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**Commodity Price Booms and the Populist Temptation  
An Explanation of Argentina's Decline in the 20<sup>th</sup> Century**

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**Abstract**

Argentina's economic and institutional decline has long posed a conundrum to economists and social scientists. In particular, it challenges modern theories that seek to explain differences in economic growth across countries. Theories that claim that institutions have a first-order effect on growth cannot explain the secular economic decadence of the most institutionally advanced country in Latin America. Theories that claim that that education precedes good institutions, cannot explain the institutional degradation of the most educationally advanced country in Latin America. Theories that claim that social capital is the determinant factor face an equally daunting problem. This paper emphasizes the key role played by recurrent cycles of populism in pushing the country into secular decadence. It explains these cycles in terms of the interaction of culture and institutions and posits that rising commodity prices are a signal of impending political change and predict the ascent of populist regimes.

**Key words:** Populism, Commodity cycles, Argentina, inequality, institutions, social capital, economic growth, economic decline.

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## 1. Introduction

Seventy years ago an acerbic French journalist quipped that the United States was the only country that had gone from barbarism to decadence without civilization. It was a *bon mot* back then, maybe plausible in the aftermath of the Great Depression, but in light of history clearly a hyperbole. Without exaggerating, however, today we can say that Argentina is the only country that went from barbarism to decadence after a glimpse of civilization. It would seem Argentine people saw what civilization meant and decided to take a different path. The costs of this decision have been enormous not only in economic terms, but also socially, culturally and institutionally.

The economic decline of Argentina during the 20<sup>th</sup> century is unparalleled in modern history (Taylor 1994). Three stylized facts stand out. First, starting in 1930, Argentina's position in the world's GDP per capita ranking started to decline, first slowly (it recovered during WWII) and then after 1946, more rapidly (Figure 1). This year marked the beginning of the most politically successful populist experiment in the world: Peronism. Only briefly, during 1992-1999 and since 2006, this declining trend was reversed. As a result, whereas in 1947 Argentina ranked among the ten wealthiest nations on earth, by 2008 it ranked 46<sup>th</sup>. Second, after 1930, the quality of institutions in Argentina also began to decline (Figure 2). This decline accelerated in mid 1940s and began to reverse slightly in 1984 without ever recovering the levels attained in the first decades of the 20<sup>th</sup> century (Araoz, 2011). It follows from the above that something pivotal happened between 1943 and 1947. Third, the political and economic cycles of populism in the last 100 years have coincided with cycles in agricultural commodity prices. In fact, during the last three booms, Peron or his followers governed Argentina and applied similar policies with similar results (Table 1). When prices collapsed, populist programs also collapsed.

Argentina's decadence has long posed a conundrum to economists and social scientists, who have used the words paradox, puzzle, riddle and tragedy to describe it. In particular, it challenges modern theories that seek to explain the fundamental long term causes of economic growth. Theories that claim that "inclusive" political and economic institutions cause growth (Acemoglu, Johnson and Robinson 2005 and 2005, AJR) cannot explain the secular economic decadence of the most institutionally advanced country in Latin America; whereas theories that claim that high levels of education precede the establishment of "good" political institutions (Gleaser, La Porta, Lopez-Silanes and Shleifer, 2004, GLLS), cannot explain the institutional degradation after 1930 of the most educationally advanced country in the region. Although they haven't specifically addressed the case of Argentina, theories that emphasize the central role of "social capital" in economic growth (Putnam 1995, Knack and Keefer 2003) face a similar problem: What changed in Argentine culture that made it more inimical to growth and why this change has been so persistent?

To avoid the conundrum proponents of the first two theories brush-off some inconvenient facts. They either: a) deny that the country was ever institutionally developed and that its exceptionally high economic growth from 1870 to 1930 was simply an unsustainable "extractive" boom (Acemoglu and Robinson, 2012 and Acemoglu, 2013), which is refuted by the historical evidence, or, b) argue that in 1900 the population of Argentina was not really well educated compared to that of Canada, Australia, the US and many European countries (Campante and Gleaser,

2013), which is true but not enough to explain what happened. If Argentina was more educated than the rest of the major Latin American countries circa 1900 why did it grow at a much slower rate since then? When we look at trends in educational levels it becomes quite evident that Argentina was one of the countries that made the biggest improvement in the 1870-1930 period and by 1930 it not only had significantly closed the gap with Europe and the Western Offshoots, but also its citizens were, by any measure, among the better educated in Latin America, if not the best. In fact, the Argentine experience during this period confirms the GLLS hypothesis: improved educational levels led to an improvement in political institutions.

## 2. Explaining Argentina's Decadence

The literature on Argentina's economic decline is vast. The first (and maybe premature, if not misguided) attempt to explain it can be traced back to Weill (1944). Carlos Diaz-Alejandro (1970) wrote the seminal work on the subject and many of his conclusions are still valid today. Cortés Conde (1989), Taylor (1994) and many others followed in his footsteps and added to our understanding of what happened. In the nineties however, as Argentina's economy rebounded, even development economists turned their attention to other subjects. In the past decade, as we approached what many consider the centennial of Argentina's decadence, there was a resurgence of interest. Among the most notable works during this period are Gerchunoff and Llach (2003), Sanz Villaroya (2003), Prados de la Escosura and Sanz Villaroya (2004), Prados de la Escosura (2009), Lagos, Llach, Fracchia and Marull (2011, LLFM), and Di Tella and Gleaser (2014).

Economists have proposed a wide range of hypothesis to explain why Argentina went from being the seventh wealthiest country in the world in 1908 to being 46<sup>th</sup> in 2008. With the objective of being as inclusive and objective as possible LLFM (2011) tested over forty hypotheses using sophisticated econometric techniques. In their final analysis, only four were statistically significant: protectionism, macroeconomic instability, high and creeping inflation, and the impact of two world wars. However, these conclusions give us at most a proximate cause of Argentina's decadence but not its fundamental cause, i.e., what led successive governments to adopt policies that led to those results?

In reviewing recent research, Llach, Di Tella and Gleaser (2014) get closer to the answer. They narrow the range of hypothesis to four, which can be summarized as follows: 1) Argentina's exceptionally high economic growth from 1870 until 1930 was a statistical anomaly, *ergo*, there is no decadence to explain, simply mean reversion, 2) a secular deterioration in the terms of trade after the Great Depression pushed the country into decline, 3) Argentine stopped growing after 1930 due to its inability to invest in new technologies, and 4) a vicious cycle of bad politics and bad economics, particularly after the mid 1940s, led to instability and stagnation.

This last explanation is broadly consistent with the ones proposed by Diaz-Alejandro, Cortés Conde and others, which has a lot of support among mainstream economists. According to this vision, that we share, Argentina's decline was caused by low rates of capital accumulation that followed the replacement of an export-oriented, market friendly regime by a mildly interventionist and protectionist one following the Great Depression, and by cycles of strongly interventionist, protectionist and

redistributionist policies after 1946. In other words, the decline can be traced to the emergence and persistence of populist regimes that sought to correct income inequality with policies that undermined the country's institutions and degraded its stock of social capital.

As the founder of the most enduring and successful form of populism in Latin America Juan Peron plays a key role in this explanation. He entered Argentina's political arena in 1943 as a member of a secret clique of young nationalist military officers who staged a coup that deposed the conservative coalition elected in 1938 (Potash, 1969). During a stint as Secretary of Labor between 1944 and 1945 Peron forged valuable alliances with union leaders that helped him win a landslide election in 1946. Ousted from the presidency in 1955 he returned to power in 1973. Although he died a year later, the party he founded has governed Argentina 22 out of the last 30 years. However, populism in Argentina has not been the exclusive domain of Peron or his followers. When in power, the main opposition party has also sometimes pursued populist policies with equally disastrous results. Also, Peron's influence has extended to other Latin America countries, where many political leaders have tried to emulate his success.

