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WHEN DID ARGENTINA LOSE ITS WAY?

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Abstract

This paper challenges the increasingly popular view that Argentina's economy performed relatively well under the corporatist import substitution industrialization (CISI) regime until the mid-1970s, and that its much-debated decline began only after 1975. Instead, it advances the alternative hypothesis that although real GDP per capita growth during this period was high by Argentina's historical standards, it was low relative to the rest of the world, to typical comparator countries, and to what was achievable given the country's factor endowments and investment levels. Distortions in relative prices and systemic capital misallocation generated significant inefficiencies that constrained economic dynamism and limited productivity gains. We support this hypothesis using a range of empirical methodologies—including comparative GDP per capita ratios, convergence analysis, growth accounting, and cyclical peak-to-peak analysis—complemented by historical interpretation. Although post-1955 modifications to the CISI regime temporarily improved performance, by the early 1970s it had exhausted its capacity to sustain growth. The prolonged stagnation that followed the 1975 crisis can be explained by the inability of successive governments to overcome the resistance of entrenched interest groups and thus complete the transition to an open market economy. Abrupt regime reversals fostered social conflict, political instability, and macroeconomic uncertainty, all of which undermined the sustained productivity gains required for long-term growth.

JEL Codes: N16, O11, O43, P16

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When did Argentina lose its way?

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1. Introduction

In recent years, the view that Argentina's economy performed relatively well in the postwar era up to the mid-1970s under the corporatist import substitution industrialization (CISI) regime initiated by Juan Perón in 1946 has gained traction in academic and policymaking circles. We define this proposition as Hypothesis 1 (H1).

Support for H1 comes primarily from two distinct sets of economists, sociologists, and historians. The first, which we define as P Group, includes among its most prominent members, Schvarzer (1987, 2001), Basualdo (2005), Rapoport (2008), Schteingart (2019). Members of this group are sympathetic to, or affiliated, with the Peronist Party, and who oppose reforms to open and deregulate the economy and reduce government spending.[1] Notably, H1 has also been endorsed by several mainstream economists who favor such reforms. This group includes, among others, Hopenhayn & Neumeyer (2004), Kehoe (2007), Buera, Navarro & Nicolini (2011), Buera & Nicolini (2019) and Martínez González & Nicolini (2024). We shall refer to this group as M Group.

[1] There are voices within the left who reject the notion the ISI regime imposed inaugurated "a promising cycle of economic development" and that its demise in the early 1970s "aborted an opportunity for greatness" (Bil, Dachevsky and Kornblihtt, 2011, p.32).

The key difference between these two groups lies in the methodology they use to support H1 and in the identification of the causes of Argentina's disappointing economic performance after 1975. Also, P Group is strongly associated with and advocates H1, whereas for members of M Group acceptance of the hypothesis is a byproduct of the methodology adopted to evaluate the performance of the Argentine economy. Their interest and focus are on what happened after 1975 rather than in the preceding decades.

According to the P Group authors, stagnation after 1974 was a direct consequence of the imposition of (or the attempts to impose) an open market economy (OME) regime between 1977 and 1980 and during the 1990s. In other words, in their view, Argentina would be better off if reforms to open and deregulate the economy had not been pursued. In contrast, members of the M Group attribute Argentina's dismal economic performance since 1974 to the inability of successive governments "to restrict spending to genuine tax revenues" (Buera & Nicolini, 2019, p.22). In other words, at the root of the problem is lack of fiscal discipline.

Given the conclusions drawn by both groups of authors, a casual reader might be led to believe—mistakenly, in our view—that the postwar period up to the mid-1970s represented Argentina's "golden age." GDP per capita growth rates during this period were relatively high by Argentine historical standards. However, they were low compared to the rest of the world and, as we will show below, driven by inefficient capital accumulation. By contrast, the half-century ending in 1929 was characterized by sustained convergence with advanced economies and significant institutional modernization—conditions more consistent with the idea of a true golden age.

The literature on Argentina's economic decline is vast (for a review of the literature see Taylor, 1994; Sanz Villaroya, 2009; and Ocampo, 2015). Several economic historians place its beginning

much earlier than the mid-seventies. For example, Sanz Villaroya (2009) locates at the end of the 19th century, Taylor (1994) in 1913, Díaz Alejandro (1970) in 1929, Alston and Gallo (2010) in the 1930s, whereas Waisman (1987), Llach (1987), Cortés Conde (2009), Nogués (2011) and Cavallo and Cavallo Runde (2017) during the 1940s. With the use of statistical tools Katz and Levy Yeyati (2024) have articulated a synthesis which posits that Argentina's secular decline started at the end of the 19th century and accelerated after WWII.

This paper contributes to this literature by focusing on the relative performance of the Argentine economy in the postwar period up to the mid-seventies.[2] In our view, Argentina's relative economic decline began in 1913, became evident after the Great Depression disrupted the global economic order in which Argentina thrived as an agricultural exporter, slowed down in the late 1930s, briefly reversed during World War II, and resumed uninterruptedly after 1945 under a CISI regime. Between the cyclical peaks of 1944 and 1974, the Argentine economy achieved rates of growth in real GDP per capita that were high by historical standards, particularly during the second half of this period. However, these rates were not only low by international standards but also in relation to the level of investments and the economy's initial factor endowments. We shall define this proposition as Hypothesis 2 (H2).

With respect to what happened after 1975 until 2023 we also disagree with varying degrees with supporters of H1 (less so with the M Group).[3] In our view, the 1974–75 crisis exposed the regime's

[2] There is no precise beginning and end of the period we analyze here. We generally define it as the postwar era up the 1970s. It could be argued it started in June 1943 with a military coup led by Perón or June 1946 when he assumed the presidency. The end occurred sometime between 1970 and 1975. GDP peaked in 1944 and 1974 and therefore we use this period as a benchmark for historical comparison.

[3] Lack of fiscal discipline is certainly part of the explanation behind the poor macroeconomic performance since 1974.

inability to deliver sustained GDP growth, and subsequent stagnation until 1990 stemmed from the failure to transition to an open market economy. This failure, rooted in political resistance from entrenched interest groups, triggered crises that fueled political instability, fiscal imbalances and high inflation. Two interruptions of Argentina's decline since 1975 have occurred. First, during the 1990s when structural reforms to open and deregulate the economy led to rapid growth in productivity. Second, during the first decade of the 21st century when a serendipitous improvement in the terms of trade led to a cyclical rebound. Since 2012 the economy has stagnated.

Determining which of these hypotheses is better supported by the facts is not simply an academic exercise. The Peronist Party, which has dominated Argentine politics since 1945 continues to advocate protectionist policies and state intervention in the economy and its justification for such policies is in part derived by promoting H1. In contrast, acceptance of H2 implies that the path to long term prosperity requires opening and deregulating the economy and eliminating regime uncertainty. The experience of neighboring countries in the last three decades supports this view.

In the next section, we provide the basic historical context necessary to evaluate the competing hypotheses. In the sections that follows, we review the evidence in support of H1 and H2 with different methodologies. We conclude the paper with some tentative conclusions.

For our analysis we used the following data sets: 1) for international comparisons for the 1870-2023 period, GDP per capita series from the Maddison Project Database (MPD), 2) for Argentina historical comparisons GDP per capita ARKLEMS+LAND Center of Studies of Productivity (ARKLEMS) Tornquist Series 1872-2023 and sources of growth and total factor productivity (TFP), and, 3) for cross-country TFP comparisons, Total Economy Database ™ by The Conference Board (TCB), which includes ARKLEMS for Argentina.

2. Historical Context

Import-substitution industrialization (ISI) strategies were widespread in Latin America from the 1930s, particularly post-World War II. Initially driven by global protectionism and trade collapse during the Great Depression, ISI became a deliberate domestic policy choice in the postwar period, when global trade expanded under U.S. leadership. In the case of Argentina, protectionism intensified significantly in the 1940s.[4] Under Juan Perón's government (1946–1955), Argentina exemplified an extreme blend of ISI and corporatism, drawing inspiration from Mussolini's Carta del Lavoro (adapted locally) and promoting a populist narrative of class exploitation.[5] Waisman (1987), described this regime as "radical protectionism of manufacturing geared to the domestic market and the establishment of a corporatist relationship between labor and the State. (p.143)" In this paper we define it as a corporatist populist ISI regime.

World War II and its aftermath offered Argentina an extraordinary opportunity to transition into a developed industrialized economy, like Australia and/or Canada, which by that time had already achieved a higher degree of development. This opportunity was squandered by the Peronist regime, which launched an inward-looking development strategy when global output and trade expanded at exceptionally high rates and a foreign policy that openly confronted the US. As a result of both, Argentina was left out of Bretton Woods, the Marshall Plan (as a supplier) and GATT, the three

[4] According to Nogués (2015, p.15), the effective rate of protection introduced by trade and foreign exchange policies more than tripled between 1935-1939 and 1945-1949 and then tripled again between the latter period and 1950-1954.

[5] Promulgated in 1927, the *Carta del Lavoro* was the foundational institutional framework of Mussolini's corporatist system, aiming to regulate labor relations and integrate workers and employers into state-controlled labor unions.

American led initiatives that jumpstarted global growth in the postwar era.[6] Peron's gamble was costly for Argentina in economic and geopolitical terms, but also had the unwanted effect of benefiting Brazil, its regional rival (see Dorn, 2005, and Ocampo, 2020).

In the 1930s, a sympathetic account of the corporatist regime (Shaw, 1934) proposed an analogy to describe it: a system in which the economy is like a chariot pulled by two horses –labor and capital– reined in and guided by a supposedly impartial, farsighted and skilled coachman. One could say that in Argentina under Perón the corporatist chariot was pulled by a powerful and spirited draught horse (labor unions) and a donkey (opportunistic and rent seeking "industrialists") and guided by a shortsighted driver. As a result, and despite Peron's best efforts, the chariot could only ride in circles.

Peron was ousted in 1955, but the CISI regime survived. Ironically, it was Perón's successors, many of whom were determined to eradicate his legacy, who perfected the corporatist regime by replacing the donkey with another powerful horse (the local business establishment and multinational corporations). As explained by Canitrot (1978), from 1945 to 1975, the CISI regime alternated between its consumption-populist and investment/export driven variants. The first variant took place under Peron's first government and focused on the development of "light" industry to satisfy the increased consumption of urban workers.[7] We define this as the populist and consumption-oriented CISI regime. In the second variant, which evolved between 1959 and 1970,

[6] A clear instance of squandering an opportunity to participate in the postwar boom was Peron's decision to offer wheat to Europe at prices higher than Chicago FOB prices, which contributed to its exclusion as a supplier to the Marshall Plan (see Lewis, 1990).

[7] It can be argued that under Peron's first presidency the economic policy regime changed slightly after 1951, when it placed more emphasis on productivity and openly encouraged foreign investment.

first under the democratic government of Arturo Frondizi (1957-1962) and the military government of Juan C. Onganía (1966-1970), the focus was on the development of heavy industry and high investment levels. We define this variant as a investment-oriented CISI regime. The table schematizes this distinction.

