Should We Cry for Argentina?

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Should We Cry for Argentina?

As Argentina celebrates the bicentennial of its Revolution of 1810 and approaches the same milestone of its independence from Spain in 1816, it is a good time to reflect on the paths of Argentine economic and political development from the colonial period to the twenty-first century. In light of recent turns in the American economy, the persistently dismal condition of Argentine economic life should provide a cautionary tale: Argentina's experience vividly illustrates the power that a single political leader can exert to change the historical fortunes of an entire nation. Indeed, the career of Juan Perón shows what might have happened if Franklin Roosevelt's statist inclinations had not been curbed by the U.S. Supreme Court in the early days of the New Deal. It is not coincidental that Argentine President Néstor Kirchner and his successor-wife, Cristina, the current leaders of Argentina's Peronist party, idolize the New Deal. The alleged motto of FDR's close advisor Harry Hopkins was: "Spend-Spend-Spend; Tax-Tax-Tax; Elect-Elect-Elect."

We can add a touch of Louisiana hot sauce to the warning. Argentina shows what could have happened to the United States economy had Huey Long not been assassinated in 1935. Long's slogans of "Share the Wealth" and "Every Man a King" and his demagogic attacks on big business might well have led to a Long victory over Roosevelt in the 1936 Presidential election. Had that happened, we would then not have had to wait for the similar political slogans Americans have been hearing since the housing bubble burst in 2007–8.

Bad economics are usually preceded by bad politics. In the case of Argentina, centralized monarchical rule under the Spanish gave way to unstable republics in the first half of the nineteenth century. Temporarily restrained in the middle of the nineteenth century, demagogic populist rule eventually established itself in the twentieth century. The Argentine economy has never recovered. Why was this allowed to happen? The effects of wealth and the diseases of luxury perhaps softened the Argentine middle and upper classes; they lacked vigilance in defense of their liberties. They had neglected to strengthen and reinforce the balances in

William F. Campbell is Professor Emeritus of Economics at Lousiana State University and currently serves as Secretary of the Philadelphia Society. Marcelo Resico is Professor of Economics at Universidad Catolica Argentina (Catholic University of Argentina) and author of a book on Wilhelm Ropke, La Estructura de una Economia Humana (2008).

their political system. It is not too far-fetched to believe that there is a moral and political lesson for Americans here.

The Two Juans

Argentina has always vacillated between two models of economic organization. The oldest tradition is state interventionism, dating to the days when the Argentine was an outpost of the Spanish empire. This tradition has survived well into the twentieth and twenty-first centuries with the legacy of Juan Perón (1895–1974). The other model is a classical liberalism grounded in the work of Juan Bautista Alberdi (1810–1888). The divergent paths of these two Juans remain the two possibilities facing Argentina today. Juan Perón represents the closed autarkic economy of the demagogic collectivist. Juan Alberdi represents the free market and a political order that respects individual rights.

Erik von Kuehnelt-Leddihn used to refer to the two "Jeans" of Geneva, John (Jean) Calvin and Jean Jacques Rousseau. In the case of Argentina we have two "Juans." They do not exactly overlap with the two Genevan Jeans, but there are similarities. In the mid-nineteenth century, Alberdi promoted Calvin's "Protestant Ethic" of hard work, emulation, and thrift by encouraging the immigration of Anglo-Saxons to Argentina. These immigrants were meant to provide a supply-side demonstration effect of the virtues necessary for economic progress. Juan Perón, the twentieth-century caudillo, on the other hand, adapted Rousseau's idealization of Sparta's economic autarky and collectivism. He achieved his ends by corrupting the masses with lavish welfare-state and pro-labor measures financed by the surplus revenues accumulated under his predecessors.

Spanish Colonial Influences

Perón had predecessors. The Escorial of Philip II loomed over the colonial rule of Argentina. The monarch's "abundance of justice" meant, in fact, pork barrel privileges for colonial elites. State mercantilism, with its policies of privileges and favors, meant that economic success depended upon how close you were to political power. Perón's *Justicialismo* was just a twentieth-century variant on the Castilian tradition.

