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Perón and the Argentine Paradox: An Investigation into an Economic Mystery

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Dedication

To my mother, through whom all things were made possible, and for mi gente, for whom all things are done.
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Introduction

On July 9th, 1816 Argentina declared independence from Spain. Following a bloody revolution, and an additional thirty-seven years of civil war, a constitution was officially adopted in 1853. This marks the beginning of the ‘modern’ Argentine state. During the period between 1853 and 1900 Argentina experienced unparalleled growth. Mass European immigration, foreign investment by the British, and agricultural exports allowed Argentina “three decades of growth averaging 5% a year.”¹ Between 1860 and 1930 “Argentina outgrew [the United States, Canada, Australia, and Brazil] in population, total income, and per capita income.”² In 1913 Argentina “was among the 10 richest economies in the world.”³

This early economic success is often attributed to three things. The first is the relative political stability between the 1860s and 1930. Prior to 1930 Argentina experienced “seven decades of civilian constitutional government.”⁴ While there was some civil disturbances, most notably the failed secession of Buenos Aires in the 1880s, the civilian government retained its power and constitutionality. The second is the comparative agricultural advantage of Argentina. The Pampas are highly fertile South American lowlands covering almost 300,000 square miles. This land (which is primarily contained within the national boundaries of Argentina) was heavily exploited by the land owning elite. European immigrants would often come to Argentina as

⁴ "Becoming a serious country." The Economist.
tenant farmers, working the lands before making their way to Buenos Aires. Finally, as a result of political stability, favorable government policies, and a mass of investment opportunities, foreign investment was incredibly high until it was hampered by World War 1 and the Great Depression. “Argentina is thus not a “developing country”. Uniquely, it achieved development and then lost it again.”

This regression – from developed to developing nation – is commonly known as the ‘Argentine Paradox’. How could a country so promising and rich go through such a terrible economic backslide? Scholars have posited a number of explanations. One, put forward by Raul Prebisch, argues that over time the value of primary commodities on the world market would decrease in relation to the price of manufactured goods. This long term shift in prices effects the terms of trade, and disproportionately harms the countries which produce primary commodities. This forms the economic basis of what is called dependency theory. In terms of attempting to answer the Argentine paradox, dependency theory shows how Argentina could have amassed a large amount of wealth near at the beginning of the 20th century (when the terms of trade benefited primary commodity producers), and that this initial advantage was eventually whittled away by changes in global trading patterns.

Another argues that socio-political instability is bad for economic development and growth. Instability, in the form of constant regime changes is bad for development. With different regimes come different (and often opposing) economic models, which impairs long

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5 “Becoming a Serious Country”. The Economist  
6 Food and live animals, beverages and tobacco, excluding manufactured goods; crude materials, inedible, excluding fuels, synthetic fibres, waste and scrap; mineral fuels, lubricants and related materials, excluding petroleum products; animal and vegetable oils, fats and waxes. – From the OECD Glossary of Statistical Terms
term economic planning that is necessary to transition an economy from a pre-industrial agricultural economy into a technologically advanced industrial and postindustrial economy. Instability is also directly related to consumer, producer, and investor confidence. Rapid political change, especially violent political change, can upset the functioning of an economy. It makes for a bad investment climate, and is marked by perpetual anxiety over future social, economic, and political conditions. Starting in 1930, and continuing over the course of the next five decades, Argentina experienced six military coups. This would correspond to 34 different heads of state between 1930 and 1983. The average term length for these rulers is under 1.55 years. The argument goes that Argentina’s pre-1930 stability allowed for unprecedented economic growth, and that Argentina’s post-1930 instability increased economic volatility, leading to a number of crises, which would see this wealth eroded and Argentina returned to ‘developing’ status.

These arguments have to do with broader trends, but many arguments are rooted in specific policies pursued by various Argentinian regimes. The government which often receives the most criticism is the regime of Juan Domingo Perón. For anti-Peronists, his nationalization project, push for labor empowerment, and creation of a welfare state are all to blame for Argentina’s failure. If only Peron had freed the markets, then Argentina would have continued to develop as a world economic power. Conversely, pro-Peronist scholars argue that the pursuit of market liberalization, free trade, and labor suppression – pursued in the decades following Perón’s ouster – ruined the Argentine economy. This paper will focus in on this issue.

