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Introduction

I

This book discusses the evolution of the Argentine economy in the twentieth century. It covers a century that actually begins a few years earlier, in the decade of the 1880s, with the foundation and expansion of modern Argentina, and ends in 1989. This analysis does not include the last decade of the twentieth century because the 1989–1990 hyperinflationary period marks the end of an era and the beginning of a new one that is beyond the scope of this book. The convertibility system of the 1990s ushered in new problems, the recession starting in 1998 and the crisis of 2001–2002 afterward, following which was the recent and significant recovery (2003–2006). These more recent developments are part of an ongoing process that will only be understood as patterns emerge.

In the span of that century Argentina went through numerous and contradictory experiences. At its beginning it saw a rapid expansion followed by a deceleration after World War I. In the second half of the century there was only one decade of growth, the 1960s, and ever since then, it has suffered a clear decline. Until Word War I it grew at a rate that was greater than that of some more industrialized countries, converging to those levels of per capita income. During the second half of the century, however, Argentina fell behind, and the difference between it and more developed countries became evident.

The purpose of this book is to describe the economic events of the century within the framework of the changing institutions in which they occurred, providing some – albeit tentative – answers to these worrisome trends. The operative question regarding the Argentine economy is not whether it was successful but whether it had the political and legal institutions, and appropriate standards, necessary to make it so.

The book's focus is historical, not only because it tells what happened but also because it attempts to understand, at least partially, current behavior by observing past behavior and shows the contingent nature of economic behavior. Although the past does not determine the present, it limits future

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options and choices. No one, neither governments nor individuals, made decisions in isolation; each choice was contingent on a range of possibilities that resulted in current conditions but that were also restricted by past conditions. Decisions depended on the circumstances of a given moment and individual preferences, but also on previous choices, which were often manifest in institutions. The past limited the range of possible actions. So choices were conditioned in this sense not only by existing technologies and the nature of available resources but also by past decisions. The choice of an institutional system in a given historical framework produces constraints. Thus, no society begins with blank slate, a complete *tabula rasa*, even when a new political system causes a break from the previous one. It can never break entirely.

The first chapter describes the problems that emerged during the first half of the nineteenth century, with its long regional conflicts following independence, which were an obstacle to the effective exercise of government and which, by increasing the cost of violence[1] and maintaining segmented markets, retarded development. During the second half of the nineteenth century this trend discontinued because technologies of more developed countries were incorporated and because the expectations of benefits from technology allowed important consensus building, an end to civil wars, and the consolidation of the national state, which fomented movement of capital and labor, which in turn promoted growth. The consolidation of that national state was a condition that was possible because of the incorporation of technologies and great economic expansion.

II. A New Country Conflict between Heterogeneous Regions

With the breakup of the colonial regime, the new governments of the old viceroyalty – claiming authority inherited from the crown in their previous jurisdictions – had to exercise that authority over vast and often unpopulated territories.[2] The Spanish monarchy had determined the scale of these large administrative units to maintain control over silver mining. However, once separated from the Upper Peru and this income lost, the country, now oriented to the coast, had to rely on another source of income, namely, the customs at the Port of Buenos Aires.[3] The new postcolonial governments tried, unsuccessfully, to impose their authority over distant

1 By monopolizing the supply of protection, the state diminishes the cost of violence. Frederik C. Lane, "Economic Consequences of Organised Violence," *Journal of Economic History*, vol. XVIII, no. 4, December 1958, pp. 401–451.

2 In this regard, see also Alberto Alesina and Enrico Spolara, *The Size of Nations*, Cambridge, MA, The MIT Press, 2003.

3 Roberto Cortés Conde, *Progreso y Declinación de la Economía Argentina*, Buenos Aires, Fondo de Cultura Económica, 1998, p. 13.

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and heterogeneous regions and were constantly involved in conflicts with the interior provinces (see Map I.1).[4]

The Latin American ex-colonies experienced not only the traumatic transition to independent regimes but also a transition from an absolutist rule to a constitutional one, much like Spain itself in the nineteenth century. Revolution as part of liberal movements in Europe was embedded in the difficult change from the *ancien régime* to a modern one. During colonial times all decisions were concentrated in a central authority within the viceroyalty. Dissension was hidden in the severe absolutist regime, but in the transition toward a more open society, a high price was paid for the disagreement over who was the central authority, a conflict that finally ended with the fragmentation of that authority. However, although the colonial regime had been formally centralist, many cities had treasury offices (main or subordinate ones, *Cajas principales y secundarias*), which gave them free use of the taxes (*alcabalas*) they collected, supposedly for the crown, and with which they paid for the local bureaucracy. With the end of the colonial regime, every city that had a revenue-collecting treasury fought to retain control of interior customs, which became a right granted along with provincial autonomy. This was the origin of Argentinean federalism. "During a large part of the 19th century a central state with a monopoly of legitimate coercive power never managed to consolidate itself, and regional and provincial access to fiscal resources was a source of unending conflicts."[5]