The immigration policy established by the Spanish empire in the sixteenth and seventeenth centuries was also very restrictive, leading to a significantly different outcome than that in British North America. At first, no one but those sanctioned by the Castilian hierarchy were allowed to enter the New World legally. Jews, Moors, and ultimately Protestants were forbidden to enter Spain's colonial dominions. Bourbon Reforms in the eighteenth century, although intended primarily for raising Spanish taxes and revenues, did promote more New World trade and commerce, though *libre comercio* was by no means meant as a general free-trade policy. Not having to go through Lima and across Panama made elementary economic sense.

The first real effort to rid Argentina of the Spanish yoke was the ill-fated invasion by Britain in 1806–7. Without any authorization by William Pitt, the British Prime Minister, Sir Home Popham and William Carr Beresford captured Buenos Aires, expecting like America in the Iraq War to be greeted by the subjugated masses with open arms. They were bringing British free-trade ideas! But the Argentines showed no gratitude for the gift, and military action under Santiago de Liniers (1753–1810) delivered them from British benevolence. Liniers was proclaimed viceroy without the authorization of the monarch, which helped set the stage for

independence.

In spite of this episode, most Argentineans admired England. They disliked the traditional mercantilist and monopoly aspects of their relation to Spain, which tried to prohibit trade with England. Spanish policies of regulation and control were failing. In spite of the Inquisition and economic prohibitions, smuggled goods, books, and ideas were everywhere.

Independence to 1853

Arguments for free trade and economic liberalism had already begun in the 1790s with the writings of José de Lavardén (1754–1809). Mariano Moreno (1778–1811), a radical economist and promoter of Argentine independence, further developed the liberalizing agenda. Moreno was a curious mixture of Enlightenment and Scholastic Catholic influences. He was somehow able to reconcile Rousseau (editing out the part of *The Social Contract* that dealt with religion) with Adam Smith. He was pro-free-trade and mysteriously died on his way to England to promote his ideas. Some thought he was poisoned.

After Argentina gained its independence from Spain in 1816, the desirable extent of democratic political participation was an open question. General José de San Martín (1778–1850) tried to convince Simón Bolívar (1783–1830) that Latin America needed a monarchy to restore order, but he did not succeed in overcoming Bolívar's oath of honor to establish democratic republics. San Martín was disillusioned and left for Europe; Bolívar was later also disillusioned, and one of his last statements proved to be prophetic: "There is neither faith nor trust in [Spanish] America, neither in individuals nor in nations. The constitutions are books, the treaties scraps of paper, the elections battles, liberty is anarchy, and life a torture."

Argentina soon entered a stage of semi-anarchy and civil war between two political factions, "*federales*" and "*unitarios.*" The *unitarios* were liberal centralizers and well-read in European Enlightenment ideas. Their distrust of the people, engendered in part by reflection on the French Revolution, led to free-market ideas, which gave the nod to the business elites in Buenos Aires to modernize the new country—with or without popular consent.

The *federales* represented the ideals and interests of the interior. They demanded autonomy for each region and were suspicious of foreign ideas and fashions. Gauchos and caudillos represented a populist impulse which would reappear time and again in Argentine history.

To some extent, the differences between these two factions resemble those between the Federalists and the Anti-Federalists in the United States. The only difference is that in the case of Argentina, there was no political compromise and the Federalists—the *unitarios*—initially won, lock, stock, and barrel. But they in turn were swiftly defeated by the caudillos, led by Juan Manuel de Rosas (1835–52). Rosas was a charismatic leader on horseback and a declared *federalista.* He represented the cattle breeders and exporters in the province of Buenos Aires. Although he governed as a personal authoritarian, his economics was based on the trade of the products derived from ranching.

The Constitutional Interlude

A coalition led by General Justo José de Urquiza (1801–70), who displaced Rosas in 1854, was not only united in its rejection of authoritarianism, but much more importantly, had a comprehensive framework for national political and economic organization. Urquiza adopted proposals from the intellectual "Generation of '37." These proposals were based on classical liberal principles derived from Alberdi, while

also taking into account the characteristics of the country at the time. The reforms were based on the principles of "national unity," "liberal institutions," and "modernization"—all of which were expressed in the 1853 Constitution (similar to the U.S. Constitution), along with individual rights and freedom of commerce.