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7 Counting Juan Domingo Peron twice (based on his two separate presidencies).
8 When Perón’s first presidency is removed as an outlier this number falls to 1.3 years.
The theoretical question of this paper is trying to find an explanation to the Argentine paradox. Practically, I will attempt to answer this question by addressing another one – Is Perón to blame for Argentina’s regression? By reframing the question this way I hope to better address the contextual issues surrounding the Argentina paradox, and to dispel some of the myths surrounding early Peronism. The ultimate aims of this paper are to: 1) present a comprehensive analysis of the Peronist model and 2) analyze the long-term effects of this model on the development of Argentina. I will attempt to do this in three chapters. First, a chapter on the economic history of Argentina leading up to the beginning of the first Peronist presidency. Second, a chapter on Peron’s developmental model. This chapter will look to examine the distinct features of the Peronist model, and address some common criticisms of the model. Third, a chapter comparing the Peronist model with the ‘Asian miracle’ model of development, comparing features and looking to explain why the Peronist model was ultimately unsuccessful in achieving development, even though it shared many policies with the successful Asian miracle model. Finally, a concluding section will attempt to tie the key findings of the paper into a coherent argument regarding the Peronist model and the Argentine Paradox.
Chapter 1 – The Historical Background: The End of the 19th Century to the Rise of Peron

The historical method of analysis begins with a belief that the current period is built upon events in the past; or in other terms, the complete denial of spontaneous generation. For this reason the first challenge of any historical analysis is deciding when exactly to begin. Picking any point in relevant history as the starting point necessarily means you will leave out – to varying degrees – what came before that point. The author must decide when to begin, and to attempt to provide a summary of what led to that origin point. This paper’s focus is on the Argentine Paradox, and specifically the contributions of the Peronist economic regime to the paradox. For that reason I have decided to begin my historical analysis prior to the beginning of the 20th century, in 1880, when Argentina began experiencing its incredible growth that would make it one of the richest countries in the world by 1900. This year corresponds to the federalization of Buenos Aires, when the city which would become the ‘Paris of South America’ became the capital of the nation. This chapter will provide the historical framework by which we will begin to analyze the Argentine paradox, and the role of the Peronist regime. In it I will explore the natural, economic, and political history of Argentina leading up to the election of Juan Domingo Peron to the Presidency in 1946.

Even to begin in 1880, requires a brief comment on the earliest parts of independent Argentina’s history. Argentina declared independence in July of 1816 from Spain. At that time “a little under half a million people inhabited what is now Argentina—some three percent
Indians, about 20,000 blacks, 60,000 mulattos, over 100,000 mestizos, and perhaps 10,000 individuals of European descent.”

By the turn of the century Argentina would be predominantly white, due in no small part to European immigration. Following the war for independence Argentina was thrust into a civil war over the administrative structure of the nation. The Constitution was written in 1853, and caused Buenos Aires to initially secede and become an independent state. A military campaign led by Justo Jose de Urquiza resulted in the forced reincorporation of the city in 1859. Then in 1861 Bartolome Mitre overthrew Urquiza and became the first democratically elected President in Argentina’s history. The Presidency would then peacefully transition five different times, eventually resulting in the election of Julio Argentino Roca in 1880, where the focus of this paper really begins.

Subsection 1 – 1880 to World War One: Argentina’s Golden Age

Luis Alberto Romero, an Argentine historian, writes that “after 1880, a new institutional framework was created,” which was fundamentally a “monarchy dressed as a republic.” This Argentina was characterized by its “strong presidential power, exercised without limits in the vast national territories,” but which was subject to “the checks and balances exercised by the congress, above all the prohibition of presidential reelection, [ensuring] that executive power could not become tyrannical.” At the time the only recognized political party was the Partido Autonomista Nacional (PAN) which would effectively rule Argentina uncontested from 1874 to

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11 Ibid. Pg. 3

12 Ibid. Pg. 4
1916. During that period “Argentina [would grow] spectacularly and become wealthy.”\textsuperscript{13} This growth can be attributed to an infrastructure modernization project which was funded by massive foreign (British) investment.

