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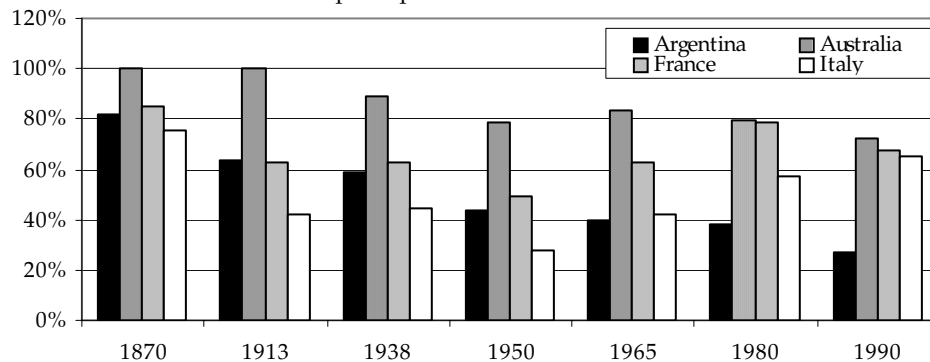
INGRID VOGEL

The Argentine Paradox: Economic Growth and the Populist Tradition

"A born leader of men, [Perón] had all the qualities needed to appeal to the masses—good looks, personal charm, eloquence, power of oratory, an extraordinary understanding of mass psychology and, what is rare in a dictator, a sense of humor. He created in Argentina a movement that bore his name, whose strength lay in the urbanized working class, which remains the strongest political force in the country."¹

Argentina, endowed with abundant natural resources including oil and a vast area of productive agricultural land, appeared to be on its way to becoming a major world economic power through the first half of the 20th century. In 1890, it ranked sixth worldwide in per capita income and was the tenth largest trading nation. Argentina maintained an average annual inflation rate of only 1.5% for 50 years after 1890, during the days of the global gold standard. Low inflation accompanied a healthy growth rate; from 1900 to 1930, Argentina's economy grew at an average annual rate of 4%, more rapidly than the United States, Australia, or Canada. Attracted by the country's favorable prospects, almost three million European immigrants arrived from 1900 through 1920.² They were amply rewarded when Argentina survived both the Great Depression and World War II in better shape than many European countries. In 1950, Argentine per capita income was on a par with continental European nations, as it had been throughout the first half of the 20th century (see **Table 1**).

Table 1 GDP per Capita for Selected Countries as Percent of U.S.



Sources: Adapted from Balze, 1995 and OECD, 1997

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In 1946, Colonel Juan Domingo Perón became president of Argentina. He would dominate the political and economic evolution of the country until his death in 1974. Perón introduced significant labor reform and undertook considerable social investment. Between 1943 and 1948, his policies led to a 25% increase in the country's GDP. Over the same period, workers received wage increases of up to 37%.³ But in the following decades, against a backdrop of substantial improvements in social indicators such as literacy and schooling rates, Argentina's macroeconomic performance deteriorated, culminating in a serious economic crisis in 1989 (see **Exhibits 1 and 11**).

The same year, Carlos Saúl Menem was elected president on a platform that included a massive wage hike and reclaiming the Falkland-Malvinas Islands through war. Initially, the flamboyant politician was unable to control Argentina's spiraling problems, including hyperinflation, stagflation, and mounting foreign debt. But observers knew that endemic economic hardship had not always been Argentina's fate. Instead, Argentina's political and economic misfortunes during the second half of the 20th century had long been considered an enigma. How did a country enjoying natural advantages and experiencing such promising beginnings encounter so many difficulties in fulfilling its great economic potential?

Historical Background

Argentina gained its independence in 1816 when the bourgeoisie of Buenos Aires freed itself from the onerous duties and taxes imposed by a feeble Spanish vice-royal administration. The Argentine union, however, took several decades to consolidate, as internal struggles among member provinces emerged. The provinces were ruled by warlords, known as *caudillos*, who resisted the hegemonic ambitions of Buenos Aires. In 1860, liberal elements from Buenos Aires established a federal republic under a common constitution. But Argentina was still an under-populated and oligarchic rural economy. The ruling conservative alliance, comprised of the Argentine "elite," set out to expand the agro-export economy, lure foreign capital to Argentina, and people the country by attracting immigrants. Increasing exports of wool and leather, and later, grain and meat fueled a wave of foreign, largely British, direct investment in railroads, meat packinghouses, and utilities. A massive influx of immigrants, mostly from Italy, Spain, and Eastern Europe, followed. In this period, economic growth matched and even exceeded demographic expansion, so that by the 1890s, Argentina had the sixth highest income per capita in the world.⁴

Land, the prized asset in the mainstream economy, was not openly distributed to the arriving immigrants. They remained in their arrival cities, principally Buenos Aires, confined to work as employees in light industry or as tradesmen. Even for their descendents, the right to vote was restricted. Deprived of what they saw as their economic and political entitlement, many immigrants joined ranks around labor organizers inspired by anarchist movements. In time, together with the local middle class, they formed the Radical party. Its initial focus was to broaden political representation. After a period of campaigning, electoral law reform eventually provided for universal and mandatory male suffrage and secret ballots. Under the new and more inclusive system, the Radicals beat the ruling Conservative Party in the 1916 election to take power. Under the Radical's democratic rule, from 1919 to 1929 Argentina's economy grew at an annual rate approaching 6% (see **Exhibit 4**).⁵

Strong economic growth emerged in spite of the constraints imposed by Argentina's export dependent economy. A succession of external shocks had exposed the risks of an economy so heavily dependent on trade. Argentina imported 60% of its industrial goods and almost all intermediate

goods and capital equipment.⁶ At the same time, it relied on revenues generated from exports of its agricultural products, mostly meat, wool, leather, cereals, and flax. Following World War I, many Western countries adopted protectionist measures, decreasing capital inflows to Argentina and reducing its exports (see **Exhibit 5**). As a result of its adherence to the gold standard,⁷ pressure on the balance of payments followed. Imports fell even more dramatically, providing a stimulus to the domestic textile, chemical, and metal industries.⁸ When, in 1929, Argentina abandoned the gold standard altogether, the peso depreciated rapidly and the price of imports increased, providing protection to the newly emerging Argentine manufacturing companies, but also pushing the country precariously close to defaulting on its debt.

Coalition Rule (1930-1943)

In 1930, the conservative “elites” were restored to power under the first of what, over the decades, would be a long series of military interventions. The 1930s brought developments with important long-term consequences. First, the appeal of nationalism spread from the exclusive domain of Conservatives to the middle and working classes. Second, competing nationalist and conservative factions emerged within the army. Third, a system was instituted whereby a coalition front remained in power through fraudulent elections.^a

More significantly, the agro-export model was adjusted to allow for an industrial policy emphasizing more active import-substitution.⁹ Initially, domestic industry received only limited support from the government: import duties were increased; a system of multiple exchange rates established prices more favorable to industrial than agricultural activities; and a public works program was initiated. The resulting industrial growth led to the migration of rural workers to urban centers. By implication, the composition of labor organizations and of the working class itself was drastically altered. Industrial labor demand increased drastically. Yet real wages remained stagnant, and concessions were made to foreign trading partners, principally Britain, at the expense of emerging local industrial interests.¹⁰ By the end of the decade, workers felt disenfranchised and soon became idle political capital ready for the taking.¹¹ Years of fraudulent elections since 1930 had eroded the elected government’s legitimacy, and the army, which included an ambitious young colonel named Perón, took over the Conservative government in 1943.

The Rise of Juan Domingo Perón

Historians have struggled to define Perón’s ideology. He was no friend of the United States, but was often perceived to be perhaps the most reliable long-term safeguard against the spread of Marxism into Argentina. The image he projected was one of *caudillo*-like strength.

Perón’s rise was dramatic. An undistinguished colonel in the ski troops in 1943, he became president less than three years later. Born in 1895, he began his military life at 16 when he left his family’s small farm in Patagonia to enroll in the Military College. After graduating, he was posted to the remote interior where he experienced his first taste of labor unrest and the conditions of the rural poor. In 1926, he was promoted to captain and spent four years as a student at the Superior School of War before lecturing there for six additional years.¹²

^a The coalition, known as the Concordancia and dominated by the “elites,” consisted of Conservatives, dissenting Radicals, and technocrats.