This paper develops a theory that explains: a) why did this vicious cycle of bad politics and bad economics start, b) why it has persisted even though the forces that gave rise to it have disappeared, and c) why agricultural commodity price cycles explain the economic and political cycle of Peronism (and populism in general) in Argentina.

### **3. Background**

The theory presented in this paper builds upon and connects with several strands of research. First and foremost with explanations of the "natural resource curse" (NRC) that affects developing countries with relatively abundant natural resources; second with the literature on institutional change resulting from conflicts about the distribution of resources (AJR), and third with the theories linking culture and economic growth.

The NRC posits a negative relationship between natural resource abundance and economic growth in developing countries (Sachs and Warner, 2001 and Frankel, 2010). Most studies focus on countries that produce and export non-renewable resources –fossil fuels or minerals– and where the government plays an important role in their production, directly through a price board or indirectly through state owned companies (e.g., Nigeria and Venezuela). Also the period under study is usually limited to the last sixty years. Argentina does not fit this description and in many ways is a *rara avis*. With the exception of Brazil and Ukraine there are no other developing countries that are among the top ten exporters of major agricultural commodities. Therefore some of the conclusions from the NRC literature are not always applicable to Argentina.

Whatever its origin, what is clear is that the effects of the NRC would be felt more intensely during a period of rising commodity prices. Recent research suggests that the NRC is not caused by a relative abundance of natural resources but by the lack of strong institutions (Melhum, Moene and Torvik, 2006). But very little is known about

the interrelationship between booms and institutions. A promising model (Robinson, Torvik and Verdier, 2002, RTV) predicts that at times of resource booms, incumbents will have an incentive to pursue populist policies to increase their chances of re-election. Whether they succeed or not is determined by the quality of institutions. However, this model does not contemplate the hypothesis that a) populism essentially implies institutional change and b) such change seems to be an endogenous response to a boom in prices. Also, the RTV model seems more applicable to countries with governments that are directly involved in the production of exportable commodities, which is not the case of Argentina, and therefore can alter at their will the extraction path of natural resources.

A related question is what happens with inequality during commodity price booms, i.e. if booms generate inequality and inequality contributes to the rise of populism then we can establish a relationship between the former and the latter. But a cross-country study by Goderis and Malone (2011) finds that inequality will fall in the short run immediately after a boom, and will then increase steadily over time as the economy grows and the initial impact wears off. However their results seem to be valid for countries that produce oil and minerals and not to major agricultural exporters such as Argentina (which was not part of the study). On the other hand, two recent studies (Blanco and Grier, 2012 and Kaufman, 2013) have emphasized the importance of commodity booms in supporting the reemergence of populism in Latin America.

The theory of institutional change proposed by AJR posits that institutions – economic and political, formal and informal– are endogenous and reflect an underlying conflict in society regarding the distribution of power and economic resources. The distribution of power and formal political institutions determines a certain economic outcome. Institutional drift and critical junctures (random shocks) can alter the direction of institutional change. According to this theory, the rise of populism is evidence of weak institutions not of institutional change. However, in an empirical study relevant to our theory, Rode and Revuelta (2011) found a strong negative relationship between populism and institutions, more specifically to economic freedom. In our view, populism can occur in countries with strong institutions. In essence it is an endogenous response to a critical juncture.

Finally, our theory also borrows concepts from a recent body of work that seeks to explain the impact of culture on institutions (Tabellini, 2008) and the origin, transmission and persistence of values and beliefs and their impact on economic outcomes (Guiso, Sapienza and Zingales (2006, 2007 and 2010, GSZ). We also incorporate the hypothesis that resentment is a major factor when it comes to explaining the popularity and persistence of Peronism in Argentina (Leis, 2004 and Leis and Viola, 2010).

Culture is broadly defined as individual values and beliefs about the scope of application of norms of good conduct. Social capital can be defined as “good culture” (GSZ 2007), i.e., shared beliefs and values that lead to cooperation and help a society resolve collective action problems. An increasingly large body of literature suggests that social capital can explain why differences in economic performance persist over centuries (GSZ, 2010).

As with any form of capital, social or civic capital can be accumulated or depreciated

(i.e., a deterioration of the set of values that promote cooperation). According to GSZ (2010) the latter can happen a) as a result of a change in the economic or social factors that foster the formation and transmission of civic capital (e.g. an increase in income inequality), and b) the occurrence of some major historical event that generates an enduring level of mistrust (e.g., hyperinflation or a major economic crisis) or changes people's beliefs and/or the perception of the moral acceptability of certain behaviors (e.g., rising inflation). However these theories do not explore the possibility that populism could be a major factor in promoting such changes.

Tabellini (2008) argues that culture is the key factor that helps us understand how distant political history influences the functioning of current institutions. Values and beliefs change slowly and are influenced by political and economic outcomes in the past. This can explain the puzzling persistence of institutional outcomes that are not conducive to growth.

Two values that are empirically associated with better institutional outcomes are generalized trust and generalized morality (as opposed to limited or personalized). Conceptually, the distinction between them concerns the scope of application of norms of good conduct (whether towards everybody or within a narrow group with which the individual identifies such as the immediate family). Resentment is antithetical to both values so it can be viewed as depreciation of social capital (e.g., if the country is controlled by a small clique for its own benefit why not cheat on taxes? or why respect the law?). Understanding how and why resentment rises is therefore important to understand the economic and institutional decline of countries such as Argentina and why formal and informal institutions are inconsistent. History shows that building resentment has been part and parcel of the political and electoral strategy of populist leaders. This is achieved with a Manichean political discourse aided by massive government propaganda, which has been a defining characteristic of populism (Hawkins, 2009).

When analyzing the role culture has played in economic development, GSZ (2006) rescue the work of Italian political theorist and activist Antonio Gramsci. In Gramsci's neo Marxist view (1949), power is not merely domain but hegemony, i.e. the ability to influence society morally and intellectually. Cultural hegemony, i.e. the control of the intellectual life of society by purely cultural means, is crucial to political dominance. In Gramsci's words:

“Hegemony, in its most complete form, is defined as occurring when the intellectual, moral and philosophical leadership provided by the class or alliance of classes and class fractions which is ruling, successfully achieves its objective of providing the fundamental outlook for the whole society.”

Although Gramsci was an enemy of Mussolini, who in turn was an inspiration to Peron, it might be surprising that they all shared the same methods. Gramsci's ideas on cultural hegemony are useful to understand Peronism and vice-versa (Corse, 1998, Laclau, 1983). Seeking cultural hegemony was as integral a component of Peronism as redistributionist and clientelist policies. In Argentina, Peron used massive propaganda efforts to promote a “narrative” in which a small group of landowners (the “oligarchy”) allied with British or US capital (or the government) conspires against the will and well being of the Argentine people. This narrative not only delegitimized the rights of the landowners (one of Peron's main political enemies) but

also justified expropriating their wealth, which entails violating property rights.