From 1880 to 1913 “British capital in Argentina increased twentyfold.”\textsuperscript{14} This investment took a number of forms. Romero writes;

To the traditional British areas of investment such as trade, banking, and public loans were added mortgage loans for land, investment in utilities such as gas, and investment in transport such as streetcars and especially railroads. These investments proved enormously profitable. In some cases such as the railroads, the government guaranteed profits and also granted tax exemptions and land alongside the tracks to be laid.\textsuperscript{15}

British railroad investment was key in transporting agricultural goods from the country side into the port of Buenos Aires where it could be exported. In 1880 there was 2,500 kilometers (km) of railroad track which, by 1916, would expand to 34,000 km of track. This initial investment would bring the Argentine railroad within 6,000 km of its eventual peak at 40,000 km\textsuperscript{16}. These railroads not only connected Argentina with itself, allowing for effective governance by the PAN from Buenos Aires, but it also connected Argentina with her South American neighbors.

MacLachlan writes

By 1912 rail connections to Paraguay and Bolivia had been completed. Mendoza connected with a line (since abandoned) on the Chilean side that provided transportation to Santiago and Chile’s Pacific port of Valparaiso. Railways bypassed settlements that offered only marginal economic possibilities while turning others into prosperous collection centers tied into the Atlantic export chain.\textsuperscript{17}

\textsuperscript{13} Ibid. Pg. 2
\textsuperscript{14} Romero Pg. 5
\textsuperscript{15} Ibid. Pg. 5
\textsuperscript{16} Ibid. Pg. 5
\textsuperscript{17} MacLachlan Pg. 24
This infrastructure project would coincide with investment in an extensive communication (telegraph) network. By 1910 there would be 31,251 miles of telegraph cable. This communication network allowed for a greater level of interconnectedness within Argentina, planting the seeds for a growing nationalism which would further develop in the 20th century, and a greater connection to European markets. At the beginning of this project “cable communication to Europe required five hours or more; [but] by 1911 it took a mere 45 minutes.”

This foreign capital investment allowed for the simultaneous development of Argentina’s agricultural and industrial economies. As mentioned before, Argentina successfully pursued an export led growth model during the pre-World War One era. This was made possible through a combination of natural and political forces. The highly fertile Pampas wetlands provided an excellent environment for agricultural growth. While the Argentine interior had been relatively inaccessible to the Argentine state until the 1870s, this would dramatically change under the PAN administration.

The state undertook the so-called Conquest of the Desert, which resulted in the incorporation of vast expanses of land suitable for cultivation, in which great plots at minimum cost were transferred to powerful private interests and the well connected. Many of these were already or would become landowners, and this policy was a decisive turning point in the consolidation of the landowning class.

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18 Ibid. Pg. 25  
19 MacLachlan Pg. 25  
20 Romero Pg. 7
The PAN administration was made up primarily of those within the landowning class, and thus often acted in their interest. This is apparent in creation of massive estancias, comparable to Mexican haciendas or North American plantation-estates. MacLachlan reports

San Jacinto, one of the nation’s largest estancias, comprised 244 square miles... [which] supported 100,000 Durham cattle, 100,000 sheep and 10,000 horses. The estancia San Juan...covered 40 square miles of carefully tended meadows. Most estancias mixed animal breeding with supplying animals for the market and grain crops. The San Martin occupied some 30 square miles...[While] to the south companies owned much of the land. The Patagonian Sheep and Farming Company covered some 734 square miles. Another estancia of 1,060 square miles belonged to the Bank of Antwerp.21

These massive estates were developed by their landlords and “with its base in agriculture, an entrepreneurial class took shape...an oligarchy that controlled a vast array of businesses from the halls of power.”22 These Argentine oligarchs valued market flexibility over outright specialization. Aware of international market volatility these landowners adopted an adaptive agricultural strategy which was capable of changing based on the most profitable goods markets at any given time.