A few months before the outbreak of World War II, Perón was sent to Italy to study mountain warfare. Mussolini and, in particular, some of his policies for reconciling the interests of capital and labor through cooperative planning greatly impressed Perón, who had until then been completely apolitical.^a Upon his return to Buenos Aires in 1942, Perón helped establish the GOU (*Grupo de Oficiales Unidos*), a military group concerned with exploring possible post-war policies. The new president of Argentina, installed by the 1943 military coup, named Perón to the hitherto harmless post of secretary of labor and social welfare. Feeling threatened by Perón's growing popularity, he attempted to suppress his activism and oust his supporters in government. Perón thwarted those efforts and eventually forced the president's resignation in 1944.¹³

In the same year, Perón met the radio performer Eva Duarte, better known as the legendary Evita, who would become his second wife and most devoted political supporter. Perón claimed to have selected and trained Evita carefully to take in his ideas and "create in them a second I." He especially encouraged Evita's focus on the poor or "*descamizados*" (shirtless). Her charitable foundation and personal life eventually transformed her into the soul of the Peronist party, earning her the title "Spiritual Chief of the Nation."¹⁴

The sources of Evita's commitment to elevating the conditions of Argentina's poor and working class could be found in her personal background. Evita was an illegitimate child who grew up in relative poverty in the pampas, 150 miles from the capital. She longed for the life she saw portrayed in Hollywood films, and, at age 15, left her mother and four siblings to become an actress in Buenos Aires. Her ambition landed her roles first in radio, and later in theatre and film. In 1943, when the military came into power, she worked with the new regime to produce pro-military radio programs. At 23 years old, she was already one of the most highly paid radio performers in the country. After marrying Perón, Evita indulged even more in her passion for designer clothes and expensive jewelry. If anything, this brought her closer to Argentina's poor, who saw in her, perhaps, a symbol of upward mobility.^b

Perón's Pre-Presidential Policies (1943-1946)

Perón's springboard to the presidency was his performance as secretary of labor and social welfare. From that post he enacted a comprehensive set of pro-labor laws that included the introduction of labor courts with exclusive jurisdiction over labor conflicts; a scheme to establish and periodically adjust minimum wages, often leading to increases in real terms; yearly paid vacations; retirement and health insurance benefits; and an annual mandatory bonus equal to an additional month's salary.¹⁵ He also instituted the Agricultural Worker Statute (*Estatuto del Peon*) in late 1944. This statute outlined the specific rights and obligations of both worker and employer in the rural context and was perceived as a defiance of the landed elite. By the time Perón was forced to step down as Secretary, Argentina had advanced from a laggard to a world leader in labor legislation.¹⁶

Simultaneously, Perón took advantage of his position to promote labor activism. Mimicking the approach he had seen Mussolini adopt in Italy, Perón increased union membership and essentially took over the labor movement. In 1945, he enacted the Law on Professional Associations, which gave his Labor Secretariat veto power on the formation of new unions.¹⁷ Between 1946 and 1950, union membership increased from 880,000 to 2 million. By 1954, more than 2.5 million workers belonged to

^a Mussolini implemented neo-corporatist policies under his strict authoritarian rule. He co-opted trade unions and employers' associations (together with representative groups for agriculture and the professions) into government sponsored programs and policy discussions, while at the same time outlawing independent trade unions.

^b She died from cancer at age 33 in 1952 after having renounced the offer of the vice-presidency in a spectacular rally.

unions, representing 42.5% of all workers.¹⁸ In just two years, Perón became vice-president, minister of defense and, through the labor movement, had assumed a power base of his own.

Next, a series of political developments played into Perón's hands, helping to propel him into the presidency. Chief among these was the arrival of Spruille Braden as U.S. ambassador, a stereotypical figure that the liberal elite loved and that Argentine nationalists, irrespective of their class, hated. His high profile and aggressive approach helped polarize the political landscape in ways never foreseen by the traditional political class. Perón had distanced himself successfully from the losing pro-Axis faction of the army and the increasingly repressive nature of the military regime. Yet he maintained a nationalist discourse that earned him accusations of fascism from traditional quarters while helping him garner popular support.

In 1945, leaders of the conservative faction in the army, still threatened by Perón's growing popularity, forced his resignation and took him under arrest.¹⁹ They called on the Radicals to participate in a transition government, but negotiations led nowhere. The army then turned to the reactionary Supreme Court. Perón's sympathizers suddenly united against a return to the ways of the "patriotic fraud" of the previous decade. The labor unions called for a general strike on October 17, 1945, but the workers instead marched *en masse* to the presidential palace. They would not leave until Perón was brought to address them. Overwhelmed by this show of support, the authorities complied. This occasion marked the birth of mass mobilized politics and of the Peronist labor movement. An election was called. Under the campaign slogan, "Braden or Perón," the charismatic new leader carried 55% of the vote against a coalition of all other parties in the first clean elections since 1928.²⁰

The First Peronist Regime (1946-1955)

Perón rewrote the constitution to provide for his reelection and presided over the country for nine years before he was ousted in 1955.²¹ During this period, he consolidated a power base that relied on a highly disciplined party bureaucracy composed of a virtually unquestioning union apparatus and legislature along with the police and the ultimately ambivalent army.

His political style has been described as populist, paternalistic, even fascist. As much as he relied on his political allies, Perón depended on the existence of various political enemies, whom he repeatedly antagonized to generate popular support in large, highly emotive rallies. These enemies included the landed elite (which he called the "oligarchy"), the liberal wing of the armed forces, the progressive opposition comprised of Radicals and Socialists, and intellectuals and the universities. Perhaps most significantly, the enemy included foreign "imperialistic" powers, against which he advocated a policy of neutrality or "third position;" "*ni yanquis ni marxistas, Peronistas*." In 1947, an isolationist Argentina, believing that both the Bretton Woods Agreement and GATT exclusively favored the interests of the United States and other advanced nations, chose not to participate in the new world economic order based on multilateral trade and finance.

Perón started his presidency with a bold five-year plan. Consistent with his creed of "economic independence," he opted for redistributive measures aimed at expanding the internal market as opposed to stressing traditional exports. During World War II, uncertainty regarding future exports had become a recession that tested the then-ruling coalition of Conservatives, Radicals, and technocrats to its limits. With the combined goals of reducing foreign dependence, raising productivity, improving the distribution of wealth, and broadening the domestic economic base, the government had accelerated its policy of industrialization through import-substitution. Although the landed elite, fearing the diversion of resources to the industrial sector, withdrew its support, industrialization gained a new champion in the army, which pressed for a local, state-led armaments

industry in response to the withdrawal of U.S. military assistance in retaliation for Argentina's neutrality in the war. On March 27, 1945, Argentina formally declared war against Germany and Japan, but never actively participated in the struggle against either country.

In 1943, the policy was showing results, as non-agricultural industrial production exceeded farm production for the first time, and industrial products accounted for 20% of Argentine exports (see **Exhibit 6**).²² Domestic production accounted for over 80% of Argentina's total consumption of manufactured products, versus 60% in the late 1930s and between 40% and 50% during the previous three decades.²³ The military regime created a Secretariat of Industry to centralize industrial policy and a state-owned bank to extend credit and foreign exchange to manufacturers. Nearly 25,000 new industrial enterprises sprang into existence between 1942 and 1946.²⁴

Perón took industrialization even further. Although he set five-year plans, his government often improvised policies to react to short-term economic and political pressures. Such policies included defending existing post-war industries, regardless of their efficiency; subsidizing technologically complex and expensive activities, such as atomic energy; saving some private companies from bankruptcy; and enacting credit policies to favor certain branches of manufacturing.

The policies initially favored the low-income sectors of society. Between 1943 and 1948, real wages for skilled industrial workers rose by 27% and those for unskilled workers by 37%.²⁵ GDP for the same period grew by 25%.²⁶ At the same time, Perón called for price stability, lavish public spending, and full employment (see **Exhibit 7**).²⁷ The national external debt was paid down completely, enabling a "Declaration of Economic Independence."²⁸ Perón also widened the role of the state through purchasing a merchant fleet, developing commercial air transportation, and nationalizing the telephone company (ITT), the docks, and the British-owned railroads.

In contrast, the traditional agricultural sector was neglected. The government used the sector to generate resources to cross-subsidize welfare programs and the heavily protected industries. With diminished incentives, the area under agricultural use shrank and its infrastructure investment lagged.

Between 1949 and 1952, salary increases outpaced productivity gains as lax credit policies continued to expand the money supply. Inflation climbed to annual rates of over 30%, and industrial output and employment eventually suffered (see **Exhibit 8**).²⁹ Perón responded with a drastic austerity plan and brokered an agreement between the union leadership and employers under which wages were frozen for two years.

Despite these harsh measures, Perón's unusual charisma combined with Evita's extravagant acts of charity to the poor endeared the pair to the workers. By the early 1950s, Evita's charitable foundation was estimated to have over \$200 million in assets and 14,000 workers on the payroll. With an objective of satisfying the "basic needs for a better life of the less privileged classes," the foundation distributed items such as shoes and sewing machines and built homes and hospitals.³⁰ During the first six months of 1951 alone, Evita's foundation is alleged to have distributed among the needy 25,000 houses and three million packages containing medicine, furniture, clothes, toys, and bicycles. Evita often interviewed the petitioners herself, dressed in expensive designer clothes. The foundation was funded through "donations" from companies (it was rumored that significant pressure was applied to ensure firms' involvement), as well as a day of annual wages from every Argentine worker.