Alberdi and the "Generation of '37" had taken note of Edmund Burke's criticisms of the French Revolution, and they proposed a conservative political system, with democracy limited to qualified voters. They named this compromise with pure democracy "the possible republic." The Constitution reflected a compromise between the federalists and the centralists of that time.

The policies adopted by Urquiza reflected ideas about economic free trade proposed by Adam Smith and an intention to develop in the Argentine people the virtues of industry and thrift. This final element concerning the ethical framework of the country was to be adapted to the prevailing conditions in Argentina: the solution adopted was to foster immigration in order to transfer civic virtues from the United States and Europe to Argentina. According to Alberdi, who coined the phrase, "to govern is to populate," "Every European who comes to our shores brings more civilization in his habits, which then communicates itself to our residents, than many books of philosophy. We understand perfectly what we can see, touch, or feel. A hard-working man is the most edifying catechism."

As it turned out, Argentina did receive a huge wave of immigration—roughly six million immigrants between 1871 and 1914. But this wave was mainly Greek, Italian, and Spanish, not Anglo-Saxon. There was always a British influence and some German influence, but the bulk of the immigration in the later nineteenth century was Italian and Spanish.

Why was immigration so important? There is a famous quotation, variously attributed to Georges Clemenceau or Oscar Wilde, that "[t]he United States is the only country that has passed from barbarism to decadence without once knowing civilization." Domingo Faustino Sarmiento (1811–88) virtually equated the immigration of Anglo-Saxons with civilization itself. He was determined to make Argentina a country that would spring from barbarism to civilization by means of education and example. He was the seventh president of Argentina, from 1868–74, and wrote *Facundo: Civilization and Barbarism* in 1845. He might have coined the phrase, "Tous enemies a gaucho" ("All enemies from the gaucho").

Civilization for Sarmiento meant European models, and for that matter, northern European models—definitely not the Spanish, whom Sarmiento called the "backward daughter of Europe." He was among those who lamented the Spanish colonial period as one of repression. He also believed that the Catholic Church and the Inquisition were agents of repression. In fact, he traced the Spanish character back to Islam, and contended that Philip II as the "commander of the (Christian) faithful" amounted to an Iberian Caliph!

By means quite similar to those that emerged in the United States, Sarmiento developed an assimilation program of education to civilize the immigrants. His ambitious (and successful) public education program was stimulated by his friendship with Horace Mann, who led the movement for a system of "common schools" in the United States to deal with the similar problems of the Irish. Sarmiento's portrait is still featured on Argentine currency, and his image festoons many public schools throughout Argentina.

From an economic standpoint the

country gradually benefited from trade liberalization and integration into the international economy in this period. The railway system was extended. Exports were expanded beyond cereals and wool to include meat, thanks to improvements in meat-processing technology. The expansion of international trade was also aided by the monetary stability that prevailed in Argentina for nearly fifty years because of the country's adherence to the international gold standard.

At the time of the first census (1869), Argentina was one of the poorest and least populated countries in South America. Production techniques were still primitive, and most of the economy was based on self-sufficiency. The census recorded 280,000 families, with fewer than 1,800,000 inhabitants in total. 80 percent of the population was illiterate, over 70 percent of houses were thatched shacks; only 20 percent of school-age children went to school.

It took thirty years for the dream of Alberdi to be realized. In a few decades this backward country became one of the richest and most prosperous nations on earth. Much of this growth was due to agriculture. In 1875 there were no exports of wheat; on the contrary, there were 5,000 tons of wheat imports. Only four years later, Argentina exported 25,000 tons of wheat. By 1894, wheat exports totaled more than 1,600,000 million tons.

As late as World War I, Argentina was the world's tenth wealthiest economy. Arguably, Argentina survived the Great Depression and even World War II in good shape, with exports of beef and wheat in high demand during the entire period. Alas, this economic progress was not to last. From its position as the most European and most economically advanced area of Latin America in the late nineteenth and early twentieth centuries, Argentina has fallen far behind those countries that were once considered its equals: Australia and Canada. For a while, it was even hoped that Argentina would become the Colossus of the South in healthy competition with the Colossus of the North, the United States. That was not to be.