Bringing resentment into the picture opens a whole new set of issues that exceed the realm of economics. Particularly interesting in this regard are Nietzsche's thoughts on the origin and political uses of resentment. Nietzsche believed socialism was a political theory born of resentment and a desire for revenge. In his view, it was "an attack of sickness" brought about by "underprivileged" human beings who blamed "society" for their "lack of power and self-confidence" (Buccola 2009). According to Nietzsche, feelings of resentment were not innate to less fortunate individuals but rather created by a third party, or parties, that wished to use them as an instrument for its own will to power. In *The Antichrist* he blamed the "socialist rabble" for undermining the sense of satisfaction that a worker was able to get out of his life and for making him envious and teaching him revenge. In *The Will to Power* he accused socialist activist of "preaching of altruistic morality in the service of individual egoism: one of the most common lies of the nineteenth century." The same could be said about populism.

Resentment also increases the electoral demand for redistributionist and clientelist policies, which are the essence of populism. These policies have historically led to growing inflation, which in turn contributes to erode generalized trust and social capital in general. By definition they also erode institutional quality. There is path dependence due to the absence of a learning process. Populism is self-destructive but its inevitable and recurrent crises reinforce the conspiratorial Manichean narrative. In essence, it sets off a vicious cycle in which values and beliefs undermine and are undermined by institutional changes.

#### **4. The Puzzles of Peronism**

Regarding Peronism, there are several puzzles that we need to resolve. First, the rise of populism in Latin America is usually traced to income inequality and low levels of education (Kaufmann and Stallings, 1991 and Sachs, 1991). This raises an interesting question: why it has been so prevalent in Argentina, which for most of the 20<sup>th</sup> century has been one of the most educated, urbanized and egalitarian countries in the region? (Williamson, 2009) Second, one distinguishing feature of populism has been its self-destructive nature. In pursuit of their political objectives, populist regimes have resorted to deficit financing, inflation, interventionism, protectionism and exchange controls that almost unavoidably led to major crises that ended up hurting the people they were meant to help. This raises two questions. First, what explains this recurrence of mistakes and ill-conceived policies? Is it just "bad memory" or ignorance that leads populist leaders to repeat the same mistakes? One view is that populist leaders follow some kind of "dynamic strategic considerations" (Dornbusch and Edwards, 1991).

This answer places the blame squarely on populist leaders but in a democracy they can only be elected with the vote of a significant portion of the electorate. In fact, in Argentina Peronism always had a strong electoral support (at least initially). This raises another important question: if populism has proven to be inimical to their material well being in a significant way why do a majority of Argentine voters continue to find it appealing? There are four possible answers to this question: a) they are ignorant: i.e., they have the "wrong" model in their head, b) they are not economic

maximizers, i.e., they have other objectives in their welfare function besides money, c) they are irrational, i.e., they do not make the connection between populism and decadence and would indeed prefer to be better off economically but still vote for populist leaders, and d) they are resentful, i.e., they do not have the “right model” and would prefer to be better off economically but vote for populist leaders because they will punish the elite. This last answer could also be subsumed in b).

Di Tella and Dubra (2013, DD) discard c), don't explicitly consider d) and argue that the answer is a combination of a) and b). In particular, they claim that Peronism, and populism in general, appeal to values and beliefs that are deeply ingrained in vast segments of Argentine society. Looking at the World Value Survey (WVS) panels for Argentina in the 1990s, they find that Argentina's electorate has a leftist bias, as most people seem to believe that poverty is the result of luck rather than laziness (or that society treats them unfairly) and that the country is run by an elite looking out for its own interests and not for everybody's benefit. As DD point out, these notions underlie the political discourse of Peronism:

“[Peron's] speeches can be reduced to arguments in support of the idea that instead of individual effort (internal to the individual) or luck (external but without intention), the relevant influence on income is an external force with human intention. It is “others” who are actively taking actions which lower Argentinian's income. It is not a question of making a bigger effort at the individual level; nor a question of taking a collective stand to reduce the influence of natural elements (through insurance or a better selection of activities and crops). It is a question of actively opposing other actors that try to exploit Argentines.”

The “others” in Peron's speeches are the landed oligarchy and “foreign interests” (based in the UK and/or the US). According to Diaz Alejandro (1970) feelings of resentment against foreign investors started as soon as foreign capital started to pour into the country. And even though the interest of foreign investors were not necessarily aligned with those of the wealthy landowners, the notion that they were allied and running the country for their own benefit was widespread among many intellectuals.

At this point we must ask ourselves why was inequality such an important issue if Argentina had a more egalitarian distribution of income than other Latin American countries? Part of the explanation can be traced to the influence of the Argentine *intelligentsia*. During the century that spanned Argentina's independence until 1910, it was guided by the paradigm of individual liberty, borrowed first from the classical thinkers of the Enlightenment (from Rousseau to Smith), and then, in the second half of the 19<sup>th</sup> century, from Comte and Spencer. The paradigm started to change at the turn of the century towards equality. By 1920, the Russian Revolution had as much influence on leading Argentine intellectuals as the French Revolution a hundred years earlier. In parallel, as a reaction, nationalist sentiment also grew. Although opposed, both ideologies found a fundamental objection with Argentina's “original sin”. Both also contributed to develop the narrative in which a landed oligarchy allied with foreign capital ruled Argentina for their own benefit at the expense of the people. While the economy grew, this narrative remained on the fringe of political discourse.

It is unclear whether Peron really believed in this narrative or whether he was driven

purely by opportunistic considerations. It has been argued that it was the fear of communism following the Russian Revolution that led many early populist leaders in Latin America to advocate anti-oligarchic and anti-imperialist reforms (Walker, 2008). Be it as it may, thanks to powerful propaganda the “narrative” became incorporated into Argentine culture. In Nietzschean terms, Peron preached “altruistic morality” in the service of “individual egoism” and used the masses as an instrument of his own “will to power.” Some have argued that Peronism became “an authentic demiurge of the resentment of the popular classes against the liberal project that was building the country” (Leis and Silva, 2010).

The beliefs underlying this narrative (and the resentment they generate) are still prevalent today as confirmed by the WVS and Latinobarometro polls and also by recent current political discourse. Also, as DD show, they are more prevalent in the middle class than in the lower class. The results of Latinobarometro’s polls also confirm a strong egalitarian streak in Argentine society that in contrast with Brazil is more prevalent among the more educated segments of society (Table 1). This would explain why populism has a strong appeal among the middle classes, which would be consistent with Director’s Law (Stigler, 1970).

A combination of several structural factors during the first decades of the 20<sup>th</sup> century contributed to give some credence to the narrative that bred this resentment (or vice versa), in particular: massive immigration, relatively high concentration of land ownership, growing inequality, particularly after the Great Depression, and massive inflows of foreign capital, particularly from the UK, until 1914.

From 1870 until 1930, Argentina received a massive flow of immigrants, mostly from Spain and the north of Italy. During this period in no other country in the world immigration had a higher relative impact on the native population. As Sanchez-Alonso (2007) has pointed out, prior to 1930 there was a good economic reason to restrict immigration: rising inequality, a decrease in the relative quality of immigrants and relatively stagnant wages for unskilled labor (which were nevertheless higher than in many European countries). According to one counterfactual analysis, in the absence of immigration, by 1914, the labor force would have been 30% smaller, salaries would have been 25% higher and labor productivity 21% higher (Taylor 1997).

Argentine workers clearly would have been better off with a more restrictive immigration policy. However, restrictions remained moderate until well into the 20<sup>th</sup> century. In contrast, in the United States easy naturalization and voting laws quickly transformed immigrants into a recognized electoral force. Things were different in Argentina. ¿Why? First, only after 1912 there was universal suffrage. Second, most foreign workers did not naturalize (military service was compulsory) and therefore could not vote. As a result, the interests of the working class were not represented in Congress. According to one view, the main instigators of this “liberal immigration” policy were its key beneficiaries: the landowners and the foreign capitalists (Sanchez-Alonso, 2007). Be it as it may, by the mid 1930s, real wages in Argentina were not only the highest in Latin America but also twice as high as those prevalent in Spain, Italy and Portugal and comparable to those of Great Britain (Williamson, 1999).