The Downfall of Perón (1954-1955)

Over the years, Perón's regime turned increasingly totalitarian, controlling growing areas of civil society. The opposition was systematically terrorized, the press censored, independent unions and professional bodies subjugated, and the education system turned over to party propaganda. His enemies, however, remained formidable, and he used them as targets to generate popular support. For example, Perón incited his nationalist supporters to burn down the Jockey Club, a bastion of the elite.

But when, in late 1954, Perón turned against the Catholic Church, a deeply rooted and powerful institution hitherto aloof but tolerant of his rule, disparate opposition factions gathered mass as Perón's own supporters had in October 1945. A divorce law and other provocative anti-clerical legislation were met with peaceful demonstrations against the regime. When an army coup attempt failed, Perón called for retribution, and loyalist labor groups burned churches throughout Buenos Aires.³¹

Perón's remaining supporters turned against him when he reached a controversial agreement with Standard Oil of California in 1955 that allowed exploitation of oil resources in Patagonia. Not only was this considered a blow to their nationalist sentiments, but the army and the populace perceived it as a means of granting military air bases to the United States. In September 1955, army factions from garrisons in the province of Córdoba instigated yet another coup. Navy planes threatened to bomb Perón's recently built oil refineries. His regime was spent. He took flight in a Paraguayan gunboat and left the country, as he would later claim, to prevent a civil war.³²

Ruling against the Ghost of Perón (1955-1973)

From Perón's removal in 1955 until his return in 1973, ten different presidents led Argentina. The first established the "Liberating Revolution" with the twin objectives of obliterating Peronism and liberalizing the economy by embarking on a program of rapid industrialization financed largely by foreign capital.³³ In the ten years following Perón's ouster, the economy recovered, growing at an annual average rate of 4%. But inflation again increased, this time to an average 33% per annum, requiring periodic massive currency devaluations.³⁴ Although smaller than under Perón, large public sector deficits, driven primarily by the inability of the government to collect taxes and by loss-making public enterprises, were to blame. Economic policy changed dramatically under the new regime. Controls on foreign exchange, pricing, and wages were eliminated in favor of reliance on market forces, leading to a major redistribution of income. Urban workers suffered most under the new policy. The poorest 60% of Argentines experienced an average 5% decrease in income; the middle 30% a 2% decline; while the top 10% achieved a 5% increase.³⁵

As real wages dropped 26% in 1959 alone, the Peronist unions felt defrauded and responded with strikes.³⁶ The business sector interpreted the government's concessions as a sign of captivity to labor interests. In 1962, the military stepped in to provide for a transition to new elections. The traditional Radicals won, though by a margin only negligibly larger than the blank votes representing the proscribed Peronists. The unions mounted a hostile campaign of periodic strikes and even conspired tactically with elements of the army itself. Wages had declined from 48.2% of GDP in the second half of Perón's tenure to less than 40% by the early 1960s.³⁷

In 1966, political and economic chaos led the business sector to call for military intervention, and an army coup soon followed. The army's interventionist economic plan initially controlled inflation through price and wage controls, as well as controls on public spending. Politically isolated, the

army tried to co-opt a pragmatic faction of the union leadership under the notion of “Peronism without Perón.”³⁸ This, however, radicalized the opposition. In 1969, a riot in the city of Córdoba left 14 casualties and created a crisis in the military leadership.

In the early 1970s, the military aimed to weaken the power of urban interests in the formation of policy by increasing the malapportionment of Argentina’s already highly unrepresentative legislative branch.³⁹ Sparsely populated peripheral provinces gained political power at the expense of the more populated and productive provinces. The citizens of Buenos Aires and other major areas therefore became even more underrepresented in congress and the senate and had even less say in government.^{a 40}

From his exile in Spain, Perón encouraged the increasingly combative Peronist youth movement, rapidly consolidated under the existing Montoneros urban guerilla organization,⁴¹ which helped press for new elections by 1973.

The Return of Perón and the Collapse of Democracy (1973-1983)

In the 1973 elections, Perón’s favored candidate won with support of both the Montoneros and the more traditional core of union bosses. The former drew new followers through their active and colorful militancy, and soon engaged the latter in a spiral of violence over the control of the party. Only Perón could be expected to restore order. Finally relenting to the demands of his supporters, the military allowed Perón to return to Argentina. But his return itself was an occasion for carnage as veterans of his security detail and the union bureaucracy shot at the Montoneros columns in an airport rally, leaving hundreds dead. A new election was called, which Perón won with his third wife on the ticket and an unprecedented 62% of the vote.⁴²

The economy called for conservative measures, and Perón forged another “social pact” between labor and capital. But adverse external factors, chiefly the oil crisis, made the industrialists and the unions abandon their price and wage freezes. Inflation mounted and so did violence. Perón died only a few months later, and the least savory elements of his entourage took over the government from his unprepared wife. Political assassinations, kidnappings of businessmen, intimidation, and chaos became common as the “dirty war” began. In 1975, one political death took place every 19 hours.⁴³ The economic nadir occurred that June when a drastic stabilization plan devalued the currency by 50%. Inflation spiraled and the public deficit for 1975 reached 16% of GDP (see **Exhibit 9**). By March 1976, annualized inflation reached 3,000%,⁴⁴ and the armed forces took over the government yet again.

The military regime of 1976-83 earned the country an international reputation for endemic human rights’ abuses. But its less famous record of economic mismanagement was no less notorious. Initial measures resulted in a remarkable 40% drop in real wages from the previous five-year average.⁴⁵ The regime blamed the country’s problems on excessive government intervention and taxation of the agricultural sector to support an inefficient industry. Trade and exchange rate liberalization was followed by financial reform. In 1976, following foreign debt renegotiations with the International Monetary Fund (IMF), an oversupply of cheap foreign financing from U.S., European, and Japanese

^a Under a perfectly apportioned system, the votes of all citizens are balanced equally. In contrast, a malapportioned system allows the votes of some citizens to weigh more than the votes of other citizens. Malapportionment persists. Acemoglu, et al. (2002) write that the four provinces of Buenos Aires, Santa Fe, Córdoba, and Mendoza contain 78% of national industrial production and 70% of the total population, but control just 8 of the 48 seats in the senate and 48% of the seats in congress. According to Samuels and Snyder (2001), Argentina ranked as having the 1st most malapportioned upper chamber in the world and 12th most malapportioned lower chamber in the world.

banks glutted with petrodollars greatly eroded the government's ability to restrict domestic credit, and financial speculation displaced productive investment (see **Exhibit 10** for information on Argentina's foreign debt burden).

In 1979, the government shifted to fixing the nominal exchange rate, but various fiscal policies and wage and price controls designed to contain inflation failed. The real exchange rate appreciated rapidly, becoming seriously overvalued. In consequence, imports climbed and local industries were left to fail. Eventually, the situation became unsustainable. In early 1981, capital flight soared, and foreign exchange reserves decreased by more than \$2 billion. Pressure on the currency increased, and the first of a series of devaluations resulted. A cycle soon took root. In the following 18 months, the peso depreciated by 100%, while average monthly inflation reached 20%, industrial activity fell, real wages decreased, investment dropped, and the public deficit reached 20% of GDP.⁴⁶

Further chaos ensued in 1982 when the Argentine military embarked upon a surprise invasion of the Falkland-Malvinas Islands. The U.K. quickly repelled the assault, but foreign investors lost even more confidence in the country and withdrew their funds. As foreign reserves plummeted, the government suspended payments on its external debt. Private foreign debt had soared in local currency terms, with no external sources of refinancing. Large parts of the private sector were on the brink of bankruptcy. The government eventually nationalized the foreign private debt while simultaneously restructuring the domestic private debt. The man behind this plan was the young and energetic president of the Central Bank, Domingo Cavallo. Constant change and growing uncertainty led to the withdrawal of economic agents from the formal market: skilled workers and capital fled the country, and off-the-books employment increased.