The End of the Possible Republic

The authors of the liberal democratic tradition argued that true democracy is a subtle synthesis of order and participation; and that a democratic political order requires a cultural base that respects both the values of healthy excellence represented by aristocratic culture and the strength and effort of bourgeois culture. The possibility of such a synthesis hinges on the process of transition from the aristocratic to the democratic eras. The possibility of this synthesis was truncated in Argentina, however, where the various parties remain locked in struggle to this day.

Argentina's economic difficulties arose because of a recurring pattern of conflicts between an aristocratic faction sliding off into an oligarchy and a developing mass democracy sliding off into demagoguery. Initially, the traditional elites were reluctant to expand democratic participation. Their comfortable success and the easy flow of export earnings plunged them into an atmosphere of immoderate optimism. They believed that progress was inevitable and that Argentina was predestined for a brilliant future that would come to pass in an almost automatic manner.

The extraordinary dynamism of the economy, immigration, and social change led to an expansion of the political system and a deepening of democracy. While a number of immigrants had settled in various colonies, the majority ended up in the large cities. The cities, which Sarmiento

looked to as harbingers of civilization, became filled, not with an industrious bourgeoisie, but with poor immigrants who generated social and political organizations militating for radical political and economic change. These include the emerging labor unions, the Socialist Party, and the Radical Party.

In 1912 Parliament passed a new electoral law—known as Sáenz Peña, after the president who proposed it—which established universal and compulsory suffrage for all males over the age of eighteen. Records of the debates in parliament show the traditional governing party confident of electoral success after the reform. However, it was the Radical Party under the leadership of Hipólito Yrigoyen (1852–1933) which triumphed in the 1916 presidential elections, drawing on its strength in the intermediate urban and rural sectors. Yrigoyen was in office from 1916 to 1922.

The two decades prior to 1930 saw an ideological-political change involving the decline of liberalism and the rise of nationalism. Nationalists resisted Argentina's quasi-colonial status of subservience in relation to the British Empire. In this context, the Argentine aristocracy, faced with the certainty that it could not reverse the electoral weight of the large urban masses, began to question the value of liberal democracy in increasingly polarized, ideological terms. Due to international crises, the Argentine economy was also subject to strong external shocks that generated abrupt booms and busts. Foreign investment and immigration both slowed during this period. The source of foreign investment also changed, with the United States displacing Britain as Argentina's main creditor.

The crisis of 1930, the onset of the Great Depression, eroded any remaining faith in the government's ability to manage crises, and Argentina succumbed that year to a military coup by General José F. Uriburu (1868–1932). Uriburu despised the Sáenz Peña law. A reactionary oligarchy came to power under the protection of the military and produced the first breakdown of constitutional government, inaugurating the chronic political instability characteristic of Argentina during the second half of the twentieth century.

In turn, the events of the Second World War caused a crisis in international relations and economic policy, inducing the collapse of this oligarchic regime. A military revolution in 1943 led by Juan Perón promoted a militantly nationalist agenda. Perón's slogans were "political sovereignty," "economic independence" and "social justice." His first term of office lasted from 1946–55.

Perón's formation as a military officer probably contributed to his decidedly confrontational conception of politics. His national populism was highly critical of Argentina's traditional elites, labeling them "imperialists." In his friend-foe rhetoric, the working class, "the people," perennially suffered at the hands of the so-called "oligarchy." Perónism promised to end this exploitation permanently.

The political pillars of the new regime were the Perónist party, the trade union federation (CGT), and the armed forces. The Perónist party was founded on strong, centralized leadership, completely dependent on the personality of Perón. In 1949, Perón revised the Constitution to enshrine social and labor rights; the revised Constitution also removed all presidential term limits.

Perón's economic plan was based on redistributionism, Keynesianism, and nationalism. It enacted strong labor and social reform aimed at improving the conditions of the working class and redistributing income in their favor through wage

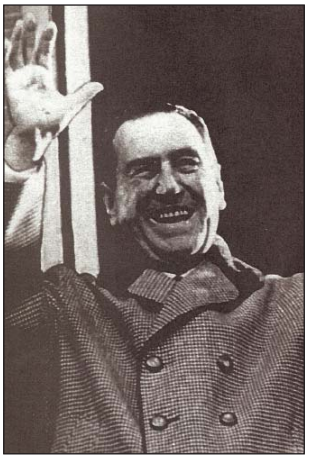
increases and distortions in relative prices. Perón also fostered a much larger role for the state in the economic process, pushing aggregate demand through government spending and an expansionary monetary policy that initiated the era of inflation in Argentina.