Table 1. Variants of the CISI Regime in Argentina (1946-1974)

	Populist	**Investment driven**
Economic policy focus	Urban consumption	Investment-industrial exports
Pre-requisites	High industrial wages	Low industrial wages
Political support	Labor unions	Business establishment
Governance	Populist democracy	Praetorianism/ Bureaucratic authoritarianism

The dynamics of wages, investment and productivity differed under both variants of the CISI regime. Common to both was the so-called "stop-go" cycle (Diaz Alejandro, 1970, pp.351-365), provoked by the inability of the manufacturing sector's inability to generate the increased foreign exchange needed to import the necessary intermediate and capital goods in the upward phase of the business cycle and its dependence on the agricultural sector. As a result, when domestic activity picked up, unless there was a significant improvement of the terms of trade, a currency crisis ensued.

Argentina's growth in the postwar period up to the mid-seventies was characterized by relatively high investment rates but minimal productivity gains, largely due to systemic distortions caused by state intervention, financial repression, and inefficient capital allocation. These distortions degraded the quality and efficiency of investment, limiting TFP growth and hindering convergence

with more dynamic economies. Consequently, comparing real GDP growth rates achieved in the postwar period with those of advanced economies is equivalent "to comparing apples and oranges." The "quality" of a 2% GDP per capita growth in Argentina is not comparable to an identical rate in the United States or Australia. Ultimately, Argentina's long-term economic stagnation stems less from a shortage of capital than from a persistent failure to allocate it efficiently.

Ironically, in the early 1970s, H1 would have seemed implausible to most contemporary observers. In the mid-1960s, Harvard economist Arthur Smithies (1965) described the period 1949–1964 as one of the "most disastrous" in Argentina's economic history (p. 23), noting that its decline relative to Australia had begun in 1945. In this context, Simon Kuznets coined his well-known taxonomy of countries, dividing them into four groups: developed, underdeveloped, Japan—and Argentina. By the late 1960s, the term "Argentine malaise" had become common among social scientists (see Herring and Herring, 1968, p. 783; Mander, 1971, pp. 224, 245). Argentine historian Ezequiel Gallo (1969) argued that the country had never fully recovered from the 1952 crisis. British historian H.S. Ferns (1969) agreed, noting that since the 1950s, "Argentine economic performance has fallen well behind the world as a whole" (p. 17). His American counterpart, Robert J. Alexander, was even more emphatic: "for almost four decades, the country has been going through an economic, political, social, cultural, and, most of all, a moral crisis… A major element of Argentina's continuing crisis is its ailing economy" (1969, pp. 3, 55). From within Argentina, Di Tella (1969) described the ISI strategy as having reached "exhaustion" (p. 451), while O'Donnell (1973a) called Argentina a case of "arrested development" (p. 133). Di Tella and Zymelman (1973) characterized macroeconomic performance since the 1930s as a "failure" (p. 121). Marxist

economists were also dismissive, referring to Argentina's performance as evidence of "secular stagnation" (Braun, 1973, p. 25). The broad consensus at the time stands in stark contrast with the more favorable reassessments of the period by proponents of H1.

The negative perception about Argentina's performance was not limited to academia. After a long sojourn in the country during 1973, V.S. Naipaul, winner of the 2001 Nobel prize in Literature, wrote: "Argentina is in a state of crisis that no Argentine can fully explain… Everyone is disaffected. (1974, p.102)." Indicative of the *zeitgeist* is an editorial published in September 1971, by *The Review of the River Plate*, one of the most influential business publications in the country, commenting an article by Paul A. Samuelson that mentioned Argentina:

> The present mood, in Argentine business circles, of frustration and near despair. The puzzlement is not, of course, confined to the domestic sector. The outside world –especially firms that have invested heavily in local enterprise, to say nothing of the great international loan and credit agencies, which latter also provide regularly with all the official statistical data bearing on contemporary Argentine economy trends, are also perplexed… We have been besieged of late for information on a situation that appears to be one of steady and relentless deterioration, affording no early prospect of alleviation, let alone of improvement. Whether things are as bad as they are said to be or only seem to be worse that they really are, is hard to say without the guidance of a mass of further information. The fact is that it is rare these days to find anybody who is frankly, and realistically, optimistic, and the saddest feature of all is that the country's national economic image abroad is becoming progressively distorted and diminished… on any careful analysis, Argentina is still crippled by the economic, social and political consequences of the Peron regime. (1971, p.508).

In the article cited by the editorial, Samuelson (1971) had argued that the worst scenario that the advanced Western economies faced was to follow in Argentina's path since 1945: misguided

policies that had led to economic stagnation and persistent inflation, which in turn had engendered collective frustration and political instability.

Notable exceptions to this pessimistic consensus were Diéguez (1969), who offered a refutation of Smithies' thesis, and Brodersohn (1973a), who argued that the notion of Argentina's economic stagnation in the postwar era was based on erroneous statistics and noted that with the most recently published data the rate of growth in real GDP for the period 1960-1970 was one of the highest in Latin America.[8] This was indeed true, but as we will show below, although high in absolute and historical levels, such rate was below the level required for convergence. It was also significantly below the average rates of growth of Western Offshoots, Brazil, Mexico, Spain and Italy and in line with Chile and Uruguay, the other two underperformers in South America.

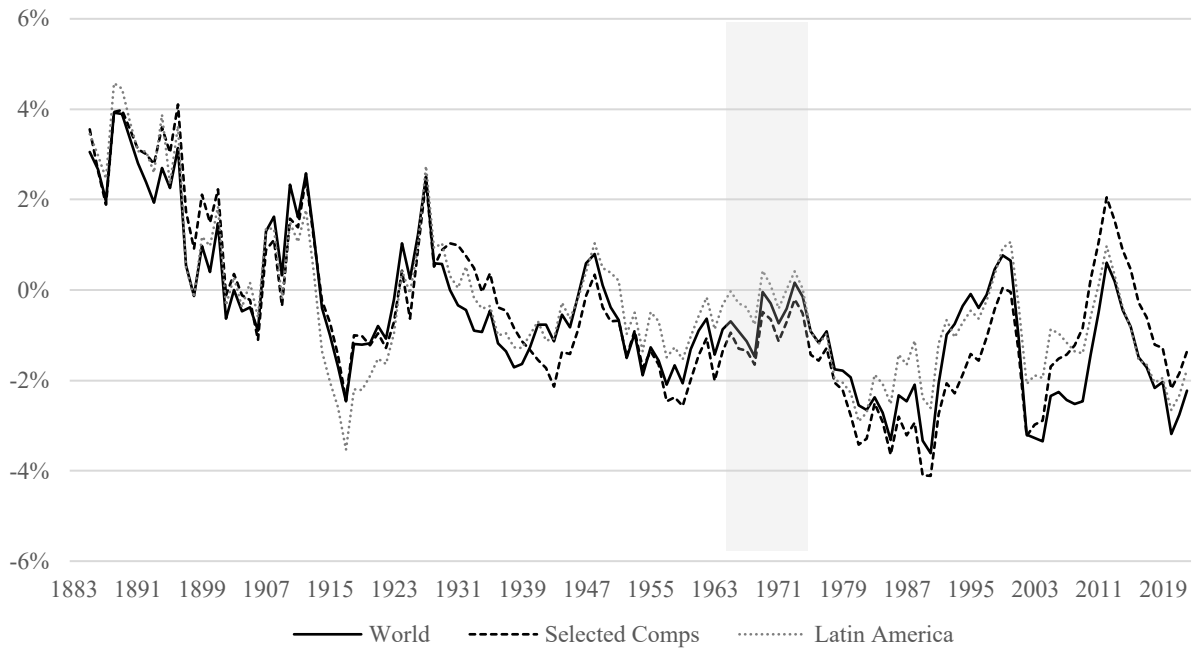
Two factors have contributed to the plausibility of H1. First, as pointed out by Diaz Alejandro (1982) "in light of political instability and the limited recovery of foreign trade, the 2.2 percent per annum growth in Argentine GDP between 1955 and 1973… is respectable, and should dispel the myth of Argentine economic stagnation (1982, p.43)."[9] In support of this view, Gerchunoff and Llach (2019) have asserted that between 1963 and 1973 Argentina "grew like it had never grown before" (p.359). Second, Argentina's dismal economic performance since 1974.

[8] Due to the change in the base year from 1950 to 1960, rates of growth in real GDP turned out to be higher than previously thought but they were still low by international standards and in relation to the observed investment. In line with Brodersohn (1973a), Gerchunoff and Llach (2018, pp.359-360) believe that the "erroneous perception" of Argentina's stagnation in the postwar era up to early seventies was a statistical mirage.

[9] According to ARKLEMS, the annual growth rate of GDP per capita during this period was 2.1%.

With respect to the first point, the GDP growth rate for the decade ended in 1973 was high but not the highest. From 1873 until 1944, it was surpassed on twenty-six instances (last one on the decade ended 1929) since 1973 only once in 2012. However, what matters to determine whether Argentina experienced relative economic decline is how fast it grew in relation with the rest of the world. As can be seen in Figure 1 below, even in the best decade of the 1944-74 period, Argentina's relative performance was barely positive (and negative with respect to a group of comparable countries).[10]

Figure 1. GDP per capita growth rate differential over rolling 10-year periods



Source: Authors based on ARKLEMS and MPD. Selected Comps include Australia, Canada, Brazil, Chile, Italy, Mexico, Spain, and Uruguay. Median growth rates were used for all groups.

[10] This group, which throughout the paper we label as "Selected comps", includes Australia, Brazil, Canada, Chile, Italy, Mexico, Spain and Uruguay. These are the countries that at different times over the last century Argentina has been usually compared to in the context of relative macroeconomic performance. For the calculations we use the median growth rate for this group.

Moreover, at the time, most contemporary observers expected Argentina's relative decline would continue due to the "stop-go" cycle that had limited growth in the postwar period (see Diaz Alejandro, 1970, pp.351-365).[11] According to Brodersohn (1973b), the so called "external bottleneck" imposed a 3.8% ceiling of on the annual rate of real GDP growth.

By the end of 1971, the Argentine economy seemed to be headed to another typical external crisis. "The crisis did not occur due to the improvement in Argentina's terms of trade, which reached 20% in 1972 compared to 1970 and 40% in June 1973" (Canitrot, 1978, p. 13). At the end of 1973, Brodersohn (1973b) optimistically argued that due to the unexpected export boom, the Argentine economy faced an ideal opportunity to escape the "stop-go" pattern that had characterized the economy since 1945.[12]

Rapid growth in industrial exports in the early 1970s encouraged hopes that the adjustments introduced to the CISI regime had injected some dynamism into the economy. However, escaping the stop-go cycle proved challenging since income elasticity of the demand for imports increased markedly under the investment-oriented variant of the CISI regime increased. The 1973-1975 boom in industrial exports was largely due to generous subsidies (at a high fiscal cost) and politically arranged deals with socialist countries.[13] Also, as Nogués (1983, 1985) pointed out, the

[11] The inability to generate the dollars needed for growth led to recurrent external crisis which increased macroeconomic volatility.