The Restoration of Democratic Rule (1983-1989)

In the aftermath of the debt crisis and military defeat in the Falkland-Malvinas Islands, the armed forces called elections in the end of 1982. For the first time, the Radicals won a free election against the Peronists. The new president, Raul Alfonsín, was greeted with euphoria and the expectation that he would restore order to the economy. Perhaps his most noteworthy decision was to prosecute the officers responsible for human rights' violations in the preceding military regime. Resulting military uprisings forced Alfonsín to limit the scope of such prosecutions drastically. With the Peronist opposition in disarray, Alfonsín strove to introduce labor legislation aimed at weakening the unions. But this initiative failed, only emboldening the union leadership. Angered by Alfonsín's anti-union actions and failure to improve severely deteriorating public services, the unions embarked on a course of systematic opposition that was to last throughout the Alfonsín administration and included thirteen general strikes between 1984 and 1989.⁴⁷

The Plan Austral

In June 1985, the government announced the *Plan Austral* (see **Exhibit 12**), named after the new currency it instituted. It comprised comprehensive structural reforms, economic liberalization, and debt renegotiations. Structural reforms included cutting subsidies and deregulating and privatizing state industries. Economic liberalization took the form of a reduction in protectionist policies and comprehensive wage and price freezes to control inflationary expectations. The government also instituted a fixed exchange rate. The plan was initially successful and elicited strong support from the U.S., leading to a refinancing of the foreign debt. By mid-1986, inflation had dropped from annual rates of 650% to 50%, the government deficit had decreased, and positive GDP growth had resumed. The Plan Austral was being hailed worldwide as "the new Argentine Miracle."⁴⁸

In April 1986, in order to combat overvaluation of the currency, the price freeze and fixed exchange rate were abandoned in favor of price guidelines and a crawling-peg, under which the exchange rate would be adjusted periodically to inflation. This formally marked the end of the first phase of the Austral Plan. The government had cut public spending and tackled tax evasion. But it stopped short of successfully implementing the required structural reforms, and tax revenues declined throughout the rest of the Alfonsín administration. In a move that was criticized, the government courted a group of Peronist unions with selective wage increases—an apparent move to recreate Peronism. Inflation took off, and the overvalued currency compromised the trade surpluses required under the IMF stabilization plan. By the third quarter of 1986, the plan began to unravel as retail prices increased beyond levels projected by the price guidelines, and as many of the plan's proposed reforms failed in the face of political opposition and intra-government squabbles.⁴⁹ For example, a plan to privatize the state-owned airline was fiercely opposed by the Peronists and the trade unions. MIT economist Rudiger Dornbusch remarked that Argentina seemed like a country made up of Italian taxpayers and British trade unions.

In February 1987, the “Australito” plan re-imposed wage and price controls. But the *Plan Austral* was not saved. In September 1987, the Radical Party lost the Lower House to the Peronists, signaling the demise of the *Plan Austral*.

New Elections

In August 1988, in an effort to bridge the remaining months before the presidential election, Alfonsín's government devised the “Spring Plan” to contain inflationary expectations by fixing the exchange rate. The plan relied on an agreement with the Industrial Union and the Chamber of Commerce, which rallied against the prospect of a victory by the Peronist candidate, Carlos Saúl Menem.

Menem was calling for, among other things, a recovery of the Falkland-Malvinas Islands by force, a moratorium on the foreign debt, and massive across-the-board salary increases (the *salarioazo*). As the campaign intensified and Menem's lead in the polls grew, expectations of increased pressure on wages led to inflation and a depletion of dollar reserves. When the Central Bank suspended foreign currency operations, the price of the dollar skyrocketed. As the whole country monitored the dollar, all bets on the new plan were off. In May 1989, prices rose by 78%, while the dollar tripled in value against the austral.⁵⁰

With food riots raging in the country's supermarkets, Menem did not need to attack the record of the Radicals as much as stick to the traditional Peronist battle cries over the course of his campaign. For example, he passionately declared: “For the hunger of poor children, for the sadness of rich children, for the young and the old, with the flag of God, which is faith, and the flag of the people, which is the fatherland, for God, I ask you: follow me. I will not let you down.”⁵¹

He carried 47% of the vote in May 1989 (see **Exhibit 13**).⁵² For the first time in Argentine history, a constitutionally elected president handed over power to a member of the opposition. In fact, with prices rising 197% in July alone, the transfer was brought forward by six months to deal with the developing crisis.

Exhibit 1 Argentine General Economic Indicators (1900-1990) (annual average % increase, unless otherwise noted)

	Conservative	Radicals	Coalition	Military/ Peron	Ten Presidents	Peron and 3rd Wife	Military "Dirty War"	Alfonsín	Menem
	1900 - 1915	1916 - 1929	1930 - 1942	1943 - 1955	1956 - 1972	1973 - 1976	1977 - 1982	1983 - 1988	1989 - 1990
Real GDP Growth	5.00	5.00	1.75	3.71	3.85	2.14	0.46	1.16	-3.08
Per Capita Real GDP Growth	1.37	2.30	0.05	1.69	2.26	0.46	-1.08	-0.16	-4.30
Consumer Price Inflation	2.45	2.00	0.46	16.69	30.51	178	147	368	2697
Investment/GDP	24.52	16.13	14.37	16.67	22.70	24.98	26.48	19.96	16.17
M3/GDP	48.09	50.79	52.75	49.96	27.25	28.25	29.68	16.62	7.50
Public Expenditure/GDP	13.14	10.54	17.88	28.83	25.02	27.70	28.98	29.46	23.53
Public Deficit/GDP ^a	2.80	1.35	3.21	8.08	3.72	11.35	12.07	9.29	4.27
Average of exports and imports/GDP	21.57	20.05	13.80	7.51	6.42	6.03	9.06	8.46	9.79

Source: Adapted from IEERL, 1986 and OECD, 1997.

^a Series from 1913-1990.**Exhibit 2** Argentine National Income Accounts (millions constant 1985 U.S. dollars)

	1916	1930	1943	1956	1973	1977	1983	1989 ^a
Gross Domestic Product	19,806	37,802	48,485	79,277	149,797	166,961	166,130	160,034
Household Consumption	16,201	30,296	36,070	58,852	101,971	101,423	110,375	92,652
Government Consumption	1,252	2,036	3,945	7,082	9,479	11,354	15,150	29,423
Investment	1,904	7,984	5,645	13,894	37,598	49,850	35,016	27,200
Private	1,686	7,205	4,562	12,001	30,144	37,101	25,843	na
Public	218	779	1,083	1,894	7,454	12,748	9,173	na
Exports	4,261	4,763	5,205	4,596	9,671	14,672	16,472	20,093
Imports	3,812	7,277	2,380	5,147	8,921	10,338	10,885	9,335
Consumer Goods	1,500	1,846	477	304	278	343	554	347
Intermediate Goods	1,915	4,231	1,817	4,038	6,913	6,926	8,464	7,727
Capital Goods	397	1,200	85	805	1,730	3,069	1,867	1,261

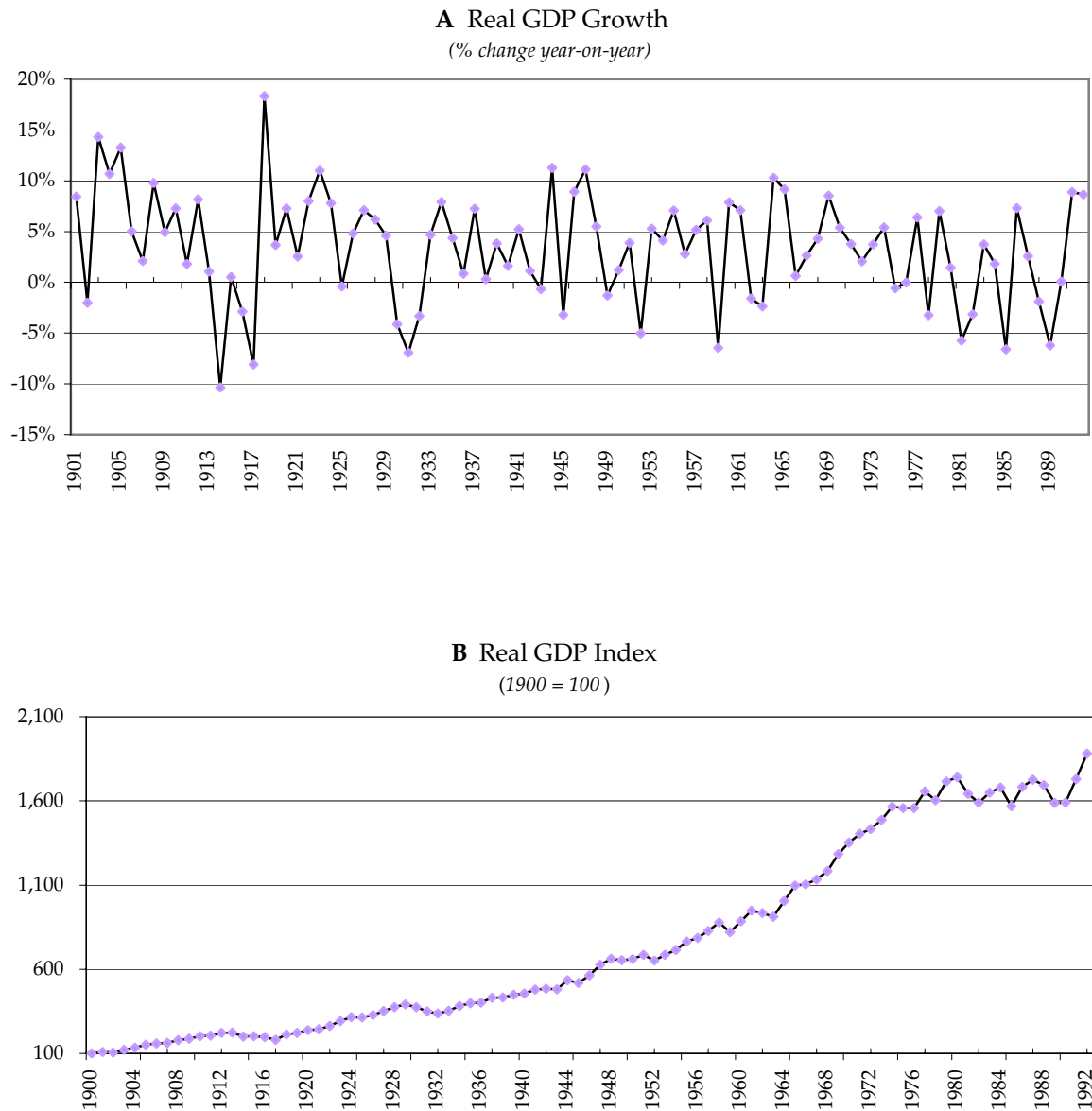
Source: Adapted from IEERL, 1986; OECD, 1997; and EIU Country Data.