The second factor to take into account was the concentration in land ownership. Many studies have shown that compared to Australia, Canada and the United States,

farmland property in Argentina was concentrated in fewer hands (Engerman and Sokoloff, 2002, Adamopoulos, 2008 and Alvarez and Willebald, 2013). The Argentine civil code ensured (through hereditary laws) that with the passage of time such concentration would decrease, but this was a slow process that took at least three generations. Between 1870 and 1914, the combination of mass migration and favorable prices for most of the agricultural commodities that Argentina produced and exported led to a significant increase in the value of farmland in absolute and relative terms and consequently to higher inequality (Arroyo-Abad 2008). This in turn led to increasing discontent, as evidenced by a major uprising among small land tenants in 1912.

The third factor that played to the resentment narrative was the preponderance of foreign capital. The long investment boom, mostly in railways and meat packing plants, of the pre-1914 era was largely financed by British capital (Taylor 1996). And by that year almost 50% of the total capital stock was foreign owned. Diaz-Alejandro (1970) mentions several instances during the 1870-1930 period when nationalist sentiment flared up. Another point to emphasize is that this dependence on foreign capital left the country very vulnerable to external shocks, which would soon throw Argentina off its growth trajectory.

Concentrated land ownership and the preponderance of foreign capital were Argentina's "original sin." There wasn't anything wrong with either one and it would have been unrealistic to pretend that a young country could resolve in a matter of six decades an issue that took several centuries in most of Europe. But an inevitable fact remained: given the underlying structure of the Argentine economy, upward cycles in agricultural commodity prices inevitably lead to higher inequality and more power to the landed elite. The biggest irony is that after 1930, when concentration of land ownership and foreign capital were becoming less important in economic terms, they became more important in a political terms. This actually made sense. While Argentina's wealth grew rapidly the issue of inequality remained latent. But the Great Depression dealt a big blow to the expectations of a growing population made up mostly of first and second-generation immigrants who had crossed the Atlantic in pursuit of a better life. When growth stopped and the country failed to live up to the expectation that it would follow in the footsteps of the United States, resentment against landowners grew. The narrative developed by disgruntled intellectuals in the earlier part of the 20<sup>th</sup> century started to take root and became increasingly appealing to politicians.

## **5. A Theory of Populist Cycles in Argentina**

We argue that although the rise of Peronism in 1946 was a response to specific demographic, political and economic factors prevalent in Argentina in the decade that followed the Great Depression, its remarkable persistence is explained by cultural factors. More specifically, we argue that through massive government propaganda, Peron indoctrinated vast segments of society with a belief that ensured the political appeal of redistributionist policies whenever there is a boom in agricultural

commodity prices.<sup>1</sup>

According to the theory, a rise in agricultural commodity prices acts as an easily observable “signal” that inequality will grow and thus alter the political equilibrium in society. Drawing an analogy with biology, rising commodity price provoke a Pavlovian reaction in the electorate: voting for redistributionist policies. Opportunistic politicians are happy to oblige. The stronger their belief that the rise in commodity prices is permanent, the more populist they will become.

For the purpose of our analysis it is important to distinguish between nominal commodity prices and terms of trade. In contrast with the latter, which are known *ex-post* and require calculations that are beyond the abilities of the average citizen, prices are observable every day, quoted in the newspaper and easy to understand. If the price of meat, wheat or soybeans goes up, any Argentine will conclude that farmers will do well (as long as the government does not expropriate their rent). The terms of trade might be relevant to our analysis for a different reason: they reflect more adequately the “budget constraint” (or external) faced by a populist government.

In boom times, resentment becomes a useful political strategy for politicians trying to win elections. Once in power, they have strong incentives to expropriate the “surplus” rents generated by higher commodity prices to avoid a disruption of the political equilibrium. This expropriation generates a negative externality as it entails a violation of property rights and therefore leads to institutional degradation, which affects all economic agents and leads to lower investment and growth. However, it allows populist politicians to build a war chest that can be used to win re-election. To justify their actions, populist politicians have to convince voters that the landowners and the foreigners are conspiring to exploit the people, i.e., building resentment is part and parcel of the populist program. Essentially, in this view, populism is an endogenous political response to a critical juncture in the form of a commodity price boom.

The political impact of the boom depends partly on whether it is perceived as permanent or transitory. The more permanent the boom’s nature, the stronger will be its political impact and the stronger the incentive for an incumbent to turn to populist policies and expropriate the rent of the agricultural sector. If the boom is anticipated, the incumbent can move pre-emptively to ensure that it does not alter the balance of power. If unexpected, the reaction will be slow but equally strong. On the other hand, if the boom is transitory, the political impact will be lower. For example, Peron had a Malthusian view of the world and it seems he believed both in 1946 and 1974 that the world’s economy would face permanently higher commodity prices (Castro, 2006). It also appears that after mid 2006, the Kirchners made the same assumption and their policies became increasingly populist.

When commodity prices return to normal, populist leaders try to amend their ways and reluctantly adopt half-baked stabilizations plans but accumulated macroeconomic

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<sup>1</sup> Our theory would work even if Peron had not been responsible for inculcating this narrative in vast segments of the population. We cannot use any polls in support of our hypothesis. However, it is hard to argue that the almost 3,5 million people (mostly Europeans) who immigrated into Argentina between 1870 and 1930 did it with the belief that they would be exploited by the landowning oligarchy.

imbalances usually push the economy into a deep crisis. But instead of correcting the narrative, the crisis reinforces it, i.e., the failure of the redistributionist experiment was not the inevitable consequence of unsustainable policies but the result of a conspiracy between the oligarchy and foreign interests. Over time, poor economic performance leads to mistrust and reinforces resentment until another boom in agricultural commodity prices reignites the populist agenda. The country remains trapped in a vicious cycle of bad politics and bad economics.

## **6. Commodity Price Cycles and Populism in Argentina (1900-2013)**

The starting point of this paper is a very simple observation. Over the last 100 years there have been four major supercycles in agricultural commodity prices: 1916-1920, 1946-1951, 1973-1974 and 2006-2012 (Henderson, Gloy and Boehlje, 2011, Erten and Ocampo, 2012 and Jacks, 2013). In Argentina, the upswing of these supercycles coincided with the expansionary phase of populist policies. There were three brief price spikes in 1980-1981, 1983-1984 and 1988. During the first, the government was in the hands of the military and during the latter, of the Radical Party, which resorted to populist economic policies.

One possible explanation is serendipity. The other, proposed in this paper, is that price booms are a signal that income inequality will increase and provoke a political reaction. In the context of AJR, the boom is a “critical juncture” that can alter the distribution of economic resources and therefore lead to a change in the balance of power in society. Rising nominal prices are easily observable by all political actors and according to a prevalent narrative they will benefit mostly the landed oligarchy, which will attempt to regain the power lost in 1946. Populism is the endogenous response to this critical juncture.

The theory proposed in this paper explains the cycles of Argentine political history during the 20<sup>th</sup> century after the electoral reform of 1912, which expanded the democratic franchise through universal suffrage. The first test of this reform was the presidential election of 1916. Commodity prices started to rise in 1913 and continued to increase until 1920, when they reached a peak. The winning candidate was Hipolito Yrigoyen, who some argue led the first, very timid, populist experiment in Argentina. In reality, Yrigoyen followed economic policies that were similar to those of his predecessors. This is consistent with our theory that emphasized the importance of the narrative, i.e., before Peron commodity prices did not trigger economic populism.