[12] Since 1945 to this day periods of rising commodity prices and/or expansion of global liquidity have contributed to temporarily hide the inefficiencies of the CISI regime and create the illusion that sustained growth is possible under it. This illusion is shattered when prices fall or liquidity contracts creating "cycles of hope and disappointment" (Gerchunoff and Llach, 2019).

[13] Total exports to socialist countries, which stood at US$60 million in 1972, jumped to $475 million in 1975, from 3% of the total to nearly 12% (Di Tella, 1983, p.98). In 1974, exports of capital goods to Cuba accounted for almost 50% of total exports of manufactured products of industrial origin (BCRA 1975 and Bisang and Kosacoff, 1992, p.64).

promoted exports were largely made by import competing industries, exacerbating the capital-intensive bias of the CISI regime.

If there ever was an opportunity to escape the "stop-go" cycle in the early seventies, it was quickly squandered. As pointed out by Canitrot (1978), the unsustainability of stimulating aggregate demand while keeping wage and price frozen became evident by the end of March 1974, when labor unions demanded a renegotiation of nominal wages, de facto the accord to "freeze" wage and prices. As it had happened in 1947 and would again happen in 2012, the reversal of the commodity price cycle marked the beginning of the third phase of the populist experiment (Dornbusch and Edwards, 1991). Peron's death in July 1974, accelerated the unravelling of the economic situation, which eventually led a full-fledged external crisis (Sturzenegger, 1991). This crisis in turn, prompted a radical change in economic policy. The "Rodrigazo" plan announced in June 1975, which included a 100% devaluation of the peso, triggered the first hyper-stagflationary bout in Argentine history shattering the illusions of many supporters of ISI.

The crisis, which lasted until March 1976, made it clear that no version of the CISI regime would allow Argentina to achieve political stability and economic growth. The investment-oriented variant (1967-1970) could deliver faster growth but was not politically viable, as it required a redistribution of income that was not acceptable to labor unions and a majority of the electorate. On the other hand, the populist version, based on stimulating urban consumption with high wages, garnered popular support but was macroeconomically unviable. Transitioning to an OME regime

Ironically, Fidel Castro was able to acquire equipment from the Argentine subsidiaries of U.S. multinationals, which were forced to accept, at a handsome profit, a sale arranged by the two governments (Canitrot, 1978, p.50). Cuba defaulted on its trade debt to Argentina, which according to estimates it ranges between 8 and 11 billion dollars.

was the only viable option to achieve sustainable long-term growth.[14] However, this required overcoming the opposition of entrenched interest groups and a large portion of the electorate. With several failed attempts at reform, Argentina's economic decline accelerated. Low or negative growth, recurring fiscal imbalances and high, persistent and volatile inflation rates became a permanent feature of the Argentine economy. GDP stagnated while TFP declined by -0,6% every year during the "lost" eighties. Only during the 1990s thanks to currency stability, deregulation and trade liberalization productivity made a significant contribution to GDP growth: the trend in TFP grew at 1.5% per annum, a rate higher than that achieved under any of the variants of the CISI regime.

The traumatic end of Convertibility at the end of 2001 and the subsequent sovereign debt default brought about the worst crisis since the 1930s. The swift recovery that started in 2003 was fueled by the upward phase of the global commodity price cycle that started in 2003. But the crisis of 2001-2002 led to a reversion from an OME to a CISI regime, particularly after 2007. However, between the peaks of 1998 and 2011, GDP growth decelerated to a 2.5% annual rate, compared to 3.0% in the previous cycle (1987-1998). This slowdown is remarkable given that global agricultural commodity prices increased 140% between 2002 and 2011. GDP growth during this last cycle reflected not only factor accumulation but also short-term effects of capacity utilization. TFP declined at -0.2% annually. Since peaking in mid 2012, global agricultural commodity prices started to decline rapidly. The decade that followed was also lost for Argentina. Between 2011 and 2023, GDP decreased at a -0.9% annual rate, with TFP declining even faster, at -1.4% annual rate .

[14] None of these facts dented the optimism of ISI advocates. Canitrot (1981) argued that the 1977 economic recovery "could have been extended and converted into a process of rapid growth, an Argentine miracle." (p.150).

Table 2. Terms of Trade and Exports as a % of GDP (1987-2023)

Period	Export Prices	Import Prices	Terms of Trade	Export Volume	Exports % of GDP Constant Prices	Exports as % of GDP Current Prices
1987-1998	1.00%	0.60%	0.50%	10.50%	14.20%	9.20%
1999-2011	6.30%	2.40%	3.80%	2.70%	22.90%	19.90%
2012-2024	0.20%	0.30%	-0.10%	0.10%	20.70%	14.70%

Source: Authors based on INDEC.

Table 3 below shows Argentina's relative macroeconomic performance measured against the median growth in real GDP per capita for the world, a group of selected comparable countries and Latin America. Argentina only outperformed during the periods 1870-1929 and 1991-2000. The compounded annual growth rate for the period 1975-2023 was 0.3% whereas the world median was 2.1%.

Table 3. Compounded Annual Rates of Growth in Real GDP per capita since 1870

Period	World	Selected Comps	Latin America	Argentina
1870-1929	1.3%	1.1%	1.2%	2.1%
1930-1944	0.9%	1.1%	0.6%	0.1%
1945-1974	2.8%	3.0%	2.4%	1.9%
1976-1990	1.5%	2.2%	0.9%	-1.8%
1991-2000	2.4%	3.1%	2.0%	3.1%
2003-2023	2.5%	1.3%	2.1%	1.5%

Source: Authors based on ARKLEMS, MPD and IMF World Economic Outlook April 2025.

Paraphrasing Krugman (1994) and as we will show in Section 4, Argentina's GDP growth from 1950 to 1974 can be described as "perspiration" (factor accumulation) rather than "inspiration" (growth in productivity). Only during the late sixties and the nineties there was some degree of

inspiration. The eighties and the second decade of the 21st century can be better described as a "vale of tears." GDP growth under both variants of the CISI regime that prevailed during the period 1950-1974 was largely based on capital accumulation and was unsustainable without lasting productivity gains. In contrast, in the period of market liberalization and structural reforms during the 1990s, TFP growth doubled.

Argentina's relative economic decline since 1945 is the consequence of embracing a CISI regime that in all its variants was incapable of delivering sustainable long-term growth. The inability of the Argentine polity to transition to an OME regime when this fact became glaringly evident accelerated the decline. Periods of reform were short-lived and reversed, often abruptly. The main elements of Perón's regime survive today, making it one of the most resilient adaptations of fascist-inspired corporatism in the modern world.[15] As a result, in 2023, after more than a decade of zero growth in GDP, TFP was below the levels of the 1950s. Argentina's stagnation is not only the result of external shocks or lack of investment alone, but also of entrenched institutional arrangements that make this regime intractable, thus hindering growth in productivity, fiscal discipline, and sustained reform.

3. The Evidence

Proponents of H1 have relied mostly on three main statistical approaches to make their case. P Group authors favor descriptive accounts or a univariate analysis of Argentina's real GDP per

[15] Whether Peronism was a variant of or essentially different from fascism is irrelevant to the analysis. As Peron pointed out, in politics and botany, grafting must adapt to local conditions (Chavez, 1975, p.307). There is no question that he drew his inspiration from European fascism both German and Italian.

capita over the period 1872-2023. A second approach involves comparing the ratio of GDP per capita of Argentina to one or more comparable countries (individually or combined). The typical comparisons include: 1) resource rich countries settled by Europeans during the 19th century such as the United States, Australia, Canada and New Zealand (known as "Western Offshoots" in the literature), 2) Chile and Uruguay, two countries with which Argentina shares extensive borders and strong historical and cultural ties. Finally, a more sophisticated methodology involves estimating a Solow growth or an RBC model to replicate the behavior of the Argentine economy. As we will show below, although useful for certain purposes, these approaches have limitations and, when used to support H1, can lead to erroneous conclusions.

In addition we rely on several other methodologies to evaluate H2: 1) an analysis of Argentina's position in global GDP per capita rankings throughout the period 1945-1974; 2) cross-country regressions of GDP per capita to account for convergence; 3) a univariate analysis that incorporates cyclical peaks; 4) a growth accounting exercise to estimate the gains of productivity gained under each regime with proper measurements of the net investment rate and TFP.

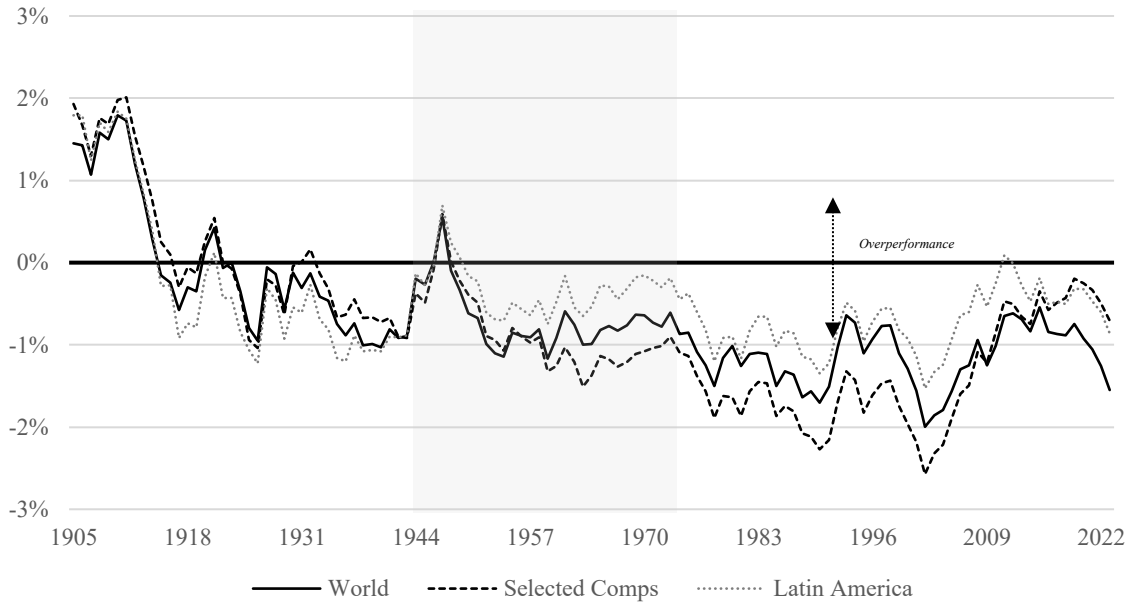
Simple Univariate Analysis

As seen in Table 3 above, the compounded annual growth rates of GDP per capita for six periods that are broadly representative of alternative policy regimes since 1870, suggest that during the period 1945-1974 experienced rates of growth that were historically high. In fact, they were comparable to those of the period 1870-1929, usually considered the "golden age" of Argentina. Moreover, at 2.4% per annum, the rate of growth achieved between 1959 and 1974 was among the highest in Argentine history. However, this simple univariate approach does not allow us to verify

or reject H1, as it doesn't consider cyclical peaks or structural breaks or the international context. While Argentina's GDP grew at historically high rates during the period 1945-1974, the rest of the world did so at even higher rates. As can be seen in Figure 2 below, the differential in compounded annual growth rates was negative for all 30-year periods ended between those years.