The unitarian formula of the 1826 Constitution, reapplied in the 1853 federal constitution, transferred external customs to the nation. This was against the interests of Buenos Aires. Likewise, the formula eliminated internal customs, hurting the province's public finances. But this was the only viable formula for the formation of a national state. The geography of Argentina, which at that time was landlocked, made the whole country subordinate to the only seaport on the Rio de la Plata. Yet, at the same time, the vast distances, transportation costs, and the plethora of vested interests led to fiscal and political fragmentation. Multiple domestic customs, in addition to the already high built-in transportation cost, made merchandise

4 Herbert Klein mentions this with respect to the fact that the heterogeneity of interests compared with those of the River Plate had led to the separation from Alto Peru. Alberto Alesina and Enrico Spolara have addressed the problem of the size of nations and the trade-off between economies of scale and the cost of heterogeneity. Long before, this had been implicitly suggested by Augustin Edwars Vives in *La Fronda Aristocratica* when he compared the different institutional evolutions in the decades following the independence of Chile and Argentina. See Herbert S. Klein, "Las Finanzas del Virreinato del Río de la Plata," *Desarrollo Económico*, vol. 13, no. 50, 1973; Alberto Alesina and Enrico Spolara, *Size of Nations*, 2003; Alberto Edwards Vives, *La Fronda Aristocrática en Chile*, Santiago de Chile, Editorial Universitaria, 1997.

5 Roberto Cortés Conde, *Progreso y Declinación*, 1998, p. 14.

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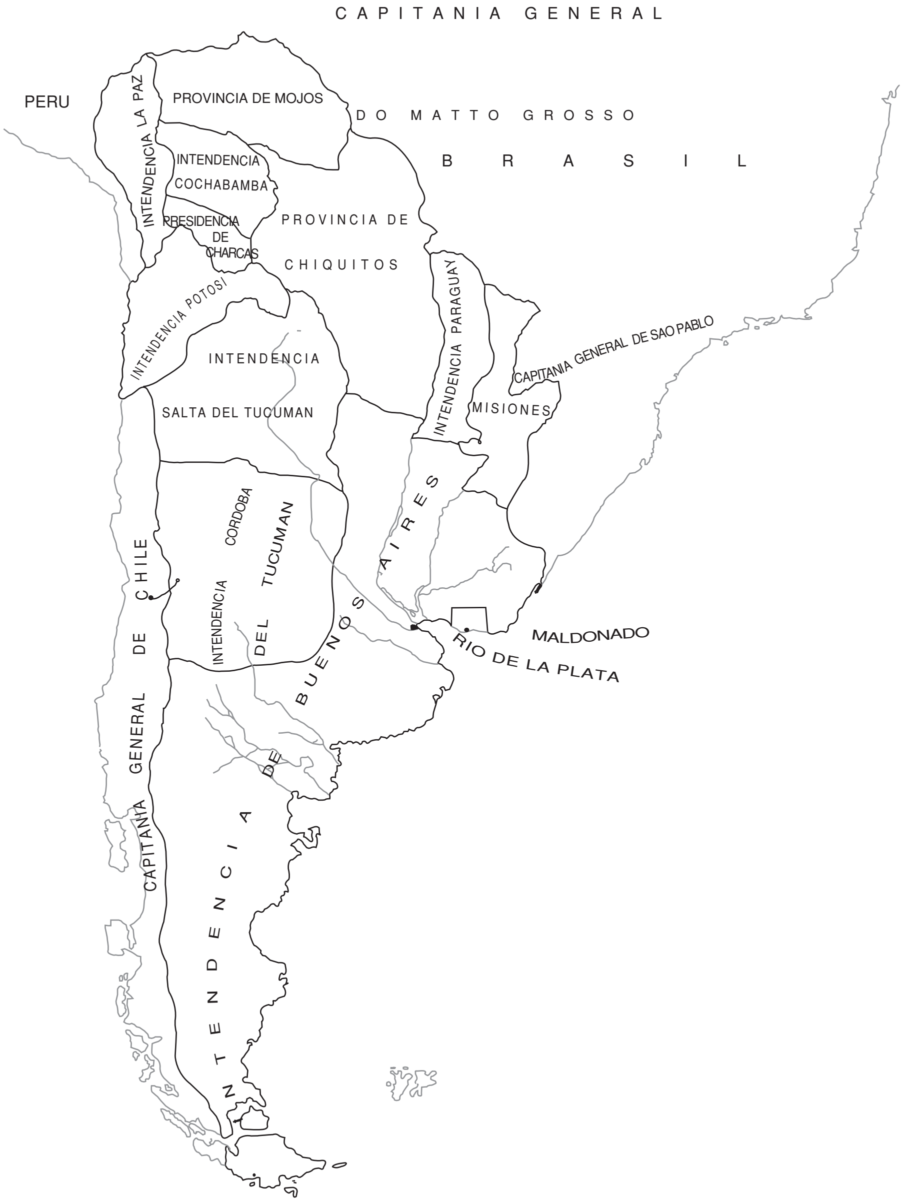