In the littoral, where cattle were scarce and produce could move by river, landowners leaned toward agriculture; where the land was cheap, they opted for colonization, which brought land under cultivation; once the land increased in value, they preferred a sharecropping system. In the province of Buenos Aires, great landed estates and wool production predominated, until the establishment of meatpacking plants made the breeding of English blooded cattle stock for export profitable.23

Regardless of the product – be it sugar, wool, corn, beef, wheat, or linseed – Argentina’s agricultural products enjoyed unparalleled growth from 1880 to 1916. Romero writes

Between 1892 and 1913, the production of wheat increased fivefold, half of which was exported. During this same period, total exports also increased five times, and imports grew at a slightly slower rate. To wheat were added corn and linseed, the three of which

21 MacLachlan Pg. 41
22 Romero Pg. 8
23 Ibid. Pg. 7
were half of the country’s exports. Among the rest, besides wool, meat exports began to occupy an increasing importance, especially after 1900, when packinghouses began to export chilled and canned beef to Great Britain. 24

This massive rural industry fed back into Argentina’s urban economy, developing an early industrial economy within Buenos Aires. Food processing and textiles represent the core urban industrial activities. “This industrial economy grew in consonance with the agrarian one, expanding or contracting according to the rhythm of the latter.” 25 By 1916 Argentina had twenty-four million hectares of cultivated land. 26 In addition the port of Buenos Aires became the most important trading post in the nation. “The port accommodated 1,400 ships...[and] In 1908, 84 percent of imports and over half of the country’s exports passed through the port of Buenos Aires.” 27

While foreign investment funded these economies, and the state administered them, they still needed workers to work within them. To do this the PAN government engaged in a widely successful immigration campaign. From 1870 to the beginning of World War One, Argentina’s population grew by six million people. 28 Pro-immigration strategies included circulating pro-Argentine propaganda in Europe, paying travel fares for immigrants 29, and forcing “steamship companies to raise return fares to Europe by 100 percent to slow the number of returnees.” 30 Mendoza, a metro area near the Andes, had “a population of 56,000, over a third of them immigrants.” 31 These migrants, primarily from Italy and Spain, ended up as

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24 Ibid. Pg. 8
25 Romero Pg. 9
26 Ibid. Pg. 18
27 MacLachlan Pg. 24
28 Romero Pg. 10
29 Ibid. Pg. 6
30 MacLachlan Pg. 31
31 Ibid. Pg. 30
sharecroppers and factory workers. “In 1914 foreigners made up only 4.4 percent of rural landowners, concentrated mostly in specialty agriculture such as vineyards (62 percent).” Immigrants would make up a large number of low skilled and low paying jobs within Argentina. These jobs were notoriously dangerous;

Dust, chemical fumes, stench, and dangerous solvents assaulted the health of workers. Packinghouse floors covered with blood, entrails, and excrement made for ghastly work. Men who carried meat to the freezers covered their faces and hands with rags or old newspapers so that the fresh blood would not freeze on their bodies. Rheumatism disabled many packinghouse workers within five years. Over a four year span in Buenos Aires (1908 – 1912) nearly 500 workers died on the job. Employers could not be held accountable for these workplace accidents until 1915. With growing urbanization, in response to the booming economy, city living conditions deteriorated dramatically. For instance “in Córdoba, municipal officials counted 2,041 rooms housing 6,494 individuals, without sanitary facilities or adequate ventilation.” These brutal conditions of early industrial capitalism resulted in the birth of Argentina’s first unions.

The birth of Argentina’s first labor movements truly begins in 1900. Twenty years into Argentina’s golden age, the literate population had significantly increased. The results of Hacer la America – Argentina’s ‘American Dream’ – was a generation of Argentines who could attend university. Here they were introduced to the ideas of Marx and romantic notions of nationalism. This new intelligentsia would provide the philosophical basis for the growing political dissent within Argentina. Abhorrent urban conditions and a lack of economic and political rights for the lower and middle class led to increased criticism of the established order.

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32 Ibid. Pg. 31
33 MacLachlan Pg. 44
34 Ibid. Pg. 45
In Santa Fe *arrendatarios* (sharecroppers) and *chacareros* (small farmers), began forming cooperative organizations based on common goals. The first union agricultural union, the Federacion Agraria Argentina, was formed in 1912 after mass strikes against the major estancias. Likewise in the major cities “popular society started to coalesce [around] mutual aid and resistance societies and trade unions.” Anarchist and socialist philosophies spread throughout the nation, and in 1907 “150,000 workers participated in a general strike. Two years later some 200,000 workers walked out to protest police violence. The government used 5,000 troops, heavily armed police, and mass arrests to break the strike.” Eventually, pressure from (essentially) underground political parties and worker mobs proved to be too great for the PAN administration. In 1912 they were forced to introduce universal male suffrage. In the very next Presidential election, in 1916, the *Partido Autonomista Nacional* was defeated for the very first time. The *Union Civica Radical* (UCR) led by Hipolito Yrigoyen would ascend to power. For some “Yrigoyen’s assumption of power [was considered], without greatly exaggerating, the happy culmination of the long process of modernization that had begun in the middle of the nineteenth century.”