While Argentina's GDP grew at high rates during the period 1945-1974, so did the rest of the world (which experienced one of the highest rates of growth in real GDP ever recorded).[16] As can be seen in Figure 2 below, the gap between Argentina and the rest of the world and a subset of comparable countries reached its widest level during this mid to late seventies.

Figure 2: Real GDP per capita growth rate differentials over rolling 30-year periods



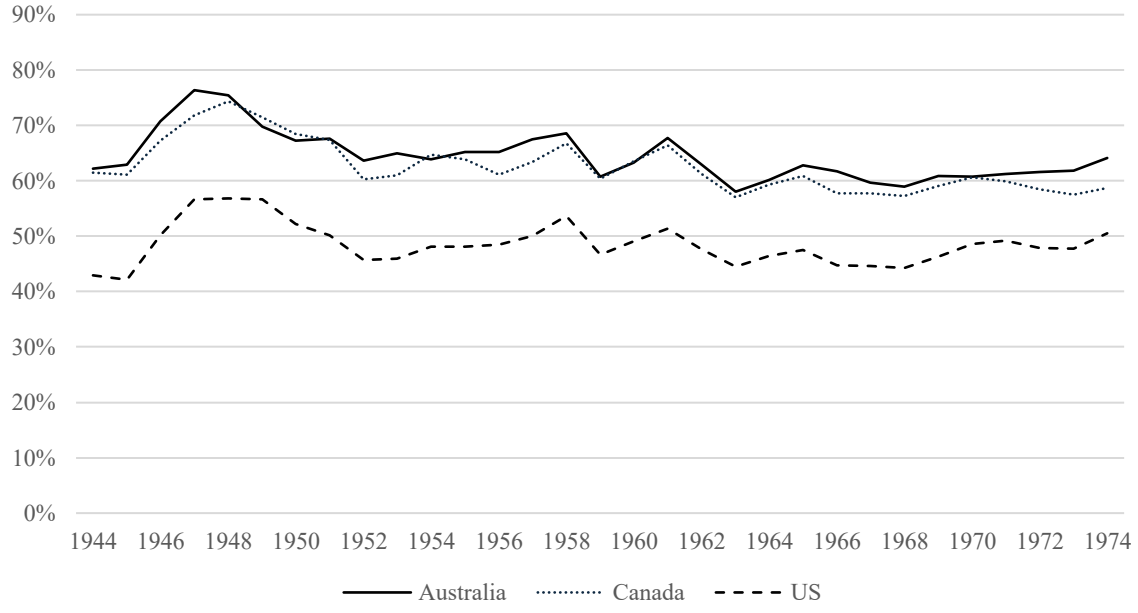
[16] The highest rate of growth in real GDP for any 30-year period since 1870 was 5.77% in the period ended in 1976.

Source: Authors based on ARKLEMS and MPD. Selected comps is the median for Australia, Brazil, Canada, Chile, Italy, Mexico, Spain and Uruguay.

Comparative GDP per capita ratios

A second common approach used by proponents of H1 to assess Argentina's long-run relative performance is to express its GDP per capita as a ratio to that of a comparator group—typically Australia, Canada, and the United States. This ratio can be analyzed visually or through more formal techniques, such as unit root testing or structural break analysis. As shown in Figure 3 below, the relative GDP per capita series appears broadly stable during the postwar period up to 1974—a pattern often cited as evidence against the hypothesis of economic decline. However, such conclusion is incorrect since it fails to account for unconditional convergence. From this perspective, the absence of convergence is itself a sign of underperformance and supports H2.

Figure 3: Ratio of Argentina GDP per capita to Australia, Canada and the US (1944-1974)



Source: Authors based on MPD.

With respect to unconditional convergence, the rate of real GDP per capita growth of countries with a lower GDP per capita at the beginning of the period should be higher. Therefore, Argentina should have grown faster than either Australia or the United States between 1944 and 1974. Therefore, the fact that the ratio of its GDP per capita with respect to both countries remained relatively constant during this period supports the hypothesis of relative decline due to lack of convergence.

Although useful when used properly, the analysis of GDP per capita ratios over time, either descriptive or reliant on sophisticated econometric techniques, has two main shortcomings. First, the set of comparable countries changes over time, therefore, any conclusions are specific to the chosen set. Second, to the extent Argentina's GDP per capita was significantly lower with the chosen comparable at the beginning of the period under analysis it ignores the effect of convergence. For example, with respect to the first point, the comparison of Argentina with Chile and Uruguay supports the conclusion of absence of economic decline, whereas the comparison with Brazil and Mexico or Spain and Italy supports the opposite conclusion (see Table 4 below). But even these countries do not represent the best subset of comparables since the late 19th century.

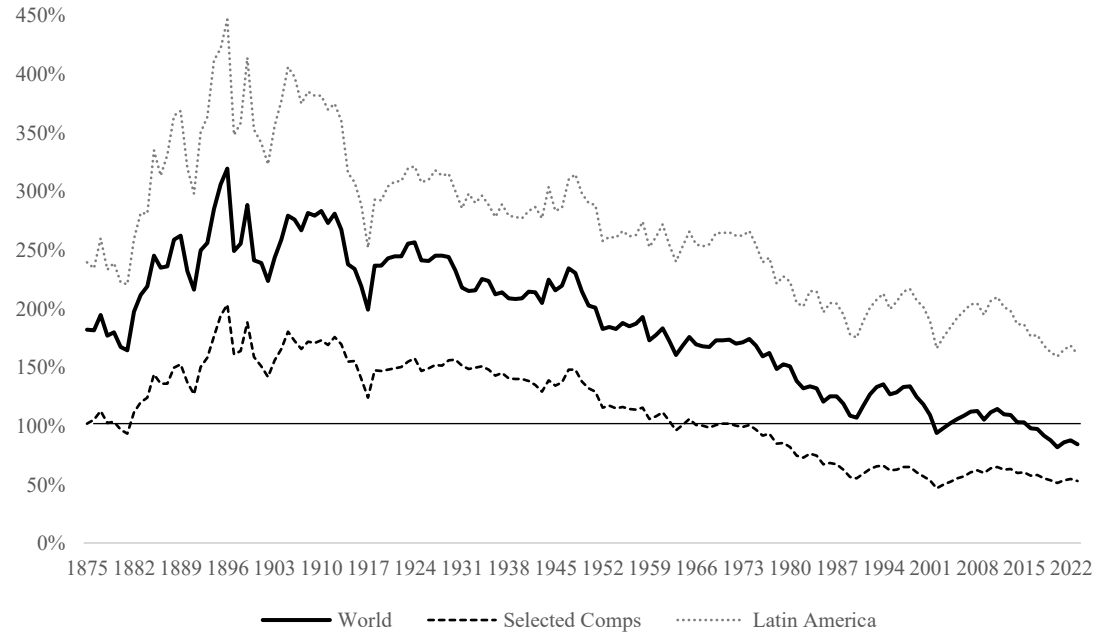
Table 4: Argentina's GDP per capita ratio vs. selected countries

Comparable Country	**1945-47**	**1973-75**
Italy	245.2%	75.4%
Spain	207.1%	109.7%
Brazil	387.4%	212.6%
Mexico	230.7%	168.4%

Source: Authors based on MPD.

In Figure 4 below we show the ratio of Argentina's GDP per capita to three counterfactuals: GDP per capita growing like the median of: the world, a group of comparable countries and Latin America.

Figure 5. Ratio of Argentina's GDP per capita vs. counterfactual since 1870



Source: Authors based on MPD.

The conclusions that can be derived from the visual inspection of this chart are in line with those obtained with more sophisticated statistical analysis: Argentina experienced a strong relative expansion until 1913, then a gradual relative decline until the late 1930s which was reversed slightly during WWII to accelerate after 1947. After this year Argentina diverged from comparable advanced economies, while it converged "from above" to Latin America.

Using unit root tests for the period 1900-2002, Gallo (2006) found that Argentina started to diverge from Australia after 1947, Sanz Villaroya (2009) for the period 1875-2000 found that the inflection

point was at the end of the 19th century while, as mentioned earlier. Katz and Levy Yeyati (2024) compared the evolution of Argentina's GDP per capita to two broad sets of comparables. The first includes a group of advanced economies that in 1900 had a GDP per capita in line with Argentina's (Germany, Australia, Austria, Belgium, Canada, Denmark, France and the Netherlands) and the second selected countries from Latin America (Brazil, Mexico, Chile, Colombia, Peru and Uruguay). The ratio of Argentina's GDP per capita with the average of each of these groups in 1900 was 89% and 228% respectively.

Out of sample predictions with calibrated Solow growth model

This is methodology used by economists in the M Group in support of H1. In its typical format it requires calibrating a Solow growth model with data from 1930 to 1949 and initial parameters for 1950 to generate an out-of-sample trend GDP per capita for the period 1950-2010. The model's predictions are then compared with actual data to assess whether Argentina underperformed or overperformed relative to its predicted long-run trajectory. For example, this is the approach taken by Buera, Navarro & Nicolini (2011).[17] Based on the results of this paper, Buera & Nicolini (2019) make the case that "the economy did reasonably well until 1974, keeping pace with the 2 percent trend, the long-run growth rate of per capita output in the United States." Similarly, Martínez González & Nicolini (2024) argue that Argentina "did quite well until the mid-1970s, and it diverges substantially thereafter. One could conclude, of course, that something is wrong with the model. We believe the opposite: something went wrong with Argentina by the mid-1970s" (p. 6).

[17] By 1950 Solow had yet to develop and publish his model and national accounting statistics for Argentina were not very reliable.

In their view, Argentina was growing at a rate consistent with its fundamentals—namely, its initial capital stock, savings rate, population growth, and TFP growth—and that the economic decline only began after the mid-1970s.

However, this approach has several conceptual and empirical limitations. First, steady-state growth models like Solow-Swan assume that economies converge to a long-run equilibrium in which capital accumulation offsets depreciation, and output per worker grows at the rate of exogenous technological progress. Under these assumptions, the growth of per capita output in the long run is entirely driven by TFP growth. While this framework may fit the U.S. economy, it is less appropriate for developing countries where growth is often irregular, driven by structural breaks, and not tightly correlated with capital accumulation—as emphasized by Easterly & Levine (2001). In such economies, policy distortions and inefficiencies often prevent convergence to a steady state.

Second, the data required to reliably calibrate the Solow model for Argentina—specifically capital stock, savings, and TFP series—are either missing or of poor quality before 1950. This limits the credibility of any calibration exercise attempting to simulate the economy's long-run potential based on pre-1950 information.