^a Split between Household and Government Consumption in 1989 uses a different methodology.

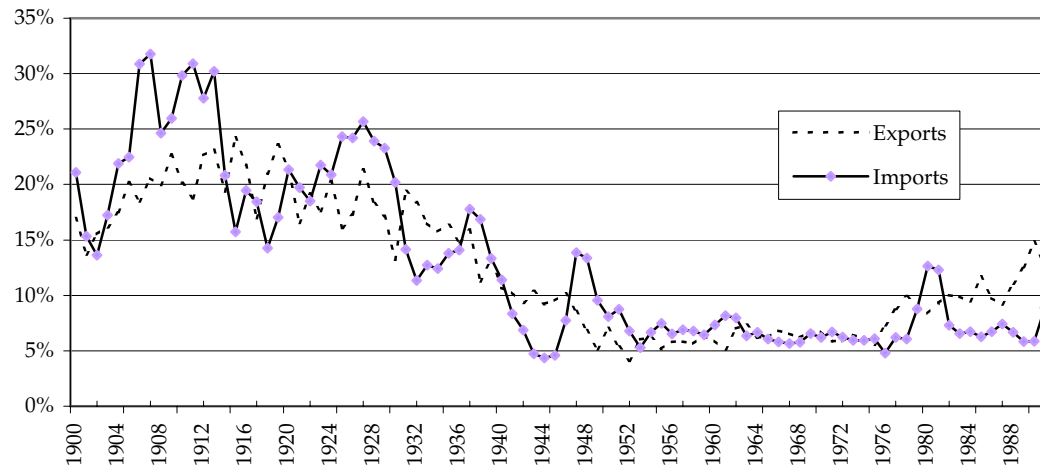
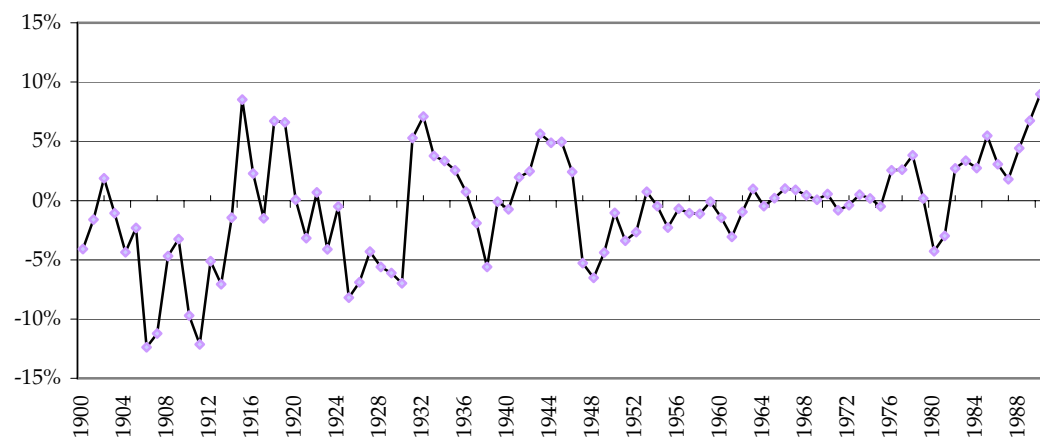
Exhibit 3 Argentine Balance of Payments

	(millions current pesos)				(millions current U.S. dollars)				
	1938	1946	1955	1973	1977	1983	1989		
Current Account	-505	1,416	-217	726	1,126	-2,436	-1,305		
Trade Balance	-109	1,743	-244	1,308	1,852	3,716	5,709		
Exports	1,371	3,918	928	3,315	5,651	7,835	9,573		
Imports	1,480	2,175	1,173	2,007	3,799	4,119	3,864		
Net Services	-63	171	21	-192	-16	-769	-600		
Net Income	-366	-451	-21	-401	-741	-5,399	-6,422		
Net Transfers	na	na	-3	11	31	16	8		
Net Other	33	-47	30	0	0	0	0		
Financial Account	53	-1,845	207	79	605	-2,391	-8,083		
Net Direct Investment	na	na	1	10	145	183	1,028		
Net Private Long Term Investment	-68	-329	9	6	-1	649	-1,098		
Net Private Short Term Capital	0	0	0	40	481	-2,370	-7,527		
Net Official	121	-1,516	197	23	-20	-853	-486		
Net Errors and Omissions	-9	-75	11	53	134	-447	-249		
Reserves and Related Items^a	461	504	0	-858	-1,865	5,274	9,637		

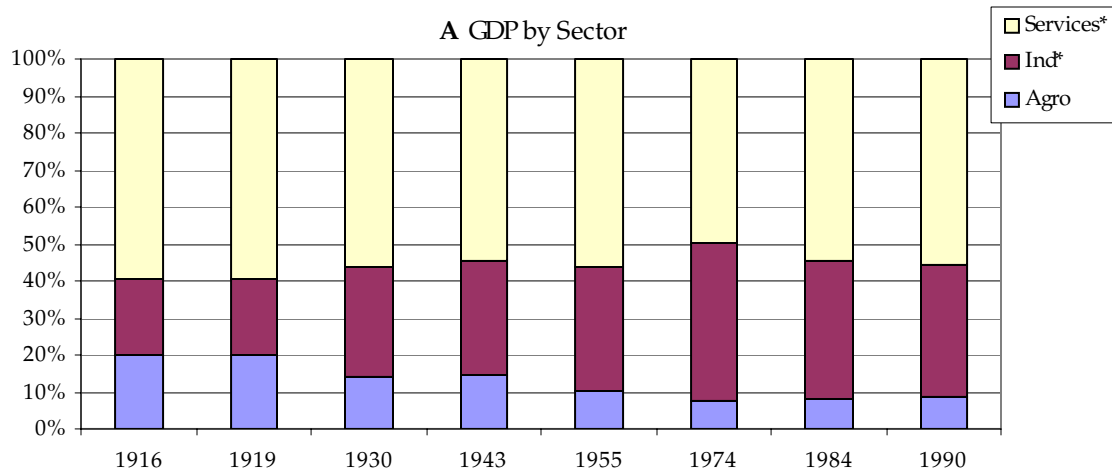
Source: Adapted from IMF, *International Financial Statistics*; and IMF, *Balance of Payments Yearbook*.^a Because of data availability, 1938 includes all short-term official capital and monetary gold. Years 1946 and 1955 include only monetary gold.

Exhibit 4 Argentine GDP Growth

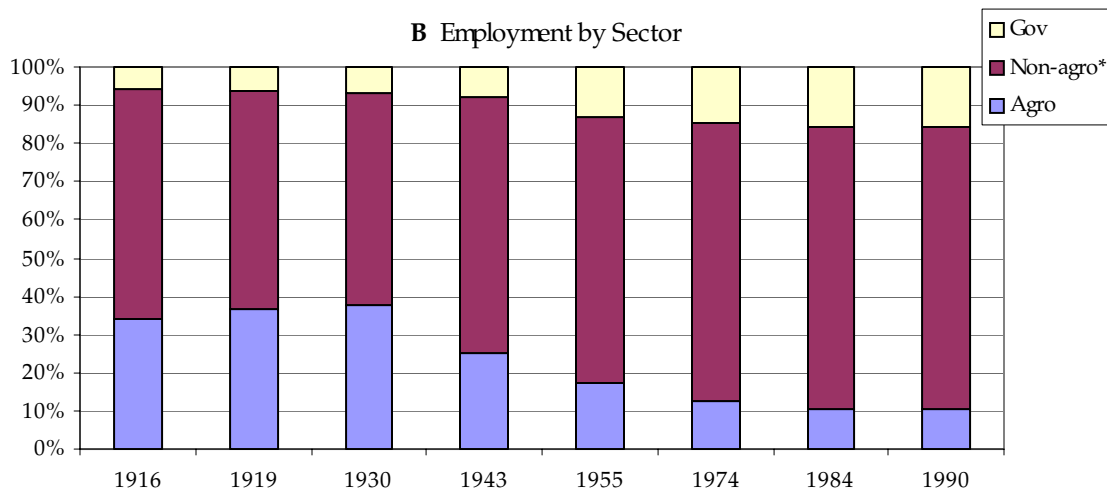
Source: Adapted from OECD, 1997.