In 1922 Yrigoyen was succeeded by Marcelo T. De Alvear, who although a member of the Radical Party belonged to the landowning class (Yrigoyen was also a landowner). By then commodity prices had dropped by almost 20% from their peak. Alvear's administration was in many respects similar to the Conservative regime that had preceded Yrigoyen. During most of his presidency commodity prices declined but in 1926 they started to increase again and continued to increase until 1928, when Yrigoyen was re-elected president. His second term cannot be characterized as anything but chaotic, corrupt and incompetent.

From 1912 until 1930, Argentina managed an orderly transition of power, moving to more inclusive institutions. Although during this period industry was the fastest growing sector, the structure of the economy remained relatively unchanged. Contrary to AJR's view, from an institutional perspective, Argentina was on the road “to

becoming a legitimate democracy with checks and balances and high economic growth” (Alston and Gallo, 2010).

In October 1929, Wall Street crashed and the world was pushed into the Great Depression. Commodity prices fell sharply and the economy entered into a deep recession. The chaos in the Yrigoyen administration provoked a military coup that put an end to almost seventy years of democratic continuity. Behind it were nationalistic army officers fearful of communism (Peron included), many prominent members of the Conservative party that had ruled until 1916 as well some leading Radical Party members opposed to Yrigoyen. More importantly, in a decision that would have far ranging consequences, the Supreme Court implicitly legitimized the coup. By doing so it undermined its own legitimacy. Amid accusations of fraud a new president was elected in 1932 with the support of a coalition of conservatives, radicals and socialists.

For the next decade, electoral fraud was a staple of Argentine politics, particularly in the province of Buenos Aires. Again, the Supreme Court turned a blind eye to this situation, which “eroded the nascent foundations of a political belief system which might have brought about a true system of checks and balances” (Alston and Gallo, 2010). Institutionally, as was the case with most of Europe, Argentina drifted to less inclusive political institutions.

Another salient characteristic this era was growing commodity prices and rising income inequality. Starting in the mid 1930s commodity prices started to increase again. By 1939 they were 60% higher than in 1932. As can be seen in Figure 3, inequality also increased markedly in the aftermath of the Great Depression and reached an all time high in 1943. By resorting to fraud, the Conservative party had effectively protected the source of economic power of its main constituency.

Coincidentally, in 1943, Peron entered the political scene. He was the leader of a small secret cabal of military officers who organized a *coup d’etat* to depose the elected government. The motivations of these officers are not entirely clear but they were inspired by a nationalistic ideology and viewed the Conservative government (and the landowning elite) as too aligned with the Allies against Nazi Germany. Since the late 19<sup>th</sup> century, the Argentine army had been heavily influenced and indoctrinated by German officers. World War II was a critical juncture for Argentina.

In 1944 Peron engineered a palace coup and was appointed Vice President, War Minister and Secretary of Labor. During this time he forged an alliance with organized labor and built a platform to win the presidency. He also introduced propaganda as a political tool. As Di Tella and Dubra (2014) have pointed out, a key element of Peron’s campaign was a narrative that sought to blame landowners and foreigners for the plight of the working classes. Both inequality and commodity prices had risen significantly since the Great Depression (the latter had more than doubled since 1931).

In mid 1946, Peron won the presidential election with almost 54% of the votes. At this time thanks to the devastating effects of the World War II, Argentina was the seventh largest economy in the Western World and ranked among the top ten wealthiest countries in the planet. Also, a new and stronger commodity supercycle was underway. Peron held a Malthusian view of the world and expected massive food

shortages. In one of his most famous speeches he asserted that “the future of the world, the future of humankind and the future of nations will be extraordinarily influenced by the magnitude of their reserves of food and commodities... The future is ours.” Substantially higher agricultural commodity prices, which Peron expected would be a permanent feature of the world economy, allowed him to launch an aggressive redistributionist program that would change Argentina forever.

Once in power, Peron set out to neutralize his political enemies: the conservatives and the communists. The only obstacle he faced was the Supreme Court, which declared some of his measures unconstitutional. It was almost a replay of president Roosevelt’s experience following his re election in 1936. The difference was that Peron was successful. In 1947 he impeached four out of five judges of the Supreme Court and turned it into his own political instrument. It was the turning point in the evolution of judiciary independence and property rights in Argentina and a major source of institutional instability thereafter (Alston and Gallo, 2010).

At the end of 1951 commodity prices collapsed forcing some changes into Peron’s economic policy. Despite all his nationalistic rhetoric he turned to foreign capital to save the economy (Antunez and Gerchunoff, 2001). But a military coup in 1955 interrupted the learning process.

Although the Great Depression, the 1930 military coup, electoral fraud (and the passivity of the Supreme Court in the face of it) helped paved the way for Peron’s ascent to power, the rise in inequality generated by rising commodity prices also played a major role. Taking advantage of this relationship Peron used massive propaganda efforts to inculcate in vast segments of the population a narrative that justified expropriating the rent of the landed oligarchy to reduce inequality. It was a clever political strategy that allowed him to neutralize conservatives and communists. But it also condemned Argentina to a vicious political and economic cycle that ended up hurting the people he was supposed to help.

Another thirty years passed, and as Marx predicted, history repeated itself, this time as a farce. Peron returned to power in September 1973, when as a result of the oil shock commodity prices skyrocketed. His economic policy was typically populist: he imposed export taxes, increased public spending, raised salaries and established price and exchange controls to tame inflation. Once again he believed the boom would be permanent (or at least long lasting). His ideas about food scarcity were very much in line with the Neo-Malthusian warnings of the so-called “Club of Rome” (Castro, 2006). He was not alone in believing this. For the last century once in every generation, the global economy witnesses a protracted and widespread commodity boom and in each boom, the recurrent common perception is that the world will quickly run out of raw materials (Jacks, 2013). But the evidence shows strong reversion to the mean. Peron died before commodity prices crashed in 1975 sending the Argentine economy into a tailspin. The military stepped in early 1976 and interrupted the learning process.

Another thirty years passed and, thanks to China, rising commodity price came back with a vengeance. This time it was not a tragedy, nor a farce, but a mix of both. By mid 2003, as a new supercycle was starting, the Peronist party was again in power.

Despite a bombastic rhetoric, during the first three years of his mandate, Nestor

Kirchner followed economic policies that cannot be characterized as populist (high real exchange rates, stable inflation and twin surpluses in fiscal and external accounts). But by mid 2006 it appeared that higher agricultural commodity prices would become a permanent feature of the world economy for a long time. As the theory predicts, Kirchner became increasingly populist and sought to remain in power indefinitely. To avoid constitutional term limits he appointed his wife as presidential candidate in the 2007 election, which she won handily. Kirchner's idea was to alternate mandates between the two and consolidate their hold on power indefinitely. The Kirchners invented a new political movement: Kirchnerism. However, its methods, policies and discourse very much belong to the mainstream of Peronism (Walker, 2008).

The narrative Peron was instrumental in inculcating in vast segments of Argentine society was again used with great political effect. In typical Peronist fashion, landowners again became a public enemy number one. The much-maligned landowners of a hundred years ago have mostly disappeared. Land in Argentina is still relatively more concentrated in than in Canada, slightly higher than in Uruguay and the US but not as bad as in Peru, Brazil, Paraguay or Venezuela. According to the latest FAO statistics the average farm size in Australia is now almost seven larger than in Argentina (Table 2). In all these countries, rising commodity prices still have an impact on inequality due to their effect on farmland values but the only major agricultural producer in the world that expropriates a significant portion of the rent of its farmers is Argentina.