Third, and most critically, the model's predictions are highly sensitive to parameter choices. For instance, Buera, Navarro, & Nicolini (2011) assume a capital share of output (α) of 32%, based on U.S. data. However, Argentina's historical data for the period 1950-1974 based on ARKLEMS suggests a much higher figure, around 55%. If we hold all other parameters constant and increase α from 32% to 55%, the projected per capita GDP growth rate between 1950 and 1974 rises from 1.9% to approximately 3.4% per year. This implies that Argentina underperformed relative to its

potential, even before 1975. In fact, the model calibrated with Argentina-specific parameters (see table below) projects a 1974 GDP per capita level 23% higher than observed—suggesting that the economy was already underperforming well before the mid-1970s. This finding is consistent with earlier estimates by Cavallo & Mundlak (1982), who showed that trade liberalization alone could have yielded comparable gains.

To test the sensitivity of these results, we performed counterfactual output simulations using a Solow model with alternative parameter sets: Buera, Navarro & Nicolini (2011), Kydland & Zarazaga (2001), Argentina's actual data for the period 1950-1974 from ARKLEMS and the average values for Australia, Canada, and the United States.[18] The table below shows the parameter values and implied counterfactual per capita GDP growth rates for the period 1950–1974:

Table 5 – Estimated parameters for Counterfactual simulations

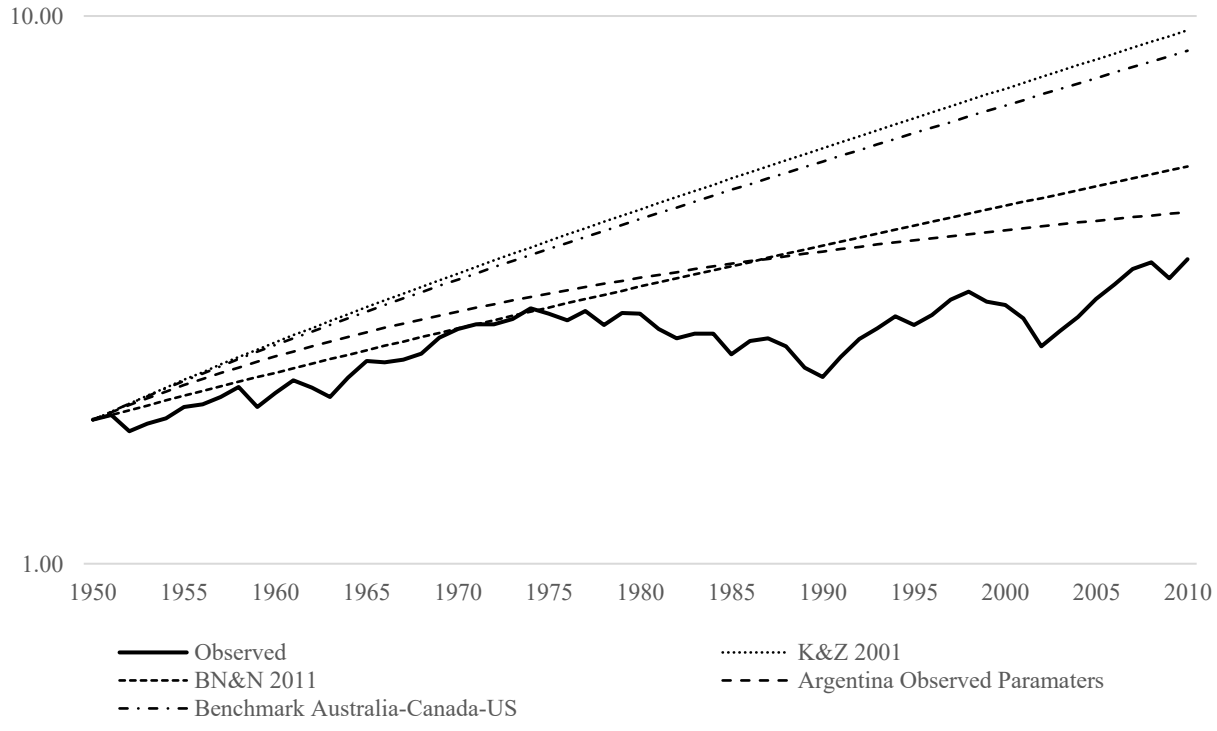
Parameter	K&Z 2001	BN&N 2011	Argentina ARKLEMS	Combo Australia, Canada and the US
Alpha	40.0%	32.0%	55.0%	33.0%
delta (depreciation)	5.0%	4.0%	5.0%	4.0%
Investment rate	20.0%	15.0%	17.5%	21.0%
TFP growth	1.4%	1.1%	0.6%	1.5%
Labor force growth	1.8%	1.8%	1.5%	1.5%
GDP pc growth rate 1950-74	*3.1%*	*1.9%*	*2.9%*	*2.9%*

Source: Authors based on Kydland & Zarazaga (2001) and Buera, Navarro and Nicolini (2011).

[18] These simulations do not model convergence to a steady state. Rather, they trace the implied evolution of output per worker from 1950 to 2010 under fixed parameters and initial conditions. This approach allows us to compare Argentina's actual performance with the hypothetical trajectories it might have followed under alternative assumptions for capital share, TFP growth, and investment rates

Figure 4 plots the simulated trajectories of per capita GDP based on the alternative parametrizations and compares them with Argentina's observed data. The results show that only the one with estimates from the projection of Buera, Navarro & Nicolini (2011) tracks the observed path of GDP per capita. All other simulations—particularly those using Argentina's own ARKLEMS parameters or the international benchmark combo—predict significantly higher growth rates during 1950–1974. This suggests that Argentina's performance during the supposed "golden age" was well below potential, even under the assumptions of a neoclassical growth model.

Figure 4. Observed GDP per capita versus counterfactual simulations for Argentina



Source: Authors based on ARKLEMS, MPD, Kydland & Zarazaga (2001) and Buera, Navarro and Nicolini (2011). Vertical axis in log scale.

We further tested these results using two variants of a Cobb-Douglas production function with ARKLEMS' parameters: one assuming a constant capital-labor ratio (K/L), consistent with steady-state conditions in the Solow model, and another allowing for transitional capital deepening consistent with an economy not yet at its long-run equilibrium.[19] The steady-state simulation projects an average per capita GDP growth rate of 2.9% for the period 1950–1974, while the transitional simulation, which more realistically reflects Argentina's development path during the period 1950-1974, yields a lower rate of 2.0%. This latter figure coincides with the observed growth rate of Argentina's per capita GDP over the same period. While this apparent consistency may suggest that Argentina grew as expected given its transitional status, the discrepancy with the higher steady-state benchmark is more telling. It implies that Argentina failed to converge toward its own growth frontier, not because of unfavorable initial conditions, but due to policy-induced distortions, inefficiencies in resource allocation, and institutional weaknesses that prevented productivity gains (Taylor, 2018). In this sense, Argentina's economy was not stagnant, but its growth trajectory was suboptimal relative to what its factors endowments and investment patterns could have delivered under a more efficient, market-oriented policy regime (which coincides with the findings of Cavallo & Mundlak, 1982, and Cavallo, Mundlak & Domenech, 1989). This reinforces our central claim: Argentina's growth performance under the CISI regime up to 1974,

[19] While both simulations are based on the Cobb-Douglas function, they differ in the assumptions about capital accumulation dynamics. The first assumes a constant capital-labor ratio consistent with the steady-state conditions of the Solow growth model, in which capital deepening has ceased and per capita output grows at the rate of technological progress. The second simulation allows for transitional capital deepening, where K/L increases over time—reflecting an economy gradually converging toward a steady state. The first simulation serves as a benchmark for Argentina's long-run potential had convergence occurred, while the second one offers a more realistic depiction of the country's actual growth trajectory. The fact that observed growth aligns with the transitional path does not indicate optimal performance. Rather, it highlights Argentina's failure to achieve convergence, likely due to policy distortions, misallocation of resources, and institutional weaknesses.

although strong in historical terms, was disappointing when compared not only with the rest of the world or typical comparables but also to its own potential under an OME regime.

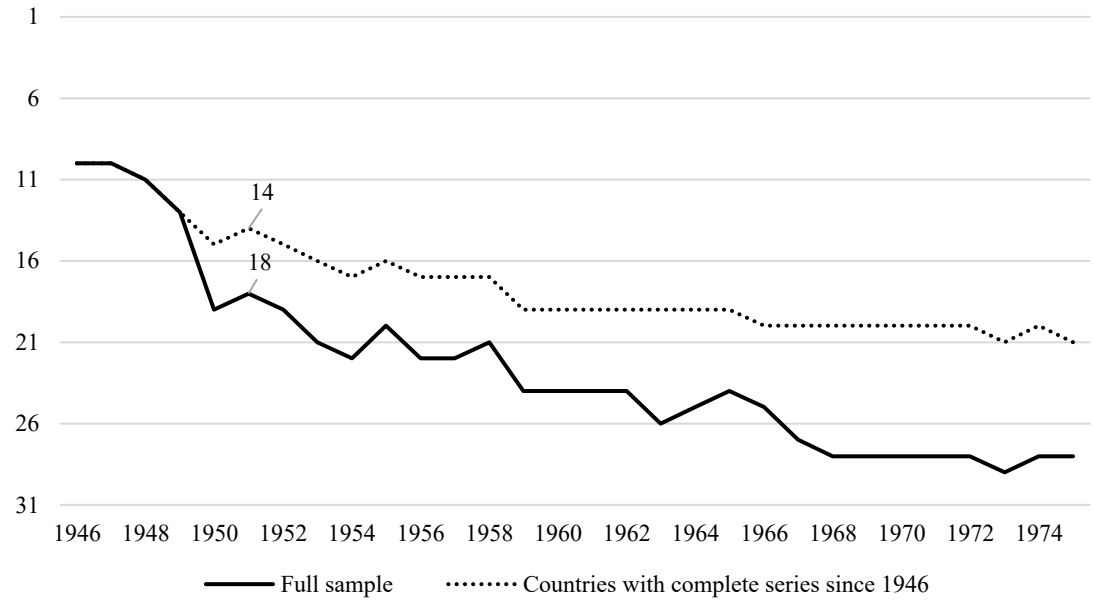
Position of Argentina in Global GDP per capita rankings

This methodology compares the GDP per capita of Argentina with all the countries for which MPD has available data. Critics of this approach have argued that it is improper to employ a global ranking without adjusting for sample size. After 1946, thanks to decolonization, the number of countries with credible national accounts statistics increased significantly. The MPD includes only 46 countries with GDP per capita in 1946 and an additional hundred by 1975. Most of the increase occurred between 1946 and 1950.