Exhibit 5 Argentine Trade**A** Exports and Imports as % GDP**B** Trade Balance as % GDP

Source: Adapted from OECD, 1997.

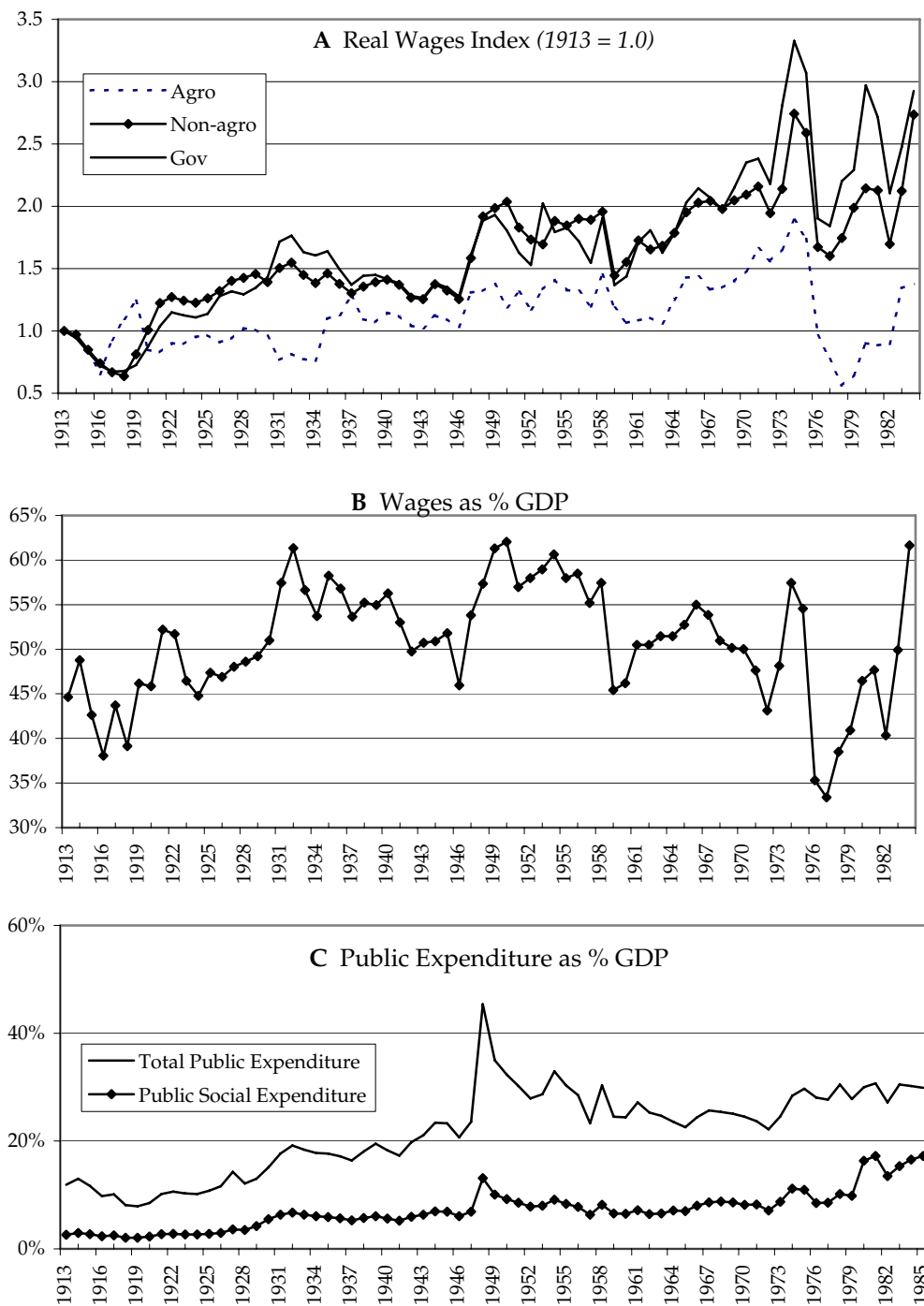
Exhibit 6 Argentine Sector Composition

Source: Adapted from OECD, 1997.

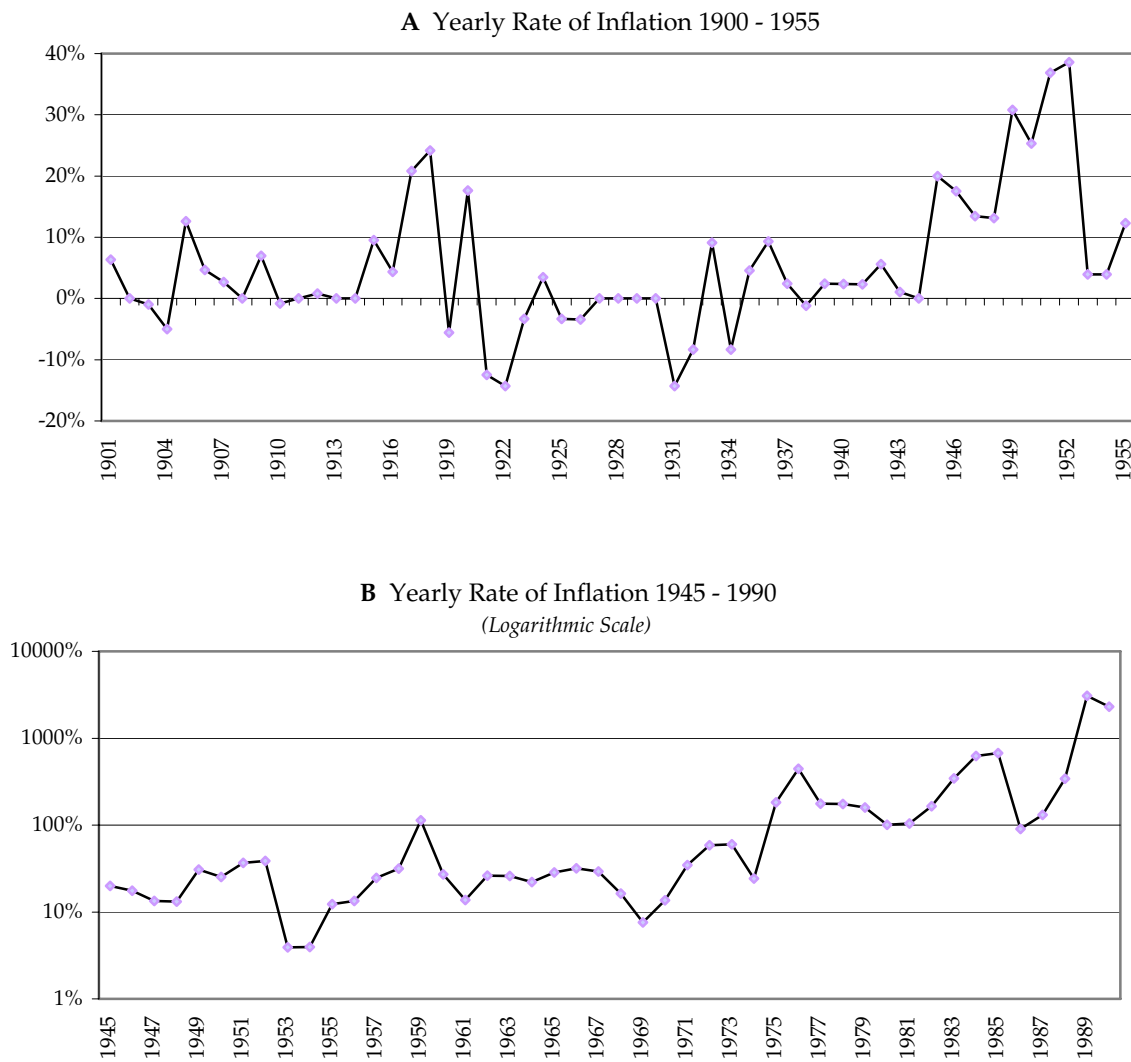


Source: Adapted from IEERAL, 1986.