Under the Kirchner's, agricultural export taxes, a typical measure used by populist government to expropriate rents from the farmers, grew from 23.6% to 35%. In one of the epic battles of their presidency, which they lost, the Kirchners tried to impose a progressive taxation regime on agricultural exports. As commodity prices strengthened in 2011, Cristina Kirchner was able to secure her reelection with 54% of the votes. However, as predicted by the theory, a softening of commodity prices after mid 2012 derailed her plans of indefinite reelection and has cast serious doubts on the sustainability of her populist experiment.

## **7. Data and Methodology**

We use two different approaches to test the hypothesis of a positive causal relationship between the cycles of agricultural commodity prices and populism. The first relies on a simple signaling model and the second on traditional OLS regression analysis.

In the first approach, the signal measures whether there has been a persistent increase in agricultural commodity prices at the time of the election. According to the theory, persistence would suggest that the boom is permanent and therefore its political impact should be higher, i.e., the candidate running on a populist platform will win and once in power will adopt populist policies. We use this method to predict the outcome of the last eleven presidential elections in which a Peronist candidate was allowed to run (the elections of 1958 and 1963 are therefore excluded).

First we define as a signal of a permanent commodity price boom as an increase in nominal prices that is twice as high as the historical average over a period of 12, 24

and 36 months. For the period 1900-1951 the average was 2.5% and from 1960 onwards 3.83%. The signal equals to 1 at the date of the election if in the preceding 12, 24 and 36 months commodity prices have risen at least twice as high as the historical average (Table 3).

The main source of data for nominal agricultural commodity prices for agricultural products compiled are the datasets from the US Department of Agriculture (USDA) and the World Bank (WB).

The signal approach requires that at each presidential election a value of 1 is assigned if the winning candidate ran on a populist platform and if he/she adopted populist policies after the election. This is an easy exercise for most elections but three elections pose a problem: 1983, 1989 and 2003. In 1983 Alfonsín was not the populist candidate but ended up applying populist economic policies. In 1989 Menem was the populist candidate but after he got elected he applied orthodox economic policies. In 2003, no candidate ran on a populist platform, Menem obtained the largest percentage of votes but Kirchner ended up becoming president. Although Kirchner didn't run on a populist platform, with the passage of time and as commodity prices increased, his policies became increasingly populist.

We estimate the frequency of Type I and Type II errors for each signal for the eleven presidential elections (Table 4). The best results are obtained with the 36-month boom signal, which is 100% accurate in predicting which candidate will win the presidential election (i.e., populist versus not populist). The 12-month signal incorrectly predicted in 1983 that the winning candidate would be the one running on a populist platform but the winner ended up being Alfonsín, who ran as a moderate. However, as the signal predicted, he ended up adopting populist policies. The 12-month and the 24-month signal also incorrectly predicted a populist candidate would win the 2003 election. However in this election it was unclear who the populist candidate was. More likely it was Menem who won in the first round but decided not to go to the "ballotage" so it could be argued that the prediction was right. The 12-month signal also failed to predict the populist candidate's victory in 1989. But again, in this instance, it predicted that the winning candidate would not adopt populist policies, which turned out to be true.

There is always the possibility that a winning candidate will depart from the platform after the election, i.e., follow a "bait and switch" strategy or simply be forced to change policies due to changing economic conditions. To check this hypothesis we estimate the value of the boom signals 3 months and 1 year after the election. In this exercise, OF is used for the 12-month signal for 1946 and 1951.

In this case all signals have the same predictive accuracy after 3 months and the 24-month signal is best one year after the election. In this case, the 24-month and the 36-month signal yield identical predictions 3 months after the election. Both fail to predict that Alfonsín would follow populist policies in 1983 and that Menem would not follow them in 1989. The 12-month signal is right on both of these years but predicts Menem would follow populist policies in 1995. The 1995 election was in the aftermath of the Mexican crisis, which given the circumstances would have moderated any candidates' populist inclinations. [Also, under all approaches the populist signal was positive 12 months after the election, which is consistent with the

fact that the economic populist index increased slightly in Menem's second term compared to the first.] With this approach, the best signal 3 months after the election (persistent boom for 36 months) correctly predicted whether a candidate would adopt populist policies in nine out of eleven instances. This signal however yields identical predictions at the election date.

For the second approach we use a simple OLS regression model that explains populism as a function of agricultural commodity prices:

$$(1) \log PP_t = \alpha + \beta \log ACP_t + \varepsilon_t$$

Where  $PP_t$  is an index of populism,  $ACP_t$  is the average nominal price of Argentina's agricultural exports and  $\varepsilon_t$  is an error term. According to the theory,  $\beta$  should have a positive sign.

Estimating  $PP_t$  poses the greatest difficulty as agreeing on a proper definition has long eluded the efforts of economists, sociologists and political scientists (Gidron and Bonikowsky, 2013). Even if we agreed on a definition it would have to be measurable to test our hypothesis.

We considered several approaches. The first relies on the index of populist discourse built by Hawkins (2009), which provides a quantitative measure of populism for almost forty countries in terms of discourse through a thematic analysis of speeches of current and former political leaders. The advantage of this series is that it covers the period 1900-2012. The disadvantage is that it measures discourse and not actual policies. Also, according to this index Carlos Menem was more populist than Nestor or Cristina Kirchner, a result that for anybody who has lived in Argentina in the last twenty years makes no sense.

Another alternative is to use the criteria proposed by LLFM (2012) which defines a populist economic policies as: a) increases in the real exchange rate equal or higher than 20 per cent; b) increases in public debt/GDP equal or higher than 20 per cent; c) increases in public spending/GDP equal or higher than 3 per cent of GDP in absolute terms; and d) reduction in Investment/GDP equal or higher to 2.5 per cent of GDP. This approach can lead to strange conclusions. In particular, it would suggest that Peron's first two terms cannot be characterized as populist, as only one variable (Public Spending/GDP) meets the criteria. Also, a fall in Investment/GDP may not indicate the prevalence of populist policies but the opposite (e.g., public infrastructure programs).

Given the limitations of both approaches we constructed an annual index of economic populism that is a simple average of: a) gap between official and market exchange rates, b) percentage change in public spending, c) percentage change in real wages, c) percentage change in public sector employment at the national level d) the direct nominal protection rate for the agricultural sector based on Colomé et al. (2013), and e) the average level of taxes on agricultural products.

The theory makes the following predictions about the cycles of economic and political populism: a) in periods of rising agricultural commodity prices a non-Conservative, non-incumbent will use a populist discourse and win the presidential

election; b) in periods of rising agricultural commodity prices an incumbent will be more likely to resort to more interventionist populist economic policies and to degrade institutional quality, c) the more persistently high are agricultural commodity prices the stronger the populist bias in economic policy, c) declining commodity prices will be associated with a weaker populist bias in economic policy.

[To be expanded: The results of the analysis can be viewed in Table 5. The OLS estimates for equation (1) are as follows:

Intercept	0.10
Slope	0.70
R <sup>2</sup>	62%

This means a 1% increase in agricultural commodity prices leads to a 0.7% increase in the index of populism.]