Subsection 2 – The Radical ‘20s, the Infamous ‘30s, and the Rise of Juan Domingo Peron

The UCR platform as espoused by Hipolito Yrigoyen was focused largely on the integration of the ‘average’ Argentine into national politics. Yrigoyen’s election under universal male suffrage is evidence that his political and social rhetoric was popular with many
Argentines. It is important to note that only citizens could vote and, as mentioned before, a number of immigrants to the country choose not to acquire citizenship. This placed Yrigoyen firmly within growing nationalist sentiments; “Yrigoyen joined those who – distancing themselves from the reigning cosmopolitanism – found Latin American identity in the common Hispanic roots.” As a result of the United States ever increasing role in American politics “support for a militant Latin American unity against the Yankee aggressor was strengthened by the Mexican Revolution.” Yrigoyen attached himself to the middle class – leaving much of the working class votes to be swept up by the weaker Socialist Party. According to Carl Solberg “[Yrigoyen] appealed to the masses to support the "cause" of which he was the "apostle" and which would defeat the allegedly wicked oligarchic "regime," in power before 1916, and then lead the republic into an era of ethical righteousness”

During the UCR presidencies, Argentina continued to experience export led growth. “In 1929 Argentina was still the world’s largest exporter of chilled beef, maize, linseed and oats, and the third largest exporter of wheat and flour.” However, growth had begun to slow down in comparison to pre-war levels. “During the whole 40-year period before 1910—14 gross domestic product at factor cost increased at an annual average of 6.3 percent. Between 1910-1914 and 1925-30 the rate fell to 3.5 per cent.” Argentina experienced two complete business cycles (bust, boom, bust, and boom) in the sixteen years leading up to 1929.

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38 Ibid. Pg. 29  
39 Romero Pg. 29  
42 Ibid. Pg. 140
This common man rhetoric can be seen throughout the Yrigoyen presidency through specific policy actions taken by the government. UCR party literature described their platform like so:

Radical Bread, Radical Milk, Radical Meat, Radical Seed, and the Radical Homestead well demonstrate that the party desires a moderate form of state intervention to alleviate the rigours of economic laissez-faire on behalf of the poor, and for those disarmed in the struggle for survival; an intervention which the English fittingly term paternalism. . . It is time that a political party, organized throughout the country, should work towards these ends and carry them out efficiently.43

The Radical Party attempted to position itself as a middle way ideology, focused on the improvement of Argentina by elevating the country’s growing middle class. The UCR targeted this particular bloc because it represented the largest eligible voting bloc in Buenos Aires (the seat of Government). During the Radical years – 1916-1930 – Buenos Aires “was divided into two groups, the natives and the foreigners, which ...was almost the equivalent of saying the voters and the non-voters.”44 The Socialist Party, which at the time was the only real alternative to the UCR and the PAN, closely identified with urban workers and specifically immigrants. This failed to translate into votes, due in no small part to immigrant unwillingness to apply for Argentine citizenship. The UCR emphasized nationalism as a key foundation towards building social and economic institutions. This would result in serious tension with immigrants who were predominantly working class.

The urban working class found little in common with the middle class. They resented the economic privileges of factory owners, landholders, and exporters, as well as the Radical party’s patronage of the middle class. Strikes became more disruptive as industry attempted to deal with material shortages caused by World War I. The war disrupted coal imports from England, forcing industry to operate at reduced levels. Railway

44 Rock Pg. 234
companies struggled to maintain schedules while imports plunged. Real wages fell between 1914 and 1917 by a third as shortages forced industries to dismiss workers.\textsuperscript{45} This tension would result in a number of clashes between the UCR government and the working class between 1917 and 1924.