The criticism is invalid because most countries added during this period had a GDP per capita that was lower than Argentina's. For example, in 1950 only four countries that did not report data in 1946 had a GDP per capita higher than Argentina: Kuwait, Luxembourg, Qatar and United Araba Emirates. However, the broad conclusions of this exercise are invariant to the sample size. With the full sample, Argentina's position in the global GDP per capita rankings fell from 11 in 1944 to 28 in 1974. Two facts stand out: 1) no other comparable country experienced such a decline during this period, 2) no country in the top ten in 1946 had fallen by eleven positions in that 30-year period.

In Figure 6 below we show Argentina's position in global GDP per capita rankings for the period 1944-1974. The solid line includes the full sample included in MPD, while the dotted one, the sample of countries for which a complete series of real GDP per capita data exists since 1875.

Figure 6: Position of Argentina in Global GDP per capita rankings (1944-1974)



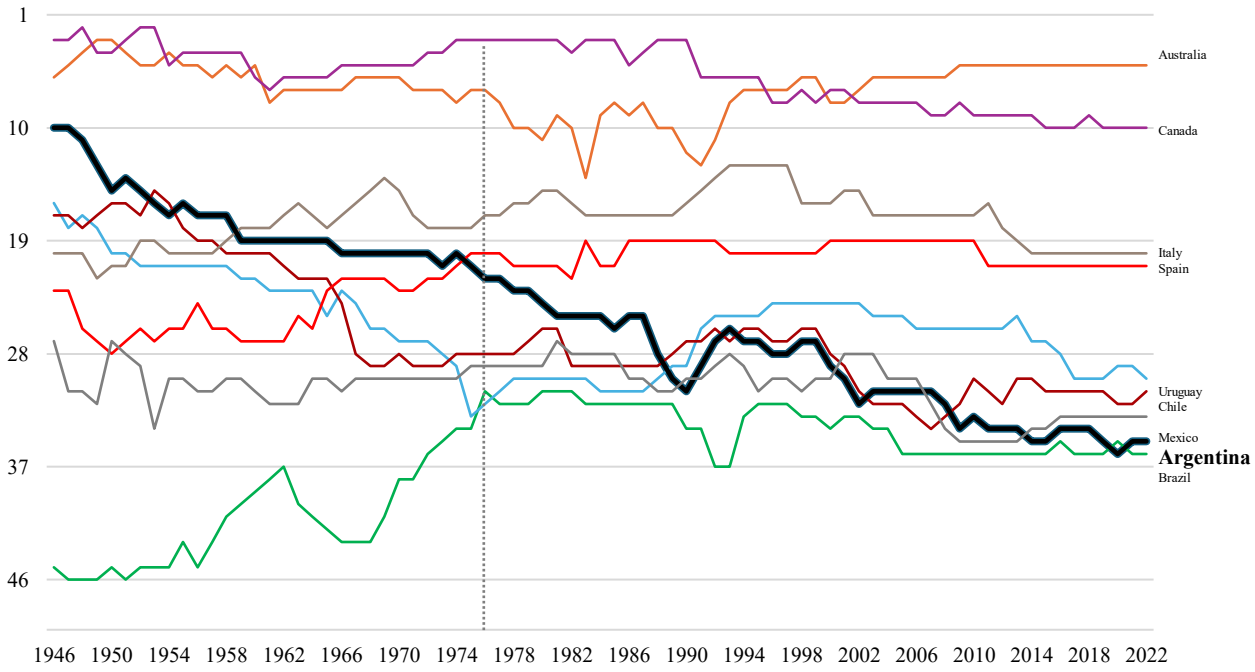
Source: Authors based on MPD.

In 1950 Argentina ranked 14 among the smaller sample and 18 with the full sample. Although not shown in the graph, between 1875 and 1929 Argentina's position in global GDP per capita rankings oscillated with no discernible trend between sixth in 1896 and eleventh in 1929. During the 1930s Argentina declined to fourteenth, but by the end of World War II, it was again in the "top ten." After 1947 it lost this position to never recover it.

This approach allows a comparison of Argentina to any countries which at some point it was considered comparable in terms of economic structure and/or growth prospects. For example, during the 1920s and 1930s those countries were Canada and Australia; by the 1950s, Italy and Spain; by the early 1950s, Brazil, Mexico, Chile and Uruguay. Figure 7 below shows the position of each of these countries in the global GDP per capita rankings from 1946 until 2022. Argentina,

Australia and Canada were the only countries with a GDP per capita among the top ten at the beginning of the period.

Figure 7: Position in Global GDP per capita rankings



Source: Authors based on MPD adjusted for Argentina with ARKLEMS data. Only countries with complete series since 1875 included.

A visual inspection of this chart shows that almost all of Argentina's relative economic decline in the postwar era up to 1974 took place between the late 1940s and the early 1960s. Also, the only two comparable countries that performed as poorly as Argentina during the period 1946-1974 were Chile and Uruguay, which also adopted an ISI regime but had a significantly smaller domestic market that limited its growth potential.

Chile is a good counterfactual for what could have happened in Argentina after 1974 if the transition to an OME regime had been completed. To some extent influenced by Perón, during the 1950s the country adopted, although to a lesser degree, a similar corporatist-populist ISI regime

(Bray, 1967). As already mentioned, during this period, the Chilean economy significantly underperformed Argentina's. Two factors explain this underperformance. First, Chile was relatively poorer at the beginning of the period. Second, it had a much smaller economy. *Ceteris paribus*, an ISI strategy can deliver higher and more lasting GDP growth in countries with a larger domestic market.[20] The diverging behavior of both economies can be clearly seen below:

Table 6: Average GDP per capita growth rate

Period	Argentina	Chile
1946-1975	1.9%	0.6%
1976-1990	-1.7%	3.0%

Source: Authors based on MPD.

During the period 1946-1975 Argentina had two periods in which the CISI regime was "revitalized": 1959-1961 and 1967-1970. The impact on investment and productivity were significant in both periods. Nothing similar occurred in Chile. However, between 1975 and 1990, the military government led by Pinochet was able to complete the transition to an OME regime. In Argentina, a military government took over in 1976 with a broad agenda that included as an objective opening and deregulating the economy and reducing the role of government. However, the policies implemented between 1976 and 1980 were inconsistent with that objective and key elements of the corporatist regime survived intact, such as the military-industrial complex (for an analysis of this period see Canitrot, 1981; Calvo, 1986 and Nogués, 1986). Also, as Canitrot (1985) pointed out, that there have been "few experiences as vigorously statist, where the state played

[20] This fact was recognized by one of ISI's most enthusiastic proponents (see Prebisch, 1963, p.71).

such a central and effective role as in the experience following 1978." State-owned enterprises became "the pivot of the capital accumulation process" by borrowing abroad, taking the investment ratio to its highest level in Argentine history.

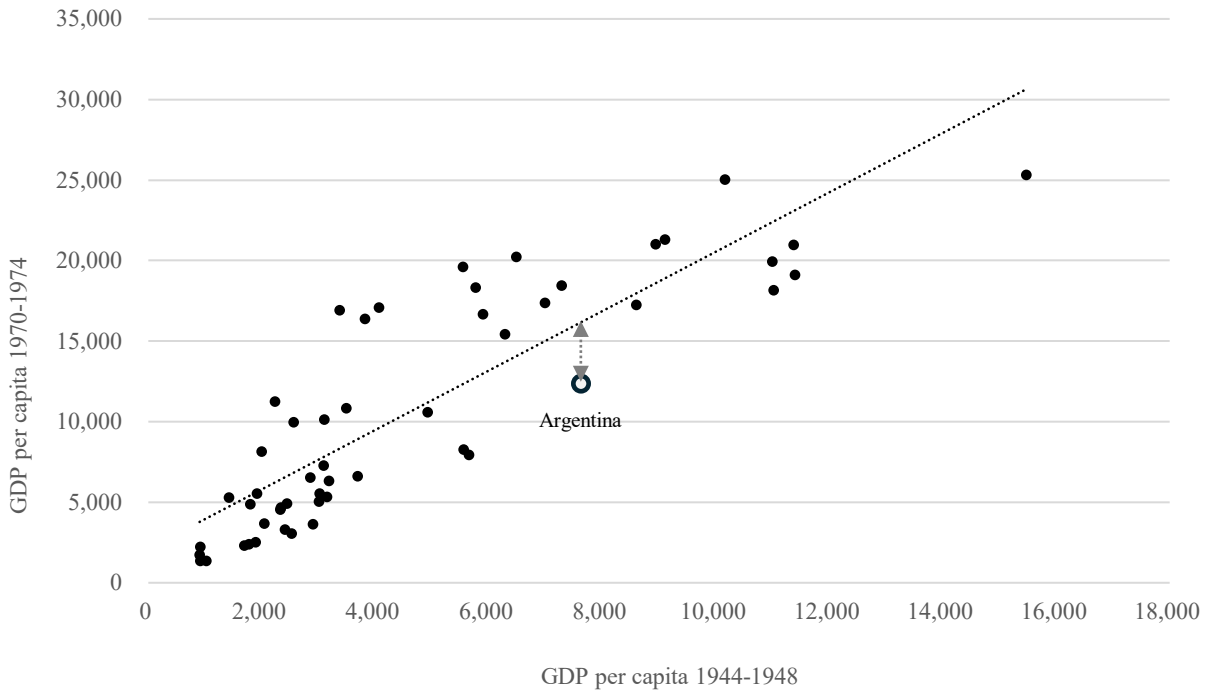
Although both countries suffered a deep crisis in the early 1980s, Chile recovered rapidly while Argentina stagnated. The democratic government elected in Chile in 1990 preserved the main elements of the open market regime whereas the one elected in Argentina in December 1983 maintained the main features of the CISI regime with high government intervention and expenditures. This policy-mix eventually led to a hyperinflation, which eventually opened the door to liberalization with the reforms of 1990s.

Convergence analysis

To capture the effect of unconditional convergence we ran two simple regressions: 1) GDP per capita in 1974 against 1944, and 2) as proposed by Barro (1996), compounded rates of growth for 1944-1974 against initial GDP per capita. The model predicts Argentina's average GDP per capita for the period 1970-1974 should have been 31% higher than observed (it we apply the same methodology to the period 1870-1929, Argentina outperformed the sample.) With the second methodology the model predicts a rate of real GDP per capita growth of 3.0% for Argentina compared to the 1.9% observed. This differential would have resulted in a GDP per capita in 1974 34% higher than observed.

Figure 8 below plots the average GDP per capita for the period 1944-1948 on the horizontal axis and the average for 1970-74 on the vertical axis with data for 51 countries for which there is data.

Figure 8: Convergence analysis 1944 - 1974



Source: Authors based on MPD. The sample includes 51 countries for which complete GDP per capita series exist for the period.

We also performed a conditional convergence analysis for the period 1945-1974 adding a human capital stock measure estimated by Lee and Lee (2016) as an explanatory variable in the regression. The results indicate that Argentina's GDP per capita should have been 15% higher in 1974.