## 8. Conclusion

Argentina's economic and institutional decline has long posed a conundrum to economists and social scientists. In particular, it challenges modern theories that seek to explain cross-country differences in economic growth. Theories that claim that institutions have a first-order effect on growth cannot explain the secular economic decadence of the most institutionally advanced country in Latin America. Theories that claim that that education precedes good institutions, cannot explain the institutional degradation of the most educationally advanced country in Latin America. Theories that claim that culture and social capital are the determinant factor face an equally daunting problem. What changed in Argentine culture that was so important to push the country into a secular decline?

However, institutions and culture play a key role when it comes to explaining Argentina's economic decadence during the 20<sup>th</sup> century. The problem is methodological. Cross-country econometric studies linking institutions, education, inequality and growth by definition abstract from idiosyncratic factors. Our central point is that Argentina's lackluster growth since the mid 1940s cannot be understood without understanding Peronism and its legacy. Peron is the *deus ex machina* of Argentina's economic decline. Economists have focused on the direct impact on growth of his economic policies but, with few exceptions, not on the indirect impact through culture and institutions.

Recent work linking culture, institutions and economic growth allows us to incorporate ideas developed by sociologists and political theorists that are key to understanding the economic and cultural impact of Peronism. In particular, we focus on a "narrative" that was a key element of Peron's strategy to achieve cultural hegemony. This narrative identified the landowning elite and foreign capital as enemies of the Argentine people. These beliefs, and the resentment they generated, became embedded in Argentine culture thanks to a massive propaganda effort. They are still pervasive today among broad segments of the electorate and have been used successfully by populist leaders. In essence, this narrative generates negative social capital (or "bad culture"), which is detrimental to long-term growth.

Underlying the narrative is the notion that a persistent increase in the price of agricultural commodities can lead to a reallocation of economic resources in favor of the oligarchy. In essence, prices act as a signal of a potential change in the political equilibrium. When agricultural prices rise, they increase the demand for populism from the electorate and the incentives of politicians to use populist policies to buy votes. Populism is an endogenous response to such signal.

The theory proposed in this paper is consistent with institutional explanations of the NRC, with AJR's theory of institutional change, with DD's emphasis on the impact of Peronist beliefs and with theories that emphasize the importance of culture for economic growth. In an ironic twist to the Prebisch-Singer hypothesis, it also predicts that import substitution industrialization strategies, a typical populist policy, will most likely take place at times of surging commodity prices.

The issues raised in this paper are not simply academic. China's continued economic growth seems to suggest that agricultural commodity prices might remain high for relatively long period of time. Will Argentina be able to shake off Peron's curse? If not, the country's continued economic decadence seems assured not only because of the implicit institutional volatility but also because the peak of each boom has been lower in real terms than the previous one. This means the value of the rent exacted from the agricultural sector has been lower, which in turn means that in each iteration the country starts from a lower level. To borrow an idea from Greek mythology, it is as if Sisyphus instead of having been condemned by the Gods to push a rock up the same mountain, had to push it up increasingly higher peaks.

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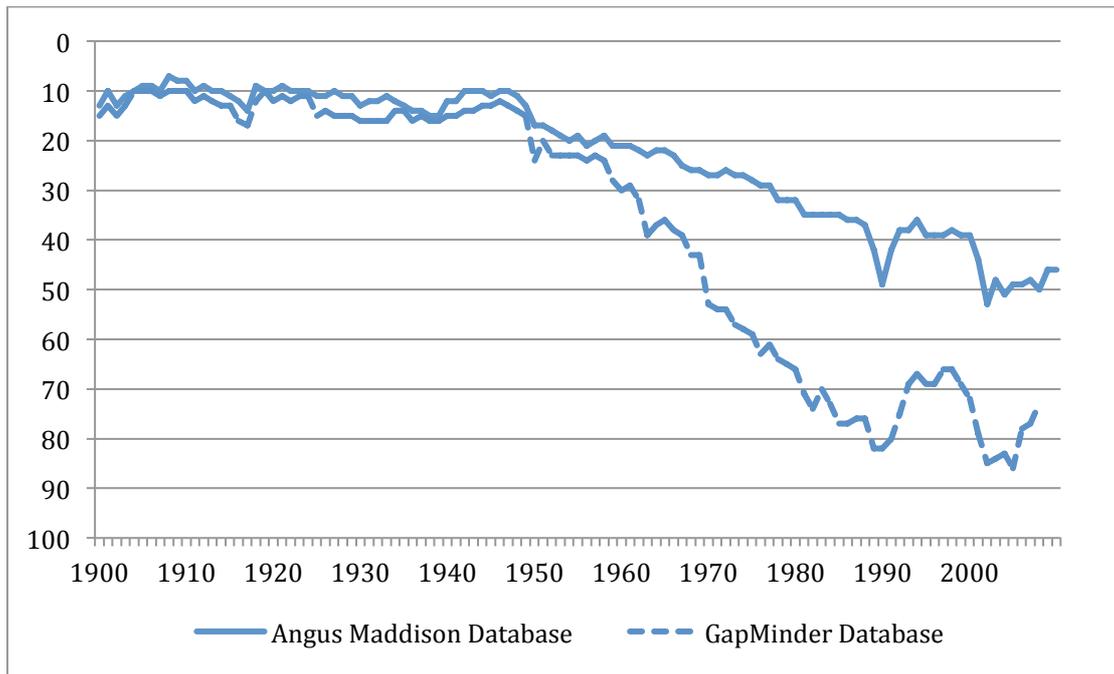
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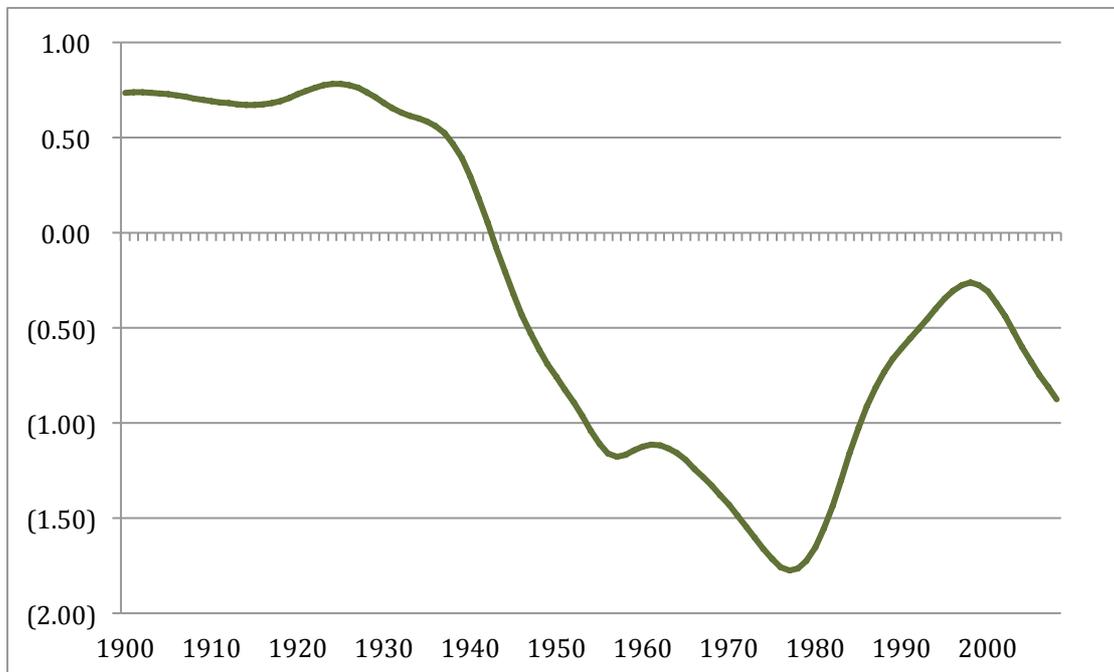
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**Figure 1**  
**Argentina's World Rank in Terms of GDP per capita (1900-2008)**