While the Radicals had achieved success at the polls, the Anarchists, Socialists, and Unions were experiencing a great deal of popular support, this is shown by the surge in union creation and membership during this period. Big transport unions the \textit{Federacion Obrera Maritima} (the Maritime Workers Union) and the \textit{Federacion Obrera Ferrocarrilera} (the Railroad Workers Union) were able to garner significant support. Their command over transport, a key aspect of Argentina’s export economy, made them a significant force because they could easily shutdown the economy in the event of a mass strike. These two unions in particular were made up of primarily native Argentinians, meaning their members had the right to vote in elections. The Yrigoyen government, not wanting to sacrifice electoral success, was much more willing to work with them to achieve a number of workplace improvements. While the Yrigoyen government had reacted positively towards unions which were largely native in origin, they continued to be especially brutal towards unions which were made up primarily of immigrants.

The policy [of nonviolence by the state] seemed directed mainly to the workers in the federal capital – potential UCR voters in a district that the Radicals bitterly contested with the Socialists – but did not extend to either the unions with a majority of members who were foreigners or to the workers in the province of Buenos Aires. Thus, the 1918 strike of meatpacking workers, who were overwhelmingly foreigners, was dealt with by using the traditional methods of repression, firings, and strikebreakers.\textsuperscript{46}

\textsuperscript{45} MacLachlan Pg. 78
\textsuperscript{46} Romero Pg. 31
Political instability would grow as “social conditions, which were already complicated at the moment the war erupted, grew worse. In the cities, there was inflation; real salaries lagged behind and unemployment was high.”47 By 1922 however these tensions would be mollified by the election of Marcelo de Alvear. His six years in power would be marked by a kinder attitude towards unions and the working class, his policies “included such measures as full recognition of the trade unions, retirement plans for commercial employees and railroad workers’ unions, regulation of woman and child labor, and establishment of the first of May – turned into a conciliatory Labor Day – as a national holiday.”48 Yrigoyen would go on to win the presidency again in 1928, but his government would only last another two years before the Great Depression would cripple the global economy and make his reign untenable.

“The year 1930 opens the gateway into modern Argentina.”49 In 1930 the first military coup in Argentina overthrew the democratically elected government of President Yrigoyen; “it would be another sixty-one years before an elected president would peacefully transfer power to his successor.”50 This began the “infamous decade” of Argentina, and “[set] a precedent for throwing out governments in times of economic trouble.”51 Political tendencies continued to push towards nationalism and away from foreign dependence. As the trade relationship with Britain began to collapse, Argentina was forced to move away from its agrarian export economy towards manufacturing. A mass migration from the rural areas of Argentina to the urban center

47 Ibid. 30
48 Romero Pg. 37
50 Romero Pg. 27
of Buenos Aires followed. Falling standards of living, rapidly slowing growth, and unemployment (brought upon by the Great Depression) led to popular discontent. “These changes helped to undermine the political base of conservatism by reducing the dominance of agrarian producers, while enhancing the weight of sectors dependent upon, or sympathetic towards, urban manufacturing.”

With the onset of World War 2 came significant problems for the Argentine economy.

The German conquests and the blockade dealt a blow to the Argentine economy that was even more severe than that of 1929—30. Trade plummeted instantly: in 1940 exports shrank by 20 per cent. In 1938 40 per cent of Argentina's exports went to Western Europe, but by 1941 the proportion had fallen to only 6 per cent, nearly all to neutral Spain and Portugal. Britain imported most of Argentina's meat, and the British market remained open, but the Continent now became inaccessible to most of Argentina's grains, with the result that agriculture and farmers, rather than cattle and ranchers, suffered by far the more serious effects of the war. By late 1940 shipping in Argentine ports had fallen by half. Both exports and imports sank to levels below the low point of the depression.

Public outcry over fraudulent elections, industrial corruption, coupled with international pressure from the United States, collapsing economic relationships with Western Europe, and fear of Brazil “which the United States was now arming faster than any other country in the region” led to discontent and plotting within the military. In 1943, fearing communist/popular insurrection against the fraudulently elected conservative government of Ramón Castillo, the military overthrew the President and established a military dictatorship which would last three years. This three year period would see the political rise of Juan Domingo Perón.