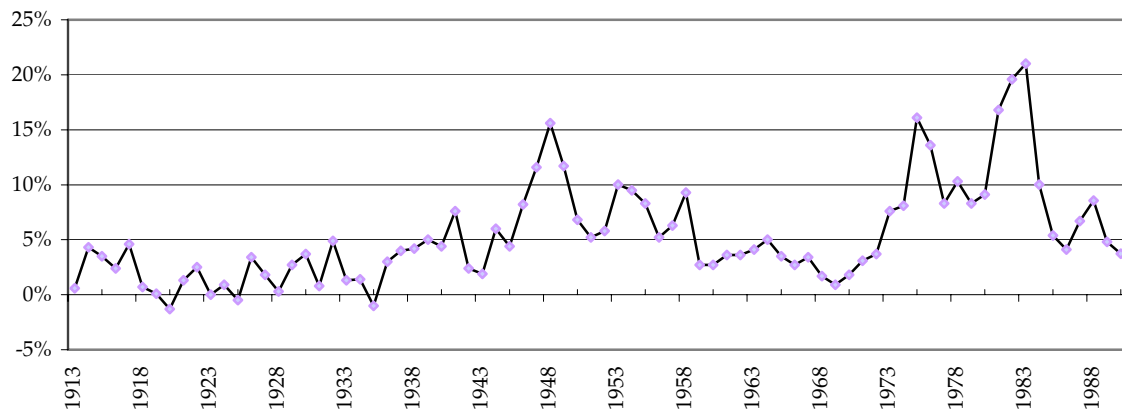
Note: * In **A**: both services and industry include some agricultural activities. For example, in the early 1910s, agriculture accounted for more than 50% of industrial production through processing and related equipment. Likewise, services included transportation and trade related to agriculture. The same is true for Non-agro in **B**.

Exhibit 7 Argentine Wages and Public Expenditure

Source: Adapted from IEERL, 1986 and OECD, 1997.

Exhibit 8 Argentine Inflation

Source: Adapted from OECD, 1997.

Exhibit 9 Argentine Public Deficit (% GDP)

Source: Adapted from IEERAL, 1986 and OECD, 1997.

Exhibit 10 Argentine Foreign Debt**A** Foreign debt indicators (1970–1986) (*millions current U.S. dollars except where noted*)

	Reserves	Gross foreign debt	Net foreign debt	Foreign debt service	Interest rate on foreign debt (%)
1970	725	3,259	2,534	289	11.4
1971	317	3,762	3,445	341	12.1
1972	529	4,694	4,165	387	10.8
1973	1,412	5,210	3,798	479	10.9
1974	1,341	6,274	4,933	421	9.6
1975	618	7,495	6,877	487	8.9
1976	1,772	7,899	6,128	492	6.9
1977	3,862	9,307	5,445	578	8.5
1978	5,829	12,496	6,667	681	9.6
1979	10,137	19,034	8,897	920	10.2
1980	7,288	27,162	19,874	1,531	11.8
1981	3,719	35,671	31,952	3,700	16.2
1982	3,013	43,243	40,230	4,718	14.1
1983	3,205	45,079	41,874	5,408	13.1
1984	3,499	46,171	42,672	5,712	13.2
1985	6,153	49,326	43,173	4,882	11.1
1986	5,580	51,704	46,124	3,970	8.7

B Gross foreign debt / exports ratio

Source: Adapted from Carlos A. Rodríguez, "Argentina's Foreign Debt: Origins and Alternatives," in *Debt, Adjustment and Recovery*, 1989.

Exhibit 11 Argentine Social Indicators**A** Argentina % Population (15-64) by Education Level

	No Education	At least Primary	At least Secondary	Higher
1910	25	75	12	1
1930	22	78	9	1
1947	14	86	9	1
1960	10	91	20	4
1970	6	95	26	5
1980	3	97	32	7
1991	2	98	43	11

Source: Adapted from OECD, 1997.

B Average Number Years Schooling for Selected Countries

	Argentina	Brazil	Mexico	Chile	U.S.
1950	4.6	1.8	2.3	4.9	9.5
1960	6.2	2.4	na	na	9.5
1970	na	na	4.2	5.9	10.6
1980	7.2	3.9	4.9	7.6	12
1989	9.1	5.3	6.6	8.5	13

Source: Adapted from OECD, 1997.

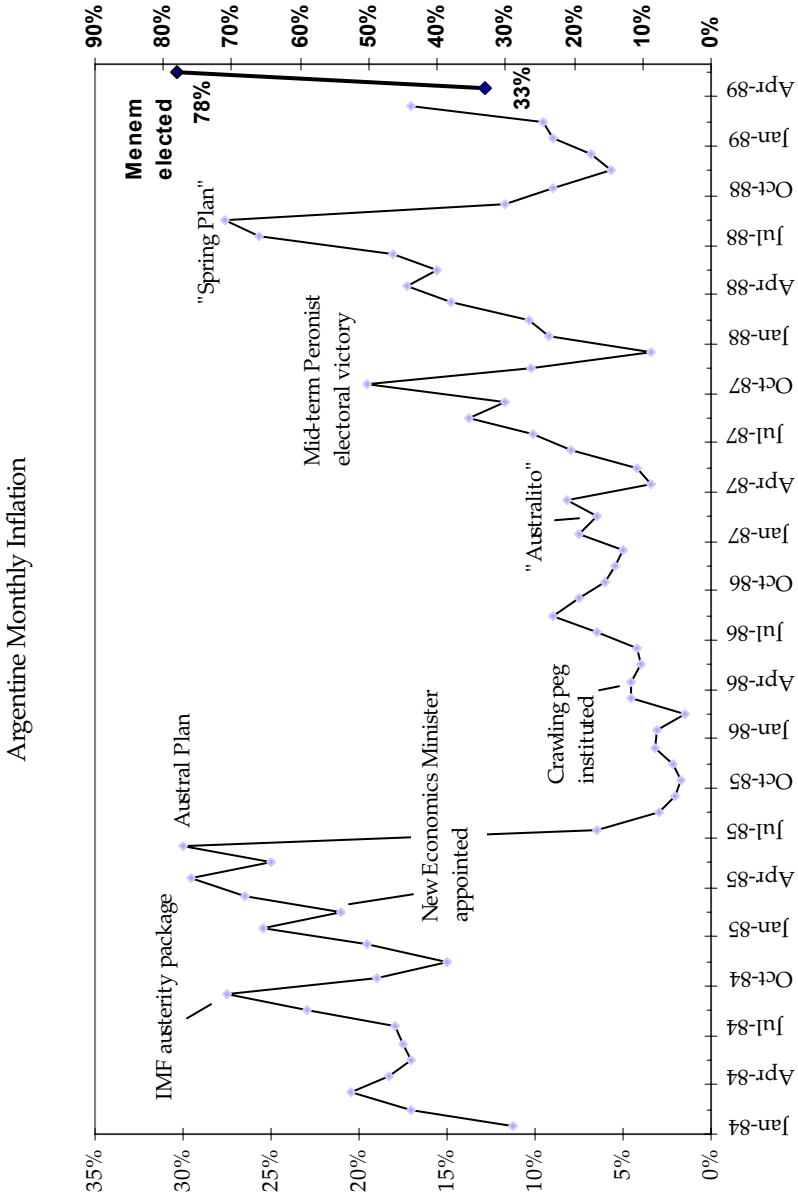
C Income Distribution of Selected Countries

	1 poorest 20%	2	3 middle 20%	4	5 richest 20%	ratio 5:1
1980 Argentina	6.6	10.8	14.9	21.9	46.1	7.0
Brazil (1979)	3.2	6.7	10.2	17.5	62.5	19.5
Chile	2.7	6.4	10.6	18.3	62	23.0
Mexico (1984)	4.1	7.8	12.3	19.9	55.9	13.6
USA (1985)	4.7	11	17.4	25	41.9	8.9
1989 Argentina	4.8	9.4	13.5	20.2	52.1	10.9
Brazil	2.1	4.9	8.9	16.8	67.5	32.1
Chile	3.7	6.8	10.3	16.2	62.9	17.0
Mexico	3.6	8.1	13	20.4	54.9	15.3
USA (1985)	4.7	11	17.4	25	41.9	8.9

Source: Adapted from *World Development Report*; Volume 25;

"Neoliberalism and Income Distribution in Latin America," 317.

Exhibit 12 Austral Plan



Sources: Adapted from Smith, 1989 and IMF, *International Financial Statistics*.