Perón's policies also promoted state-led expansion of industry by creating a system of incentives for replacing imports and nationalizing the public utilities. The import-substitution policy fostered a domestic market orientation to industrialization which generated a large segment of non-competitive industries that depended on protectionist policies. Manufacturing output did grow during Perón's rule, but it was oriented to local consumption, whereas increasing amounts of industrial inputs and capital goods needed to be imported from abroad.

As a consequence of Perón's political orientation, the great divide between aristocratic and popular values divided Argentine culture deeply. Unlike other countries, which absorbed industrialization slowly, Argentina went through this process at a very fast pace. The system reached a critical point in 1951. The terms of trade turned negative, which led to a situation of external economic strangulation. These conditions led to a new coup in 1955, known as the "Revolución Libertadora." Swinging back to aristocracy and driven by those who rejected the demagogic trend in politics and economics, its economic objectives were dismantling the authoritarian system of controls created by Perón and reversing the growing deficit in the balance of payments through severe restrictions on money and credit and a reduction of wages.

This attempt to restructure the economy encountered political opposition from the powerful urban and industrial interests that had formerly benefited from protectionism. While they were weak economically, in the sense of productivity and competitiveness, they were strong politically in view of the abundant jobs Perónist policies had provided. It then became clear that a return to the previous policy of relying on agricultural exports was virtually impossible, from a political point of view, in Argentina.

Juan Perón was, of course, down but not out. After several political compromises, he returned to power in his second term of government (1973–74). He rebuilt the political system, placing interest groups and political parties on an equal footing. The labor union leadership signed a social pact brokered by the government, thereby regaining Perón's approval. In the economic sphere, increasing fiscal deficits and inflation resulted from Keynesian monetary and fiscal boosts to aggregate demand and the cartelization of interest groups.



Perónian Populism

Perón also had to face the major problem of defusing escalating revolutionary violence. The Montoneros terrorists, virulently anti-American, hoped to establish a "socialist fatherland." He ousted them from the Justicialist party in March 1974. When he died in July, 1974, his ineffectual wife, Isabel Perón, assumed power.

The government soon lost control of the situation and the next military coup was more brutal than usual. From 1976–83, a "Dirty War" by the military destroyed what was left of legality and human rights in Argentina in the name of ending subversion.

In the economic field a monetarist plan to control inflation was implemented, which included financial liberalization. It established a fixed parity of the peso against the dollar, which assumed a decreasing implicit inflation over time. But an arms race with neighboring states boosted defense spending and the growth of external debt. By 1981, confidence in the stabilization plan collapsed, people fled from the peso to the dollar, and the economy collapsed.

The economic crisis was probably one reason that impelled the junta to embark on a military adventure and invade the Malvinas/Falkland Islands held by Great Britain. The Argentine failure in the war eroded entirely the prestige of the military.

Trial and Error: The Current Democratic Period

The democratically elected government of President Raúl Alfonsin, which lasted from 1983–89, tried to account for those who had disappeared during the "Dirty War" and establish civil control over the military. In economic matters, Alfonsin attempted (unsuccessfully) to reform the labor unions by encouraging internal democracy. The government adopted two stabilization plans based on price controls, one of them featuring a change in the monetary sign, the "Austral." Alfonsin also initiated a turn toward gradual economic liberalization and spoke of privatizing two large public enterprises, but the scheme could not reach the necessary consensus. But Alfonsin also continued high levels of public spending and debt. Faced with the collapse of the second stabilization plan, an inflationary spiral began that ended in hyperinflation. Inflation of 672 percent in 1985 and 3,080 percent in 1989 helped wipe out the stable middle class.