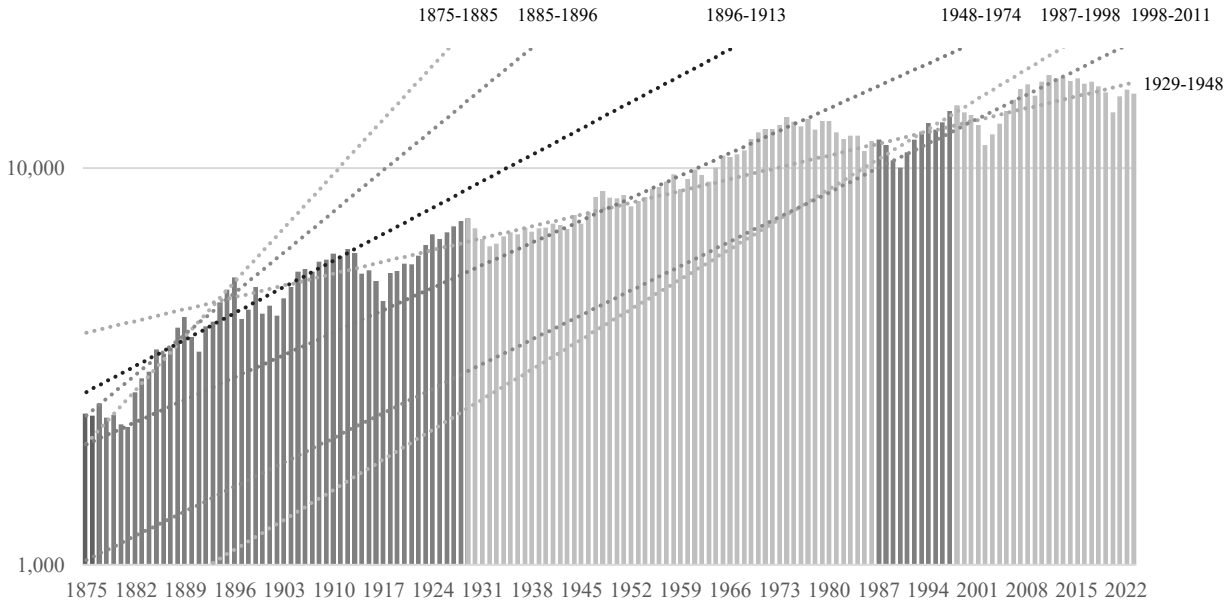
These results are broadly consistent with those of Mundlak, Cavallo and Domenech (1989), who estimated an econometric model for the Argentine economy for the period 1913-1984 and simulated its behavior under policies of trade liberalization and market incentives. According to their model, if after the 1930s Argentina had adopted such policies, by 1974 its GDP per capita should have been 28% higher (p.119). Although they do not provide data for the period 1944-1974, the results for the period 1946-1955 indicate the economy could have attained a level of real

income 20% higher with trade liberalization policies (p.107). In other words, Argentina would have converged to Australia and Canada.

Cyclical peak trend analysis

In this section we extend the univariate analysis with a simple comparison with Australia which shows how Argentina disappointed the expectations of the millions of immigrants it attracted at the end of the 19th century. We first estimate Argentina's GDP per capita from 1875 to 2023 linking cyclical peaks in GDP.[21]

Figure 9. GDP per capita and Cyclical Peak to Peak Trends



Source: Authors based on ARKLEMS. Vertical axis shown in logarithmic scale.

[21] More sophisticated filters as Hodrick-Prescott or Kalman yield similar results but linking cyclical peaks allows to analyze change in the trend for every subperiod. See Mitchell (1947), Burns (1969) and Coremberg (2025).

As can be seen in Figure 9 above, Argentina never replicated the dynamism of the first five decades of this period. Since then and until 2023, GDP per capita grew 0.9% annually. The lack of steady growth is striking. The performance in the last decade has been dismal. Since peaking in 2011 GDP per capita declined steadily and was 10% lower in 2023.

In Table 7 below we show GDP per capita growth rates for both countries between cyclical GDP peaks for Argentina and the number of years it would take each country to double the initial GDP per capita. As can be seen, at each peak Argentina needed more years than Australia to double the initial GDP per capita.

Table 7: GDP per capita Argentina vs. Australia

	GDP per capita		Years needed to double GDP per capita	
Period	**Argentina**	**Australia**	**Argentina**	**Australia**
1877-2023	1,2%	1,4%	56	48
1913-2023	0,8%	1,7%	83	41
1877-1896	3,9%	-0,5%	18	n.a.
1896-1913	0,8%	2,0%	84	35
1913-1948	1,0%	0,9%	67	81
1913-1929	1,3%	0,1%	55	550
1929-1948	0,8%	1,5%	83	47
1948-1974	1,7%	2,4%	42	29
1948-1958	1,0%	1,8%	73	39
1958-1965	1,6%	2,9%	44	24
1965-1974	2,5%	2,8%	28	25
1974-1980	-0,4%	1,8%	n.a.	40
1980-1987	-1,5%	1,8%	n.a.	40
1987-1998	1,8%	2,6%	39	27
1998-2011	1,4%	2,3%	51	30
2011-2023	-0,9%	1,1%	n.a.	66

Source: Authors based on the ARKLEMS database, except 1875-1900 from Cortés Conde (1997). Australia data from MPD.

Moreover, between 1875 and 2023 Argentina had only four periods of continued growth extending over five or more years, and the longest lasted eight years (1967-1974), with GDP per capita growth slightly below Australia's. In contrast, Australia had seven such periods, with two lasting fifteen years or more (1962-1976 and 1984-2019). This lack of sustained and continuous growth is one of the factors that explains Argentina's relative decline.

At 3.9% per year, the trend in GDP per capita growth during the period 1877-1896 was the highest in Argentine history. After the 1913 crisis and the start of WWI, growth decelerated to 1% a year until 1948 and then increased to 1.7% during 1948-1974. During the latter period growth was mostly attained after 1965, reflecting both higher investment levels and an improvement in the terms of trade. From 1974 until 1990 the trend in GDP per capita growth again declined, but during the 19902 it grew to 1.8% annually. The periods during which Argentina grew as fast as Australia were 1877-1896, 1913-1929 and 1965-1974. While in the first two periods Argentina's rate of growth far exceeded Australia's (3.9% vs. -0.5% and 1.3% vs. 0.1%, respectively), and therefore there was convergence toward Australia's standard of living. During the 1965–1974 period, GDP per capita growth rates were similar, and thus no convergence occurred.

In Table 8 below we estimate the GDP per capita in 2023 that would result from extrapolating the trend in each cyclical peak in relation to the observed value. This also gives us an indication of Argentina's decline since the beginning of the 20th century. If Argentina had grown at the rates experienced 1877-1986 its GDP per capital in 2023 would have been 46 times higher than observed.

Table 8: Projected vs. Observed GDP per capita

Period trend	Projected GDP per capita 2023 / GDP per capita Observed 2023
1877-1896	46.1
1896-1913	1.0
1913-1929	1.6
1929-1948	1.1
1948-1974	1.9
1974-1987	0.5
1987-1998	1.5
1998-2011	1.3
2011-2023	1.0
1974-2023	1.0

Source: Authors based on data from ARKLEMS. GDP per capita at the beginning of the period is projected at the growth rate of such period and then divided by the observed data point for 2023.

The extrapolation of potential GDP per capita from the trends generated between cyclical peaks highlight two issues. First, the growing difficulty of integrating the Argentine economy into global trade patterns during each successive period, particularly after 1930. Second, assessing whether the growth pattern under the CISI regime could have allowed Argentina's GDP to ever reach its maximum potential. If the answer is yes, the economy should have generated productivity gains consistent with steady growth, independently of fluctuations in the terms of trade. However, as shown in Table 2 above (see page 11), TFP growth was meager under all variants of the ISI regime.

Growth accounting

The shortcomings of GDP statistics are well known. Distortions increase when prices do not reflect market forces due to government intervention or absence of property rights and/or when high tariffs, restrictions over capital movements and control of the foreign exchange rate divorce domestic and international prices. We perform a growth accounting exercise that incorporates the

impact of these factors by decomposing Argentine GDP growth into the trend between cyclical peaks for the period 1950-2023 using ARKLEMS (see Coremberg, 2025).[22]

In Table 9 below we identify the contribution of factor accumulation and TFP to real GDP growth for each subperiod. From 1950 to 1974, GDP grew at a 3.6% annual rate based mostly on factor accumulation, more specifically capital services (which accounted for 2.4%). In contrast, TFP grew 0.6% annually, contributing to a meager 16.7% of total growth. Subperiods show a similar profile, except during the 1960s, when there was a transitory acceleration to 1.4% per year.

Table 9: Sources of Long-Run GDP Growth - Peak to Peak Analysis

		Contribution of		
Period	**GDP growth**	**Capital**	**Labor**	**TFP**
1950-58	3.6%	2.4%	0.8%	0.4%
1958-65	3.2%	2.4%	0.1%	0.7%
1965-74	4.2%	2.6%	1.0%	0.5%
1950-74	3.6%	2.4%	0.6%	0.6%
1974-80	1.4%	3.0%	0.1%	-1.6%
1980-87	-0.1%	0.2%	0.3%	-0.6%
1987-98	3.0%	1.2%	0.7%	1.1%
1998-2011	2.5%	2.0%	0.7%	-0.2%
2011-2023	0.2%	1.1%	0.7%	-1.6%
1974-2011	2.0%	1.6%	0.5%	-0.1%
1974-2023	1.5%	1.4%	0.5%	-0.4%
1950-2023	2.3%	1.8%	0.6%	-0.1%

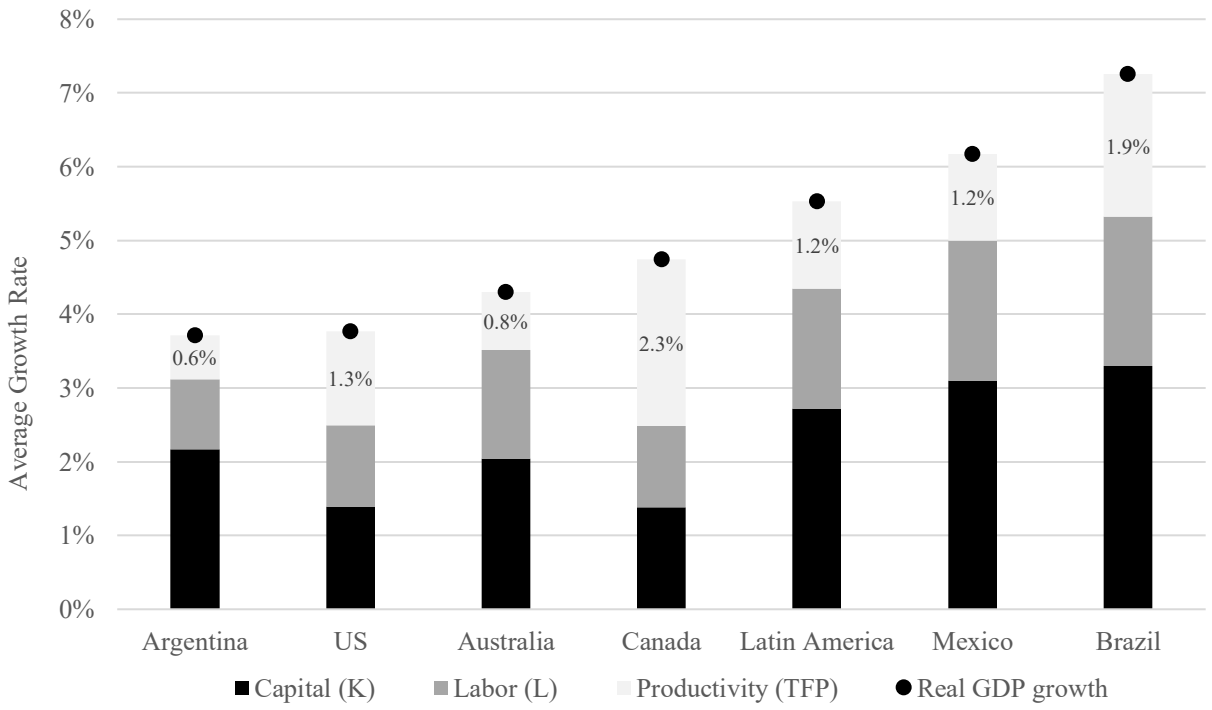
Source: Authors based on ARKLEMS.