Map I.1. Viceroyalty of the Rio de la Plata, 1776–1810. *Source:* Archivo General de la Nación, "Documentos referentes a la guerra de la independencia y emancipación política de la República Argentina: y de otras secciones de América a que cooperó desde 1810 a 1828," 1914.

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more expensive and hindered the growth of markets, keeping them small and segmented.

The state is an enterprise that ensures protection. But because the geography and technology of the period did not help to consolidate the state, various centers that disputed with the central government the monopoly on the legitimate use of force emerged, thereby increasing the cost of violence.[6] Poverty was not a propitious environment for producing anyone able to consolidate power over the entire territory and put an end to the interminable conflict. (Rosas, who was closest to achieving this, was ultimately unable.)[7] The threat to life and property limb and to the safe transportation of goods – because of constant confiscations – was an obstacle to savings and investment and contributed to the retardation of economic development during the first half of the nineteenth century.

III. New Technologies in the Formation of a Market and a National State: Economic Growth

During the second half of the twentieth century new technologies in transportation marked a clear break from the past and gave a glimpse of progress to come. The railroad integrated the country, and the reduction in shipping freights allowed the agricultural production of the Pampas to reach European markets. Thus, the most enlightened thinkers of the period, such as Sarmiento and Alberdi, maintained that the desert areas could become populated, following the model of the United States.

Prospects for progress were a strong incentive to end civil wars. So a political solution was found to the conflict that had afflicted the River Plate ever since independence. In 1862, at the end of the war of attrition between the different regions, the Buenos Aires Customs Authority was ultimately placed under national control, just as the 1853 National Constitution had stipulated. This was coupled with the elimination of internal customs.

The exploitation of natural resources, the increase in the wage-earning population, and the construction of transportation networks created a market that broadened the tax base and constituted the sustenance of the modern state. This fiscal agreement that included the provinces, the national government, and wide social sectors lasted, with some exceptions, until

6 Frederick Lane, "Economic Consequences," 1958.

7 In this regard see also Alberto Alesina and Allan Drazen, "Why Are Stabilizations Delayed?" *American Economic Review*, no. 5, 1991; Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939*, New York, Oxford University Press, 1995. Alesina and Drazen argue that when there are divergent interests of groups that do not manage to get their way, there is a "war of attrition" with negative effects because no measures are taken to improve the economy. This thesis was applied especially in the case of Eichengreen to the analysis of European problems in the interwar period.

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1930. This was largely the result of circumstances that broadened markets and favored progress and was also a condition of the state's sustainability.

IV. Growth Trends: International Comparisons

The twentieth century may be characterized by several different trends. The first period, 1870–1914, was one of rapid expansion of such dimensions that it reached income levels of many more industrialized countries. The second trend encompasses the interwar period, 1914–1945, in which the world economy decelerated, like that of Argentina. During this period, open economies were exposed to external shocks, especially Great Britain and countries with ties to Great Britain, and the European economy, whereas the United States and Canada recovered more quickly. During the 1930s, when economies became insular and protectionist measures abounded ("beggar your neighbor policies"), Argentina, which had suffered a gradual drop in GDP until 1932, recovered beginning in 1934.[8] During World War II, thanks to its relative isolation, Argentina did not suffer the negative effects that it had endured during World War I. Comparing these trends with those of Western countries in the twentieth century, just as Maddison describes them,[9] we see that until World War II those of Argentina coincide with world trends (see Figures I.1 and I.2).[10]

However, circumstances following World War II were different. Whereas the Western countries and Australia experienced significant growth, Argentina stagnated and later declined, so that by the end of the twentieth century it lagged not only behind other industrialized countries but also behind other Latin American ones, such as Mexico and Brazil (see Figure I.3).