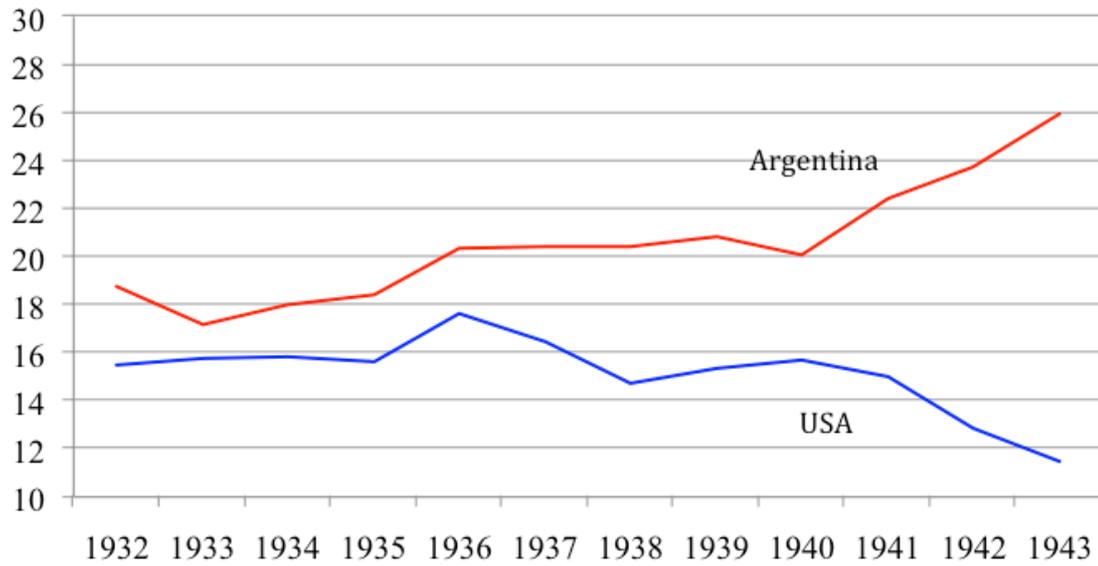
Source: The Maddison Project and Gapminder.

**Figure 2**  
**Argentina Index of Institutional Quality (1900-2006)**



Source: Araoz (2011).

**Figure 3**  
**Income Inequality after the Great Depression:**  
**Argentina versus USA Top 1% Share of National Income (1932-1943)**



Source: The World Top Incomes Database, available at <http://topincomes.parisschoolofeconomics.eu>.

**Table 1****Results of Latinobarometro Polls (2007)**

Answers to the question: How just and fair is the distribution of wealth?

<b>Country</b>	<b>Gini Index (2006)</b>	<b>% who responded a little or not guaranteed at all</b>	<b>Predicted Response given GINI Index</b>
Argentina	47.7%	88.0%	68%
Bolivia	56.4%	53.0%	76%
Brazil	56.8%	83.0%	77%
Chile	51.8%	80.0%	72%
Colombia	58.7%	81.0%	79%
Mexico	48.1%	72.0%	68%
Peru	50.9%	75.0%	71%
Uruguay	47.2%	67.0%	67%
Venezuela	44.8%	42.0%	65%

Source: Latinobarómetro, World Bank

Note: The predicted response is estimated using a simple regression analysis.

**Table 2****Land Ownership Statistics**

	<b>Gini Index (1)</b>	<b>Average Farm Size (in Has.)</b>	
Argentina	0.83	469	583
Australia	N/A	3,601	3,243
Brazil	0.85	65	73
Chile	N/A	N/A	84
Canada	0.64	349	273
Colombia	0.79	23	25
New Zealand	N/A	N/A	223
Peru	0.86	20	N/A
Paraguay	0.93	78	N/A
Spain	0.86	19	24
South Africa	N/A	N/A	288
Uruguay	N/A	N/A	287
UK	0.67	70	71
USA	0.74	187	178

Source: FAO

Notes: (1) 1990 Round of Censuses

**Table 3**

**Boom Signal at Election Time**

	<b>Previous year</b>	<b>Previous 2 years</b>	<b>Previous 3 years</b>	<b>Populist candidate won?</b>	<b>Winning Candidate</b>
Feb-46	1	1	1	1	Peron
Nov-51	1	1	1	1	Peron
Mar-73	1	1	1	1	Campora
Sep-73	1	1	1	1	Peron
Oct-83	1	0	0	0	Alfonsin
May-89	0	1	1	1	Menem
May-95	0	0	0	0	Menem
Oct-99	0	0	0	0	De la Rúa
Apr-03	1	1	0	0	?
Oct-07	1	1	1	1	Kirchner
Oct-11	1	1	1	1	Kirchner

**Table 4**

<b>Boom signal</b>	<b>Predicts Populist Platform Wins</b>		<b>Predicts Populist Policies 3 months after election</b>		<b>Predicts Populist Policies 1 year after election</b>		<b>Aver age</b>
	<b>Error Type I</b>	<b>Error Type II</b>	<b>Error Type I</b>	<b>Error Type II</b>	<b>Error Type I</b>	<b>Error Type II</b>	
1 year	9%	18%	9%	9%	27%	18%	11%
2 years	0%	9%	9%	9%	18%	18%	7%
3 years	0%	0%	9%	9%	18%	18%	5%
Best model	0%	0%	9%	9%	18%	18%	5%

**Table 5**

Period	Exchange Rate Spread	% Increase in Public Spending over GDP	% Change in Real Wages	% Change in Public Employment	Direct Nominal Protection Rate Agriculture	Applicable Tax Rate on Agricultural Exports	Index Populi
1946-1951	85.6%	0.1%	5.3%	3.1%	37.4%	0.0%	21
1952-1955	99.8%	0.4%	0.9%	1.9%	41.8%	4.2%	10
1956-1958	43.4%	1.0%	4.1%	3.7%	29.8%	16.7%	16
1958-1962	0.0%	2.2%	1.5%	3.1%	28.4%	11.8%	6
1963-1965	18.6%	0.0%	7.0%	0.4%	6.2%	6.7%	6
1966-1969	4.4%	0.8%	0.1%	0.5%	12.1%	8.3%	4
1970-1972	56.0%	0.7%	0.2%	0.6%	20.5%	28.0%	-1
1973-1975	153.0%	0.6%	4.8%	5.2%	40.7%	40.0%	40
1976-1980	22.8%	2.2%	2.7%	4.2%	23.9%	0.4%	7
1981-1983	42.5%	1.0%	2.9%	0.3%	27.7%	3.7%	12
1984-1988	28.1%	1.3%	1.1%	3.3%	31.2%	15.4%	13
1990-1995	1.5%	0.1%	0.3%	8.7%	11.1%	3.1%	1
1996-1999	0.0%	0.4%	1.3%	1.0%	3.1%	1.3%	0
2000-2001	0.3%	1.6%	0.1%	1.6%	0.2%	1.3%	0
2003-2007	1.0%	1.4%	9.4%	3.8%	37.3%	21.9%	12
2008-2011	2.3%	3.0%	13.4%	3.9%	49.7%	27.3%	16
2012-2013	46.7%	1.7%	1.1%	4.0%			8

Source: US Dept. of Agriculture, World Bank, CEPAL, INDEC and Orlando J. Ferreres y Asociados.