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Rapetti, Martin

Centro de Estudios de Estado y Sociedad

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***Al maestro con cariño:***  
**An Assessment of Roberto Frenkel's Contributions to Economics<sup>1</sup>**

Martín Rapetti  
CEDES, UBA, CONICET

Most economists have come across Keynes' (1924) obituary of Alfred Marshall. The article is famous due to a short passage in which Keynes characterizes a *master-economist*:

*"The study of economics does not seem to require any specialized gifts of an unusually high order ... Yet good, or even competent, economists are the rarest of birds. An easy subject, at which very few excel! The paradox finds its explanation, perhaps, in that the master-economist must possess a rare combination of gifts. He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician"* (pp. 321-322).

Keynes certainly had very high standards. The intersection of all these attributes is very likely an empty set; indeed Keynes himself admitted that not even his mentor could fulfill these requirements: "Much, but not all, of this ideal many-sidedness Marshall possessed."

Similar to Keynes' characterization, Lance Taylor (1988) set the bar at a more reachable level: "Ideally one ought to be able to teach macroeconomics at the university in the morning, advise the Minister on how to apply macroeconomics in the afternoon, and write scholarly papers on macroeconomics at night; all the while practicing the same craft". The sentence ends with a footnote that says: "A thought due to Roberto Frenkel".

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<sup>1</sup> This brief note was prepared for a special session in honor of Roberto Frenkel by the Brazilian Association of Keynesian Economics at the FGV/EESP, São Paulo, in September 1-3, 2016. It draws on the preface of a book that I co-edited with Mario Damill and Guillermo Rozenwurcel; Damill, Rapetti and Rozenwurcell (2016).

I believe that Lance's is a neat characterization of Roberto. He has managed to masterfully blend a rare combination of attributes making him an outstanding economist. Nelson Marconi, President of the *Associação Keynesiana Brasileira*, asked me to write a few lines about Roberto's contributions. In doing so, I will present my views of the three key aspects that Lance highlighted about Roberto.

Let me start by his work "in the morning". As a professor, Roberto has been charismatic and thought provoking; probably not the most patient and soft mannered, but always willing to help and promote his students. His influence as a mentor, however, has been mostly outside the classroom, in his office at *Centro de Estudios de Estado y Sociedad* (CEDES), where he has guided several dozens of students.

I once heard that there is a "CEDES school of thought". It is surely an exaggeration, but I believe there is something at CEDES that has permeated the way of thinking of those of us who have given our first professional steps there. If there is something educational at CEDES, I'm sure it is to a great extent due to Roberto. He and his colleagues (and former students) Mario Damill, José María Fanelli and Guillermo Rozenwurcel introduced several of us into an amazing world of macroeconomic theory that blends the contributions of Keynes and Keynesians like Hicks, Tobin, Minsky, Kaldor, Leijonhufvud and Okun with those of Latin American Structuralists. A house special at CEDES —Roberto being its master chef— has been the comparative study of macroeconomic policies in Latin America. We, the "CEDES boys", had to go through the studies and contributions of several "local" economists like Andrés Solimano, Ricardo Ffrench-Davis, Manuel Agosín, Patricio Meller, José Antonio Ocampo, Oscar Dancourt, Jaime Ros, Edmar Bacha and Luiz Carlos Bresser Pereira, among others. The combined study of macroeconomic theory and specific episodes and policies definitely shaped our analytical approach.

Let me quickly move to his work as an economic adviser. In 1985, Roberto joined Raúl Alfonsín's government as Undersecretary Advisor at the Ministry of Finance to work as the head of economic advisors of Minister Juan Sourrouille. This was the first democratic government after the bloody military dictatorship that ruled Argentina between 1976 and 1983. It is not an exaggeration to say that Sourrouille's was something like a dream team of economists. Besides Sourrouille and Roberto, the team included other talented economists like Adolfo Canitrot, Mario Broderhson, José Luis Machinea, Daniel Heymann, Pablo Gerchunoff and (at that time) the youngsters Ricardo Carciofi and Oscar Cetrángolo. As if there were not enough *intelligentsia*

within this group, they also made room for the distinguished sociologist Juan Carlos Torre. The team launched in mid 1985 the Austral Plan; an innovative desinflation program like the Cruzado Plan that combined both orthodox and heterodox elements. The Austral Plan was successful to stop inflation only temporarily. By mid 1987, inflation returned to double-digit monthly rates. The Sourrouille team tried again with the Primavera Plan in 1988 but failed. Roberto and his colleagues remained in their position until early 1989, when Sourrouille resigned.

It is now time to talk about the most significant part of Roberto's work: his research. The focus of his work has always been to better understand the problems that constrained economic development in Argentina and other Latin American countries and to offer policy suggestions to overcome them. His main contributions can be grouped in three areas; Roberto's "three home runs", as Lance Taylor put it in a conference celebrating Frenkel's work held at the University of Buenos Aires in 2012.