The strong growth spurt that had begun around 1934 and that had intensified during the 1940s began to be much more limited after World War II. Unlike Brazil and Mexico – not to mention Australia – where the postwar growth was very significant, Argentina had economic crises

8 Argentina's annual growth rate in the 1930s was 5.61%, whereas Great Britain grew by 2.45%, France by 0.90%, Italy by 2.19%, and the United States by 1.98%.

9 Angus Maddison, *Dynamic Forces in Capitalist Development*, Oxford, Oxford University Press, 1991, chap. 4.

10 According to the neoclassical model of growth, the presence of decreasing capital production determines that there is an inverse ratio between the initial level of GDP of an economy and the ultimate growth rate that it can achieve. This is the hypothesis of convergence or catching up. See Robert Solow, "Technical Change and the Aggregate Production Function," *Review of Economics and Statistics*, August 1957. See also Robert Solow, "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics*, no. 70, February 1956, pp. 65–94, and Robert Barro and Xavier Sala i Martin, "Convergence across States and Regions," *BPEA*, no. 1, 1991, pp. 107–158.

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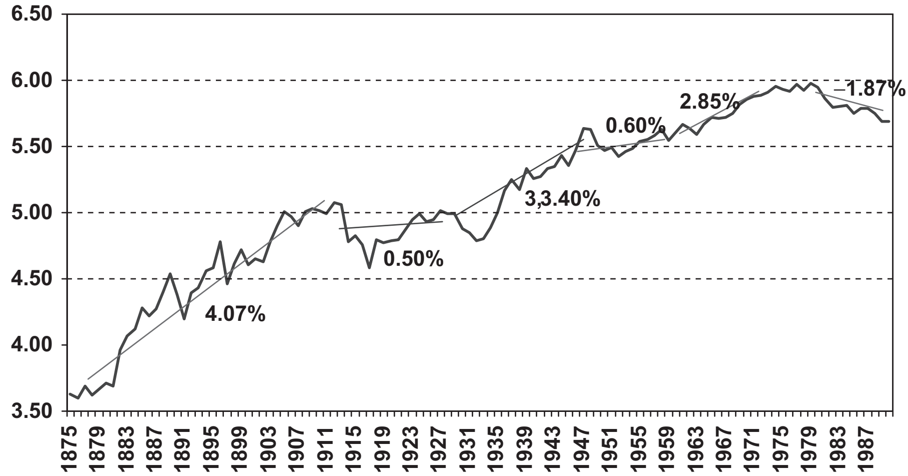

Figure I.1. Evolution of per Capita GDP, Argentina 1875–1989: Growth Trends (Index numbers: 1900 = 100, in natural logarithm). *Source:* Up to 1935: Roberto Cortés Conde, with María Marcela Harriague, *Estimaciones del Producto Bruto Interno de Argentina 1875–1935*, Documento de Trabajo, Departamento de Economía, Universidad de San Andrés, Buenos Aires, 1994 (updated series). Since 1935: GDP published by the Central Bank (updated series).

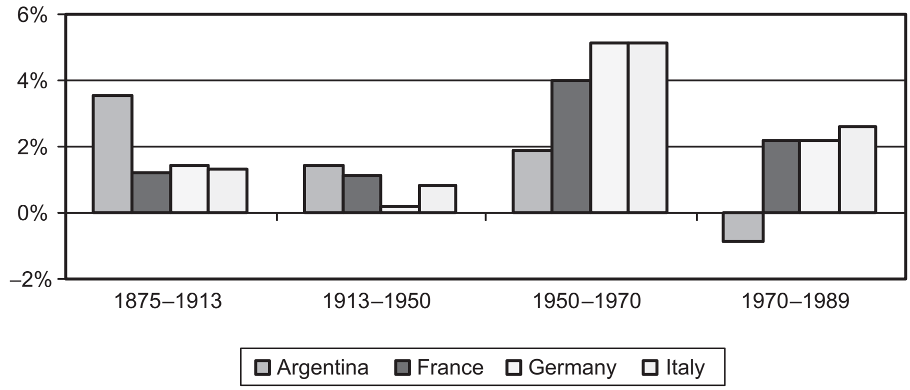

Figure I.2. Comparative Growth Trends: Argentina, France, Germany, and Italy, 1875–1989 (Average growth rate of per capita GDP). *Source:* Roberto Cortés Conde, with María Marcela Harriague, *Estimaciones del Producto Bruto Interno de Argentina 1875–1935*, Documento de Trabajo, Departamento de Economía, Universidad de San Andrés, Buenos Aires, 1994 (updated series), for Argentina; and Angus Maddison, *Monitoring the World Economy: 1820–1992*, OECD Development Centre Studies, Paris, 1995.