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52 The Cambridge History of Latin America. Pg. 5
53 Ibid. Pg. 39
54 Ibid. Pg. 48
Perón was one of the key founding members of the *Grupo de Oficiales Unidos* (United Officers’ Group) which was one of the groups responsible for the planning and execution of the 1943 coup. This secret organization represented the nationalist faction within the military dictatorship and following the successful deposition of Castillo were at odds with the liberal faction. Perón and the nationalists were able to effectively take over the military junta, and Perón – for his role in the coup – was rewarded with a position in the *Departamento Nacional de Trabajo* (National Department of Labor). A month later, “the department was elevated to the rank of Secretaria de Trabajo y Prevision (Secretary of Labor and Welfare), with status analogous to that of a ministry.” 55 This elevation gave Perón significant political power.

With Peron at its head, the Secretaria de Trabajo y Prevision was granted both executive and judicial functions, and expeditive powers not subject to recourse.... The operative rule was the worker was always correct, and the Secretaria always sided with the workers. This approach helped perpetuate a mythos around the Secretaria.... Peron had only one objective: to capture the sympathy and support of the masses. 56

Cultivating this relationship between the growing labor movement and the state was the key function of Perón’s political position. Specifically Perón courted the *Confederación General del Trabajo de la República Argentina* (General Confederation of Labor, CGT) and its leader Ángel Borlenghi. In 1945 Perón was ousted from the Labor Department by his political enemies within the military junta. Four days later Perón was arrested and sent to prison. Five days later, on the 17th of October, on what has now been dubbed ‘Loyalty Day’ in Argentina, the CGT held a massive demonstration calling for Perón to be freed. That evening Perón was released and delivered a speech from the balcony of the *Casa Rosada* (the Pink House), the official residence

56 Ibid. Pg. 63-64
of Argentina’s President. This marks the beginning of Perón’s campaign for President of Argentina.

The events of September-October 1945 demonstrated the extent to which in only two years Peron had totally transformed Argentine politics: he had rendered the fifty-year-long feud between the Radicals and the conservatives an anachronism; he had precipitated the working class into politics, while virtually eliminating the traditional working-class parties, in particular the Socialists; he had divided the country into the 'peronista supporters of 'economic independence' and 'social justice' and 'anti-peronista’ defenders of the old liberal order.\textsuperscript{57}

Perón was elected President of Argentina on February 24\textsuperscript{th}, 1946. Originally running on a Labour Party ticket in 1946, Perón would go on to found the \textit{Partido Justicialista} (Justicialist Party) the following year. Ángel Borlenghi was appointed interior minister, and given significant oversight over the justice department and police enforcement. The period from 1945 to 1955 would be known as the Peronato.

\textsuperscript{57} \textit{The Cambridge History of Latin America}. Pg. 69
Chapter 2 - The Peronist Model

Raul Prebisch, arguably Argentina’s most prominent economist in the 20th century, put forth in his seminal work *The Economic Development of Latin America and its Principal Problems* an economic theory which is now known as dependency theory. According to a basic understanding of this theory there exists core and periphery countries. Core countries – defined as rich, industrialized economies, focused on the production of manufactured goods – engage in trade with periphery countries – defined as poorer, industrially underdeveloped economies, focused on the production of primary goods. Over time due to the variable demand elasticities of manufactured goods (more elastic) and primary goods (less elastic), the terms of this trade would begin to benefit core countries over periphery countries. As time progresses this relationship is exacerbated; the dependency of weaker periphery economies on stronger core economies deepens. This is an important contribution because it runs contrary to a linear development model based around ‘stages’. In this traditional model, “the market mechanism automatically [benefits] all countries, the large industrialized as well as the agricultural economies, and the business cycle [regulates] the periodic ebbs and flows in the international economy.” As time progresses, undeveloped economies will go through a linear series of ‘stages of development,’ where they will eventually achieve developed status.