The first "home run" was in the area of pricing and inflation theory, for which I think he is most known in Brazil. Roberto —together with several prominent Brazilian economists like Edmar Bacha, Persio Arida, Francisco Lopes and André Lara Resende from the PUC in Rio de Janeiro and Luiz Carlos Bresser Pereira and Yoshiaki Nakano from FGV in Sao Paulo— helped developed the theory of inertial inflation. As many theories of inflation, this one suggests that inflation is rooted in conflicting claims over national income. However, a distinctive feature of this theory is its focus on one key aspect of high-inflation economies: the existence of formal or informal indexation, especially in the labor market. Under contract indexation, any temporary supply or demand shock that increase the rate of inflation in the short run —e.g., an exchange rate devaluation— may lead to a permanent acceleration of inflation, as workers try to adjust nominal wages to recover the peak of their real wages. When contract indexation becomes widespread, inflation turns inertial and disinflation becomes virtually impossible without the elimination of (implicit or explicit) indexation practices. Roberto's most important contributions to this literature are: Frenkel (1979), Frenkel (1984), Frenkel (1986) and Frenkel (1989).

Frenkel's second "home run" was in the field of finance. Motivated by the financial liberalization policies of the military government in the late 1970s, Roberto developed a Tobin-like portfolio model of the capital account of the balance of payments (Frenkel, 1983). The model was designed to examine the portfolio choices of economic agents in a small and financially opened economy, with a fixed exchange rate, where arbitrage between the domestic and external financial markets operates freely. Employing this

portfolio model, he examined key aspects of the price stabilization programs that combined an exchange rate anchor with trade and financial liberalization, like those being applied in Argentina, Chile, and Uruguay at that time. In doing so, he also reviewed and criticized the monetary approach to the balance of payments (MABP), a conception that cemented the theoretical foundations of these liberalization policy experiences. A novelty of Roberto's approach was that the exchange rate risk premium that the domestic asset pays is endogenous to the evolution of the current account: the larger the current account deficit, the larger the risk premium. This kind of behavior is in sharp contrast with the MABP assumption of a constant risk premium. Frenkel assumption is central because it creates the possibility of an open-economy *Minsky moment*, in the sense that capital flows can lead to an endogenous boom-bust cycle. The paper was very influential as an explanation for the Southern Cone —Argentina, Chile and Uruguay— crises in the early 1980s. Moreover, as John Williamson (1983) observed, the first draft of Roberto's model was even useful for prediction because it "*predated, if not by much, the great Argentine crisis of 1981*" (p. 197). Interestingly, Roberto had the "fortune" that the patterns that he observed in the Southern Cone crises reemerged later on in other crisis episodes in the world. Lance Taylor and the British economist John Eatwell used Roberto's model to interpret the Asian and Latin American crises of the 1990s and labeled the boom-bust dynamic as "Frenkel-Neftci cycle" (Eatwell and Taylor, 2001).<sup>2</sup> A decade later, the Italian economist Alberto Bagnai (2013) applied the *ciclo di Frenkel* to explain the Southern Europe crises of the late 2000s.

His third "home run" was on the area of macroeconomic policy for employment and development. Roberto learnt the hard way the negative effects of real exchange rate (RER) overvaluation on employment and development. The disinflation programs of the late 1970s and early 1990s —both based on nominal exchange rate anchoring, trade liberalization and opening of the capital account of the balance of payments— led to RER overvaluation and deindustrialization. In the 1990s, because RER overvaluation lasted long, the deindustrialization also caused a significant contraction of manufacturing employment. He also learnt from similar experiences in Brazil and Mexico during the 1990s. Thus, when the Argentine crisis of 2001-02 freed the economy from its currency board, Roberto began to defend the idea that the government should aim to target a stable and competitive real exchange rate (SCRER) for employment and development. In a series of articles he argued about the benefits of such a policy (Frenkel 2004a and 2004b). These papers were the basis for later collaborative work with his friends Jaime Ros (Frenkel and Ros, 2006) and Lance Taylor (Frenkel and Taylor, 2006). It is worth noting that around the same time other scholars also started

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<sup>2</sup> The second name is due to the late finance professor Salih Nefci.

to argue about the benefits of a SCRER for economic development. Dani Rodrik is probably the most well known example within international academic circles and Luiz Carlos Bresser Pereira, the leading voice in Brazil. I would argue that there is now a large group of economists and researchers —that in Brazil are known as New Developmentalists—supporting with evidence and solid arguments the importance of a SCRER strategy for development.

I am very happy that the *Associação Keynesiana Brasileira* has decided to honor Roberto. Of course, part of my happiness is personal because he has been my mentor, colleague and close friend, but mostly because of the meaning of this recognition. The fact that an academic association in a country like Brazil, with so many distinguished economists decides to honor an *Argentine* economist is, in my view, the clearest evidence that his contributions have been relevant, profound and highly influential.

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