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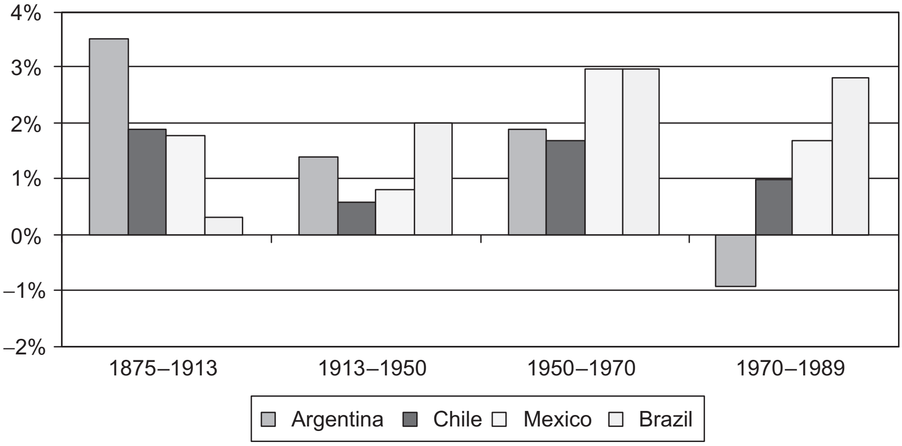

Figure I.3. Comparative Growth Trends: Argentina, Chile, México, and Brazil, 1875–1989 (average growth rate of per capita GDP). *Source*: Roberto Cortés Conde, with María Marcela Harriague, *Estimaciones del Producto Bruto Interno de Argentina 1875–1935*, Documento de Trabajo, Departamento de Economía, Universidad de San Andrés, Buenos Aires, 1994 (updated series), for Argentina; and Angus Maddison, *Monitoring the World Economy: 1820–1992*, OECD Development Centre Studies, Paris, 1995.

in 1949 and 1951–1952; these were the *stop-and-go* years. After the end of the brief postwar boost, characterized by an exceptional increase in international demand and an increase in prices on foodstuffs, it was clear that in Argentina there were obstacles to continued growth. The country suffered difficulties in the export and domestic sectors and had come to the realization that painful adjustments were necessary. After World War II, not until the mid-1960s, in 1963, did another growth spurt begin and would last until 1974, when the new experience of nearly two years of decline began.

In Argentina, the different growth phases – except for the first and longest one – never seemed to be sustainable over time. Throughout most of the twentieth century, initial growth impetuses, in some cases longer ones, were always interrupted by a crisis that provoked a drop in GDP followed by a slow recovery, only to return years later to previous levels.[11]

11 A discussion about the stages of growth in Argentina and a comparison with the economic development of other countries is found in Roberto Cortés Conde, *La Economía Argentina en el Largo Plazo*, Buenos Aires, Sudamericana, 1998, chap. 1. There are other studies on this subject, starting with that of Carlos Diaz Alejandro, *Essays on the Economic History of the Argentine Republic*, New Haven and London, Yale University Press, 1970, and also that of Juan José Llach, *Reconstrucción o Estancamiento*, Buenos Aires, Thesis, 1987; that of Vicente Vázquez Presedo, *Auge y Decadencia de la Economía Argentina desde 1776*, Buenos Aires, Academia Nacional de Ciencias Económicas, Buenos

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In other countries the breaks from the past that we have highlighted as a characteristic of Argentinean growth were exceptional and due to international wars (Germany) or civil wars (Spain). What the book explores, then, is why until 1914 the Argentine economy grew at a rate that was greater than that of the world and why it declined and diverged from all of the world economic trends since World War II.