Economic discontents led to Alfonsin's defeat and the peaceful handover of power to President Menem, who held office from 1989–99. Once in government, Menem made decisions that surprised everybody. In opposition to the traditions of his party on economic policy, he adopted a strategy of fiscal austerity, privatization, and economic liberalization, in an effort to restore the economy. This prompted a process of extreme economic reforms, including the independence of the Central Bank and the convertibility law, which maintained parity between the peso and the dollar. The economy was deregulated, particularly the financial and investment sectors. Practically all public enterprises were privatized and the economy was opened to international competition.

But these rapid economic reforms contrasted with a continuing institutional traditionalism, especially in the form of informal institutions and political habits: an "Economic Emergency Law" was adopted by which the president was endowed with extra-constitutional powers to dictate rules and regulations without taking into account the Congress, and the number of Supreme Court judges was expanded to ensure a majority to uphold the president's decisions.

Menem's economic program reduced inflation and boosted economic activity, but in the long run the extremely rigid institutional framework made the economy sensitive to external shocks. There was an inconsistency between the money-exchange scheme and the growth of current account deficits that financed the scheme. The successful anti-inflationary stabilization plan was recycled into a

model of "sustainable" growth, not taking into account that the economy was going from inflation to recession, generating unemployment and associated poverty.

This logic reached its necessary conclusion in the economic collapse of 2001–02, during the presidency of the newly elected Fernando De la Rúa. He, in turn, was followed by another Perónist, Néstor Carlos Kirchner, who was the president of Argentina from 2003 until 2007. In the name of "returning to a republic of equals," Kirchner continued the spending and repudiation policies of his predecessors. His wife, Cristina Fernández de Kirchner, who was elected president in 2007, succeeded him. On top of her husband's already destabilizing policies, she confiscated the private retirement savings of the middle classes and imposed heavy taxes on the productive agricultural sector. The Kirchners' interventionist economic policies were accompanied by a foreign policy transformation: from the embrace of the U.S. into the arms of Hugo Chávez, Evo Morales, and other Latin American leftists.

The Moral of the Story

The difficulties facing Argentina are enormous, and market reforms will not be achieved easily. A century ago, Argentina was the tenth wealthiest nation on earth; today, the World Bank ranks it sixty-fifth, slightly ahead of Romania and Gabon. A century ago, Argentine GDP per capita was on par with Australia; today, it is less than a quarter of Australia's. Are there lessons for the United States in the Argentine experience? Many Americans would think not. They content themselves with comfortable theories of American exceptionalism: "It can't happen here." Why not? Well, because we're different, exceptional. But if we look closely, we can see that it *is* happening here.

Although the seeds of economic statism were laid in the Progressive Era, the New Deal, the Great Society, and, yes, even the domestic policies of recent Republican administrations, the shoots have turned into a luxuriant jungle under the current administration. When Adam Smith said there is "a lot of ruin in a nation," he meant that a vibrant free-market economy could for some time absorb the damage caused by stupid economic policies and government interference. But as the damage from such policies mounts, ruin must inevitably come.

By aping Social Democratic policies at a time when they are beginning to implode in Europe, the current U.S. administration is creating an economic malaise that places us exactly on the path taken by Argentina. We are facing the socialization of investment, crony capitalism, profligate government spending, and inflationary deficits for a long time to come. Whether we choose to admit it or not, we are embracing our very own (and, doubtless, "exceptional") version of Perónism.

In the name of "doing something" about the Great Depression, FDR floundered during the 1930s and created huge amounts of regime uncertainty. No one in the business community knew what was going to happen next, but they were sure that it meant increasing taxes, regulation, and power to the federal government. It is precisely these kinds of conditions that led to what Wilhelm Röpke called, a "secondary depression." The same kind of "pragmatic" floundering has occurred in response to the 2008 crash of the housing bubble and credit crisis. A TARP fund of $700 billion, a stimulus bill of nearly $800 billion, omnibus bills (pork-barrel projects) of $410 billion, auto-industry bailouts with ownership stakes granted to the United Auto Workers, and Fannie Mae and Freddie Mac bailouts of $500 billion are just part of the total picture of a

radical transformation of the relationship between the U.S. government and the productive economy.

The question, therefore, is not only, "Should we cry for Argentina?" It is also, "Should we cry for the United States?"