195-199, 210-220; also see the essays by Roberto Campos, David Felix and Joseph Grunwald, in Hirschman 1961). These are problems that were openly debated in academia during these years (Bronfenbrenner and Holzman, 1963). In the Latin American context, in this same year 1963, there had been an influential meeting in Brazil to discuss the causes of inflation, and the best ways to tackle inflationary outbreaks, which likewise revealed significant theoretical disagreements (Seers, 1963). While this discussion seems to be contingent on the topic of inflation, the point is relevant in a broader scale. The lesson is that there is no such thing as truly independent experts.

Remarking on Kemmerer’s activities in Colombia, Hirschman conjectured that the Princeton professor “was impelled by ideology”, and that his proposals ended up being “more royalist than king”. But this may have had more to do with Hirschman’s reference group; in his own words: “It is enough to read Galbraith’s recollections of his first teaching job in Princeton to realize that P– economics dept. was a rather special place”. But while Kemmerer was indeed fixated with monetary stability, there was much more to his views of society; as he himself wrote: “I am convinced that the biggest problems, the most fundamental ones, the most impelling ones, now confronting us as a people are the problems of social and industrial justice” (Kemmerer, 1913, 1). And yet, as his views on money did not change, even though after the Great Depression the mainstream of economic theory was transformed, he became increasingly marginalized (Dalgaard, 1982).

Two “progressive” economists thus have somewhat different views on the problem of expertise. Even though in the late 1970s, as was discussing a paper by Paul Drake on Kemmerer, Hirschman described himself as a “descendent of Kemmerer”41, we must return to the fact that Hirschman undertook a task that Kemmerer did not: to reflect

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39 Indeed, learning arguments appear in several parts of Hirschman’s opus; on this see Schön (1994). The role of tacit knowledge, on the other hand, is well grasped by Aníbal Pinto, in Panorama Económico No. 139, February 28, 1956.
40 AOHP, Box 8, folder 5, p. 2.
more deeply on the problem of development and expertise, looking back at the work undertaken by other experts. But these differences may also reflect their political and research interests. Hirschman’s history is that of a progressive intellectual, and in Adelman’s biography, the 1960s and 1970s represent a point of full self-awareness in this sense on his part (Adelman, 2013, chapter 15).

Furthermore, he would add the obscure remark that: “I understand better now some of my own perplexities: econ. should be on tap → Comuníquese, publiquese (sic), cúmplase.” AOHP, Box 80, folder 5.
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