V. Problems of Growth in the Twentieth Century

In this analysis, it is assumed that there were multiple factors that caused the 1870–1914 economic expansion (see Chapter 1) and its subsequent deceleration (Chapter 2) and decline in the years that followed World War II (Chapter 3 onward). Between the end of the nineteenth century and the 1930 world crisis the influence of external factors was extraordinary. Growth was positive until 1914 and then negative during World War I and in the 1930 crisis. But after 1930, and especially following World War II, the economy was affected more by internal factors (primarily policies decisions). Nevertheless, these are general statements that should not be taken in absolute terms. It is generally agreed that after 1930 the economy was geared more toward the domestic market with exchange measures that bolstered industrial import substitution and monetary measures that reduced the impact of the external shock. But the external factors of the 1930 recovery were also significant; international agricultural prices improved starting in 1934, especially during the war years, when the United States and the Allied countries were a source of continual demand for foodstuffs, raw wool, and hides. Moreover, export prices, as well as the terms of exchange, became more favorable in 1963 and 1973.

However, after World War II domestic policy decisions noticeably affected the profitability of economic factors, savings, investment, and consequently growth. Regarding the causes of the initial period of economic expansion, which was discussed in Chapter 1, two are most significant: technology and institutions. European markets were accessible to the American countries' supply of raw materials and foodstuffs thanks to the low cost of transportation. The railroad network connected the agricultural production of the interior to the ports, and the low cost of shipping allowed American

Aires, 1992; that of Pablo Gerchunoff and Lucas Llach, *El Ciclo de la Ilusión y el Desencanto*, Buenos Aires, Ariel Sociedad Económica, 1998; and more recently Gerardo della Paolera and Allan M. Taylor, *Tensando el Ancla: La Caja de Conversión Argentina y la Búsqueda de Estabilidad Macroeconómica 1880–1935*, FCE, Buenos Aires, 2003. Others have discussed growth by referring to some periods or specific aspects that will be cited in each case. Juan Carlos de Pablo's recently published book *La Economía Argentina en la Segunda Mitad del Siglo XX*, Buenos Aires, La Ley, 2005, is also an invaluable resource, as is the statistical series by Orland Ferreres, *Dos Siglos de Economía Argentina (1810–2004): Historia Argentina en Cifras*, Buenos Aires, El Ateneo and Fundación Norte y Sur, 2005.

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products to reach Europe. The flow of capital and people to Argentina was a result of these changes. This allowed growth on a great scale, based on the incorporation of the factors of production (labor, capital), increased productivity due to changes in land use, and also incorporation of technology from countries with advanced agricultural and industrial methods.[12]

Prospects for progress were an incentive to achieve a political solution to old regional conflicts. The increase in the cost of protection (military expenditures) had consumed resources that would otherwise have been applied to productive activities. The monopoly on the supply of protection on the part of the central government was consolidated by newly available technologies that reduced its costs and provided an institutional framework that allowed the flow of the factors of production. These went from where they were abundant and less remunerated to where they were scarce and better compensated. The framework gave them the legal assurance that the effective remuneration they would receive would relate to their marginal productivity. Refraining from using force gave the impression that neither earnings nor savings would be confiscated. Such were the conditions of growth until World War I, when the Argentine economy became an integral part of the international community.[13]

A Changing World

But this world in which Argentina had become incorporated so successfully changed drastically with World War I (Chapter 2). While previous economic and political conditions internationally were beneficial for Argentina,[14] after the changes and following the 1930 crisis and World War II, they were no longer so. Although it was believed that after the war normalcy would return, and there was a significant recovery in the 1920s, soon problems emerged that unleashed enormous imbalances in international markets of capital and goods. The world agricultural oversupply

12 On technological "catching up," see M. Abramovitz, "Catching Up, Forging Ahead and Falling Behind," in *Thinking about Growth, and Other Essays on Economic Growth and Welfare*, Cambridge, Cambridge University Press, 1989, pp. 220–244. The idea is that countries that arrive later to the industrialization process can grow more quickly by learning from and imitating countries that achieved industrialization earlier. See also A. Gersenkron, *Economic Backwardness in Historical Perspective*, Cambridge, MA, Harvard University Press, 1962.

13 Argentina became more involved in international trade, according to Williamson and O'Rourke, more because of the low cost of transportation than because of the low tariffs. See Jeffrey Williamson and Kevin O'Rourke, *Globalization and History: The Evolution of a Nineteenth-Century Economy*, Cambridge, The MIT Press, 1999. Regarding propitious conditions for work, the same applies, in addition to the lack of restrictions on immigration to American countries, until 1914. Conditions for capital were also positive, under the stability that the gold standard provided.

14 Víctor Bulmer-Thomas, *The Economic History of Latin America since Independene*, Cambridge, Cambridge University Press, 2005.

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