Exhibit 13 Results of the Argentine May 1989 Election

A Presidential Elections

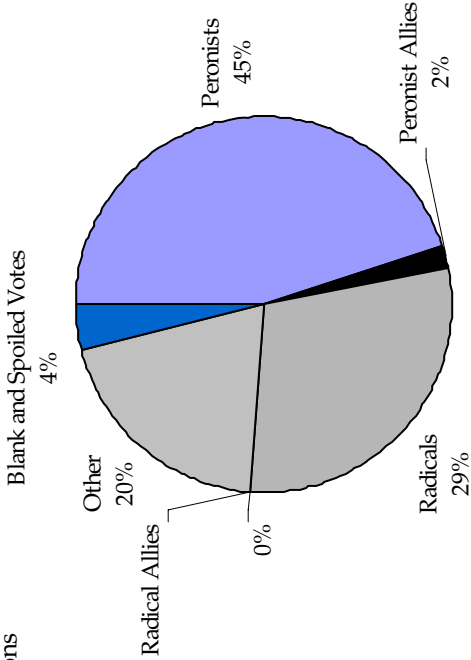
Candidate	Position during Campaign	Party	% Vote	Electoral Votes ^a	Platform
Carlos Saul Menem	Governor La Rioja	Peronist	47%	317	Populist platform, including significant wage increase, lower taxes, recovery of Falklands-Malvinas by force, repudiation of foreign debt or five-year moratorium.
Eduardo Angeloz	Governor Cordoba	Radical	37%	232	Distance self from current Radical regime. In summary: sell inefficient state industries, reduce the role of the state in the economy, maintain a free exchange rate, spur exports and revamp organized labor.
Nine other candidates	Various	Various	16%	51	Various

Voter turnout: 85% (voting obligatory for Argentines between the ages of 18 and 70).

^a 600 electoral votes in total. Winner requires more than 300 to avoid contest in electoral college.

Source: Adapted from Associated Press, 15 May 1989.

B Legislative Elections



Source: Adapted from Georgetown University Political Database of the Americas.

Endnotes

- ¹ Eva Duarte Perón, *Evita by Evita: Eva Duarte Perón Tells Her Own Story* (London and New York: Proteus, 1978), from Appendix I newspaper obituary article "President Juan Peron: Flamboyant creator of modern Argentina."
- ² Carlos F. Díaz Alejandro, *Essays on the Economic History of the Argentine Republic* (New Haven and London: Yale University Press, 1970), 424.
- ³ Joseph Page, *Perón: A Biography* (New York: Random House, 1983), 176 and William C. Smith, *Authoritarianism and the Crisis of the Argentine Political Economy* (Stanford, CA: Stanford University Press, 1991), 27.
- ⁴ "Back in the Saddle: A Survey of Argentina," *The Economist* (November 26, 1994): 3.
- ⁵ Felipe de la Balze, *Remaking the Argentine Economy* (New York: Council on Foreign Relations Press, 1995), 27.
- ⁶ Marie-Ange Véganzonès with Carlos Winograd, *Argentina in the 20th Century: An Account of Long-Awaited Growth* (Paris: OECD Development Centre Studies, 1997), 29.
- ⁷ Argentina left the gold standard temporarily in 1914, as did all major countries of the Northern Hemisphere. Until 1927, Argentina used a managed float aimed at preventing appreciation of the exchange rate and preserving the export sector's profitability. In 1929, Argentina moved away from the gold standard altogether.
- ⁸ de la Balze, *Remaking the Argentine Economy*, 26.
- ⁹ Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 23.
- ¹⁰ *Ibid.*, 25.
- ¹¹ *Ibid.*, 25.
- ¹² Nicholas Fraser and Marysa Navarro, *Eva Perón* (London: Andre Deutsch, 1980), 36-45.
- ¹³ *Ibid.*, 36-45.
- ¹⁴ For a general appraisal of Perón's ideology and political style during his first and second terms as president, see: Page, *Perón: A Biography*, Chapter 25 "The Conductor."
- ¹⁵ Juan Carlos D'Abate, "Trade Unions and Peronism," in *Juan Perón and the Reshaping of Argentina*, eds. Frederick C. Turner and Jose Enrique Miguens (Pittsburgh: University of Pittsburgh Press, 1983), 59-61.
- ¹⁶ Robert J Alexander, *Juan Domingo Perón: A History* (Boulder, CO: Westview Press, 1979), 37.
- ¹⁷ *Ibid.*, 40.
- ¹⁸ Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 31.
- ¹⁹ Fraser, *Eva Perón*, 49-68.
- ²⁰ This was to be the worst electoral result in Perón's political career. See Luna, *El 45*, 469.
- ²¹ This reform of the constitution extended the vote to women.
- ²² Luna, *El 45*, 27-28.
- ²³ Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 23.
- ²⁴ Luna, *El 45*, 27.
- ²⁵ Page, *Perón: A Biography*, 176.
- ²⁶ Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 27.
- ²⁷ Page, *Perón: A Biography*, 170.
- ²⁸ For economic statistics on Argentina from 1913-1984, refer to Instituto de Estudios Económicos sobre la Realidad Argentina y Latinoamérica (IEERAL), "Estadísticas de la Evolución Económica de Argentina, 1913-1984," *Estudios* no. 39 (July/September 1986): 103-184.
- ²⁹ Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 28.
- ³⁰ Fraser and Navarro, *Eva Perón*, 118.
- ³¹ For an account of Perón's last days in office in the 1950s, see Page, *Perón: A Biography*, Chapters 34-36 (At War with the Church, The Beginning of the End, and The Liberating Revolution).
- ³² Perón made this claim in an interview with Felix Luna. See Luna, *El 45*, 59.
- ³³ U.S. investment in Argentina tripled in less than a decade, from \$427 million in 1960 to nearly \$1.2 billion in 1968, and was mainly dedicated to the expanding sectors of the local industry: petroleum, chemicals and petrochemicals, transportation, metallurgy, and electrical equipment. See Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 34.

- ³⁴ Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 33.
- ³⁵ Alejandro, *Essays on the Economic History of the Argentine Republic*, 129 and Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 34.
- ³⁶ Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 40-41.
- ³⁷ Ibid., 35.
- ³⁸ Edwin Williamson, "Argentina: The Long Decline," in *The Penguin History of Latin America* (London: Penguin Books, 1992), 473.
- ³⁹ Daron Acemoglu, Simon Johnson, James Robinson, and Yunyong Thaicharoen, "Institutional Causes, Macroeconomic Symptoms: Volatility, Crises and Growth" National Bureau of Economics Working Paper W9124, September 2002.
- ⁴⁰ Sebastian M. Saiegh and Pablo T. Spiller, "A Parliamentary System for Argentina," NYU Working Paper, June, 2002, available at <<http://homepages.nyu.edu/~sms267/parliam.pdf>> (accessed February 26, 2004); Daron Acemoglu, Simon Johnson, James Robinson, and Yunyong Thaicharoen, "Institutional Causes, Macroeconomic Symptoms: Volatility, Crises and Growth" National Bureau of Economics Working Paper W9124, September 2002; and David Samuels and Richard Snyder, "The Value of a Vote: Malapportionment in Comparative Perspective," in *British Journal of Political Science* 31:3, 2001.
- ⁴¹ For a comprehensive account of the emergence, development, and ultimate demise of the urban guerrilla movement in Argentina, including the resulting divisions within the Peronist movement, see Gillespie, Richard. *Soldiers of Perón, Argentina's Montoneros*. New York: Oxford University Press, 1982 and Moyano, Maria Jose. *Argentina's Lost Patrol: Armed Struggle 1969-1979*. New Haven: Yale University Press, 1995.
- ⁴² Williamson, "Argentina: The Long Decline," 475.
- ⁴³ Jaime Malamud Goti, *Game without End: State Terror and the Politics of Justice* (Norman: University of Oklahoma Press, October 1996), 40.
- ⁴⁴ Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, 229-30.
- ⁴⁵ Ibid., 235.
- ⁴⁶ Adolfo Canitrot, "Crisis and Transformation of the Argentine State (1978-1992)" in *Democracy, Markets, and Structural Reform in Latin America*, eds. William C. Smith, Carlos H. Acuna, and Eduardo A. Gamarra (Coral Gables: North-South Center Press, 1993), 80.
- ⁴⁷ Carlos H. Acuna, "Politics and Economics in the Argentina of the Nineties (Or, Why the Future No longer is What it Used to Be)," in *Democracy, Markets, and Structural Reform in Latin America*, eds. William C. Smith, Carlos H. Acuna, and Eduardo A. Gamarra (Coral Gables: North-South Center Press, 1993), 33.
- ⁴⁸ "Three biggest borrowers: They may make their payments this year, but; Can Third World debtors climb out of the hole?" *U.S. News & World Report* (January 20, 1986): 40.
- ⁴⁹ Canitrot, "Crisis and Transformation of the Argentine State (1978-1992)," 82.
- ⁵⁰ Acuna, "Politics and Economics in the Argentina of the Nineties (Or, Why the Future No longer is What it Used to Be)," 37.
- ⁵¹ "Survey of Argentina: Learning a New Dance," *The Economist*, 26 November 1994, 3.
- ⁵² Ibid., 37.