GDP growth under both variants of the CISI regime that prevailed during the period 1950-1974 was largely based on capital accumulation and was unsustainable without lasting productivity

[22] There are no available series for TFP before 1950.

gains. The ARKLEMS GDP per capita series indicates that, during this period, Argentina maintained relatively high investment rates, but that TFP growth made a very low or even null contribution to growth. This helps explain the disappointing performance. In our view, the main proximate cause of Argentina's long-term relative economic decline lies in the low efficiency of its economy. Even with relatively high investment rates, GDP growth was well below potential.

Figure 10: Growth Accounting 1950-1974 - Cross Country Comparison



Source: Authors based on ARKLEMS for Argentina and TCB for the other countries.

As can be seen in the chart above, Argentina's growth trajectory during the period 1950-1974 reveals an unbalanced capital-intensive growth profile in absolute and relative terms with a minimal contribution of TFP (half of the Latin American average). This is a clear indication that the economy was not allocating its factors of production efficiently and operated below its full potential.

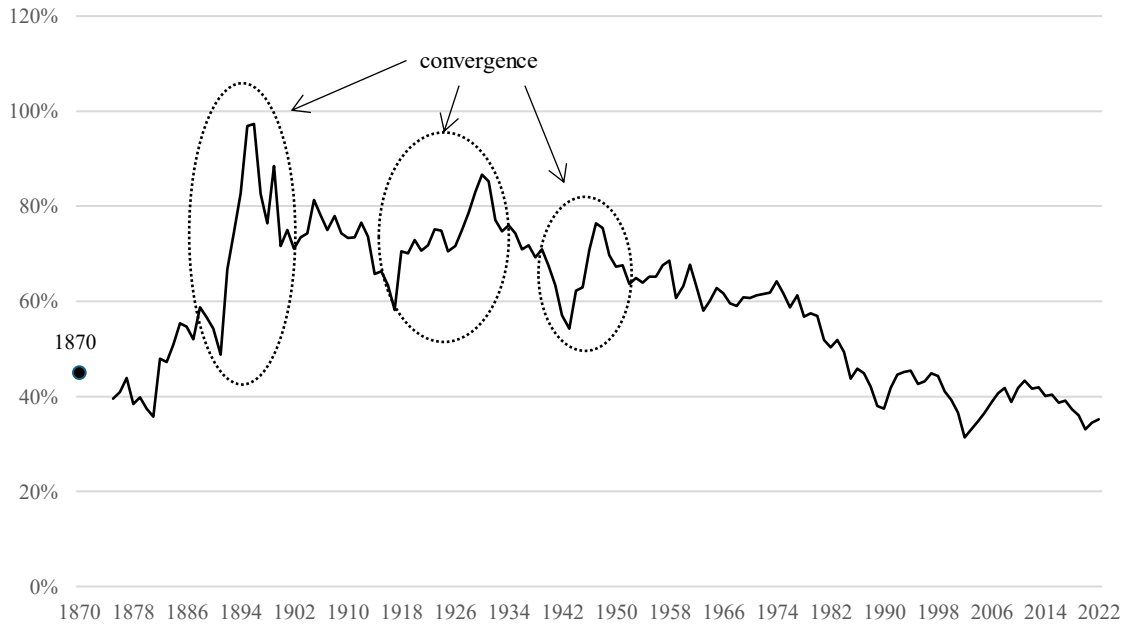
Any approach that focuses solely on the investment rate and the capital stock will tend to overlook the efficiency with which such capital is allocated and used. In other words, it fails to reflect the dynamics of long term growth. As pointed out by Hall and Jones (1999) and Easterly and Levine (2001), in economies that develop successfully, innovation efficiency, and technological progress—whether endogenous or exogenous—neutralize diminishing returns to capital and increase the contribution of TFP to growth, more a matter of "inspiration" than of "perspiration." This only happened during the 1990s.

One may ask if in the postwar period up to 1974 other regimes or development strategies could have delivered better results than a CISI regime. Cavallo and Mundlak (1982) and Cavallo, Mundlak and Domenech (1989) have answered this question positively with a counterfactual simulation of a detailed econometric model of the Argentine economy. A cross-country comparison of the evolution of real GDP per capita provides also sheds light on this issue. In the first decades of the 20th century, the prospects of Argentina, a country rich in natural resources, with a homogeneous and educated population, temperate climate and relative abundance of land seemed bright attracting millions of European immigrants.

The comparison with Australia is the one that has attracted most interest from macroeconomists and economic historians (see, for example, Smithies, 1965; Dieguez, 1969; Dyster, 1979; Duncan and Fogarty, 1984; Dingle and Merrett, 1985; Gerardi, 1985; Fogarty, 1985; Baldinelli, 2001; Gerchunoff and Fajgelbaum, 2005; Gallo, 2006; etc.). During the last 120 years Argentina's GDP per capita grew at an 0.8% annual rate, whereas Australia grew at 1.7% per annum. Had the convergence trends persisted, by the end of the 20th century, Argentina's GDP per capita would

have been equivalent to 60% of Australia's instead of 25%. Figure 10 below, shows only three periods of convergence between the two countries: 1881-96, 1917-31 and 1943-1948.

Figure 10. GDP per capita ratio Argentina / Australia



Source: Authors based on MPD.

Even a Ferrer (2004), a well-known proponent of an ISI regime, pointed out that with a productivity of capital in line with those of the advanced economies—i.e., a capital-output ratio between 3 and 4—Argentina's GDP should have grown at a rate of between 5% and 7% per annum (pp. 274–276). Ferrer attributed this relatively poor growth performance to the high relative price of capital goods, distortions in the investment process, and high levels of idle capacity. This comment echoes Gerschenkron's (1962) observations regarding investment inefficiency in the Soviet Union and in the case of Argentina has been also highlighted by Díaz Alejandro (1970), Di Tella and Zymelman (1973), Nogués (1985) and Taylor (1994 and 2018).

However, by using gross instead of net investment rates, Ferrer overestimated Argentina's GDP growth potential. Following the Harrod-Domar approach (see Chenery and Strout, 1966), the potential rate of growth in real GDP results from dividing the net investment rate by the capital-output ratio. According to ARKLEMS, the capital output ratio for the period 1950-1974 averaged 1.9 and the net investment rate averaged 8% pf GDP, yielding a potential growth rate in real GDP of only 4.3%—well below the range estimated by Ferrer but still above the 3.5% observed.

However, this estimate does not tell the full story. The relatively modest growth in real GDP observed during this period is primarily explained by low growth in TFP, despite investment rates that were relatively high by international standards. The distortions introduced by CISI regime contributed to an inefficient allocation of capital. [23]

4. Conclusion

This paper challenges the increasingly popular view that Argentina's growth performance in the postwar era up to 1974 was close to its potential and that its much-debated relative economic decline began after such year. By systematically evaluating a broad set of empirical methodologies, including cross-country comparisons, convergence regressions, productivity analysis, and growth accounting, we have shown Argentina's economic performance during the postwar period under

[23] While the term malinvestment is often associated with Austrian business cycle theory, it aptly captures the Argentine experience under the CISI regime. Misaligned relative prices due to high prices and an overvalued peso, repressed finance, and discretionary credit policies channeled capital into unproductive uses, creating the illusion of robust investment with limited gains in productivity. As mentioned by Taylor (2018) the resulting distortions had a negative impact on the level, quality and variety of investments.

the CISI regime up to the mid-1970s was suboptimal. Although real GDP per capita growth rates during this period were high by historical standards, they were low relative to the rest of the world, to typical comparable countries, and to what was achievable given Argentina's observed investment levels and initial factor endowments. Rather than reflecting strong fundamentals, GDP growth during this period appears increasingly driven by inefficient capital accumulation, fostered by policies that distorted relative prices and created incentives inimical to productivity growth—the true engine of long-term economic development. These findings call into question both the effectiveness and the legacy of the CISI regime in any of its variants.

Argentina's postwar development model—a mix of import-substitution industrialization (ISI), corporatism, and populism— delivered short-term growth spurts but failed to sustain productivity gains. Favorable terms of trade and high investment temporarily masked inefficiencies, but weak TFP growth led to stagnation. From Frondizi to Macri, efforts to transition out of this regime were undermined by institutional weaknesses, opposition from special interest groups, political volatility, and inconsistent implementation. Institutional anomie (Nino, 1999), a legacy of endemic populism, undermined efforts to impose fiscal and monetary discipline on the Executive via central bank independence or other commitment devices. As a result, policy time inconsistency has become entrenched.

Over the last eight decades Argentina has struggled to transition from a CISI regime to an OME regime. Reforms have been short-lived and often reversed abruptly. Key elements of Perón's corporatist regime have survived. Relative underperformance stems not only from external factors or low investment rates but from suboptimal institutional arrangements that stifle growth in

productivity and inhibit convergence. Opposition from labor and industrial lobbies has consistently thwarted reform.

Even the 1990s reforms, the most successful since 1945, gave way to a corporatist-populist revival. Regime uncertainty has contributed to macroeconomic instability, which in turn has fueled political conflict that led to recurrent fiscal imbalances financed with an unsustainable combination of monetary expansion and external indebtedness. The predictable result of this policy mix has been high, persistent and volatile inflation and low growth.

Argentina's recent history highlights the need for credible regime change to achieve sustained economic growth. Policy debates that ignore the roots of its secular decline risk misdiagnosing current challenges. Recovery requires acknowledging that the low productivity associated with the persistence of key elements of a corporatist regime is at the root of the problem. Without an effective and lasting reform that imposes an effective commitment device on policymakers, Argentina risks remaining trapped in a cycle of crisis and stagnation.

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