According to one reading of Prebisch “neither the doctrine of comparative advantage, nor the workings of the business cycle, automatically work for emerging economies such as

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Argentina.” Instead, due to the fact that “terms of trade for agricultural commodity producers like Argentina [are] in historical decline,” periphery economies (and specifically Argentina) need to actively pursue development through industrialization. Prebisch himself writes “Industrialization is not an end in itself, but the principal means at the disposal of those countries of obtaining a share of the benefits of technical progress and of progressively raising the standard of living of the masses.” As chairman of Argentina’s central bank, and later as the executive director of the United Nations Economic Commission for Latin America (ECLA) and secretary-general of the United Nations Conference on Trade and Development (UNCTAD), Prebisch argued that periphery countries, in order to “resist subordination of the national economy to foreign movements and contingencies, must develop inward (‘desarrollo hacia adentro’), strengthen [their] internal structure, and achieve autonomous functioning of [their economies].” This statement became the basis for what is now known as import substitution industrialization (ISI). It is clear in Prebisch’s framework that industrial policy, which is “defined as the strategic effort by the state to encourage the development and growth of a sector of the economy,” is a key strategy in answering the ‘principle problems’ of Latin America’s economic development. ISI is one type of industrial policy which focuses on replacing foreign imports with domestic production of manufactured goods, in order to reduce foreign dependence. Alternatively, export substitution industrialization (ESI) argues that industrialization is achieved via the traditional path of comparative advantage. In this framework countries specialize in

59 Ibid.
60 Dosman Pg. 89
62 Dosman Pg. 90
63 DCED Industrial Policy
producing what they are ‘naturally’ good at, and then trade with other countries. This process then creates the necessary income to fund industrialization.

The relevance of these two competing theories is that they represent competing models by which a country can achieve development. The focus of this paper, as laid out in the introduction, is to determine if Juan Domingo Perón’s economic policies were the cause of the Argentine paradox – which, briefly restated, is how Argentina achieved development at the beginning of the 20th century but proceeded to regress back into a developing economy. In order to answer this question primary question, we must first answer a series of secondary questions. These are:

1. Does Peronism represent a coherent theoretical economic model?
2. How does this model, if it exists, manifest itself in terms of policies enacted by the Peronist government from 1946 to 1955?
3. What effect did said policies have?
4. Were these policies consistent with the historical circumstances of Argentina, and contemporary development theory?

How do these secondary questions help answer the primary question of this paper? Well, if no Peronist model exists it cannot be to blame for the country’s economic reversal. One could argue that a lack of a coherent model is a cause for economic stagnation, but since I will assert shortly that a model does exist I ignore this possibility. If a theoretical model does exist then certainly we must analyze how such a model was implemented and the effects it had in order to judge if the model was responsible. Finally if the model was not in line with historical circumstances, i.e. it was imposed a priori, then certainly it can be found at fault for not adequately addressing the problem facing the Argentine economy at the close of World War 2.
However, if the model is in line with the historical circumstances, i.e. it was the only available set of options based on contemporary conditions, then we could argue that it was the external conditions and not the model which was responsible for Argentina’s economic regression.

This chapter will attempt to answer these four secondary question via a historical analysis of Peronism. This first subsection will deal with the theoretical basis of Peronism, focusing on answering the secondary question “Does Peronism represent a coherent theoretical economic model?” As I will assert later, Peronism does in fact represent a model concerned with then current global political reality. Perón is elected President of Argentina in 1946, a time of great political crisis. The global economy, having contracted due to a world war, was just beginning to recover. Simultaneously the United States was emerging as a global superpower and was in direct contention with the Soviet Union for global supremacy – the Cold War. Perón, having been stationed in Europe in 1939, was well aware of the political tensions beginning to take hold of the globe – namely the competition between capitalism and communism, and growing social tension between the rich and poor. Peronism represents, in my estimation, a sincere attempt at subverting what Perón saw as imminent class warfare. For this reason I have decided to separate labor policy from other Peronist economic policies and treat them both separately. This chapter will proceed as follows, first a subsection examining the philosophical basis for Peronism, then a subsection examining the labor policies of Peronism, following that a subsection examining Peronism’s industrial policy, trade policy, and more general macro-policy, and finally a concluding section which will tie together these analyses.
Subsection 1 – What is Peronism? The Intellectual and Philosophical basis for Justicialismo

To begin, we must answer the question ‘does Perón have a coherent economic model?’ Peronism is considered by some to be an entirely unfeasible and purely rhetorical piece of political opportunism. Treating it as such hamstrings thoughtful analysis of its political and economic implications. Instead I put forward that the Peronato saw the development of a robust political, economic, and social ideology, known as justicialismo, whose “avowed intention was to find a 'Third Position' between capitalism and socialism.” In 1939 Perón was stationed in Italy where he studied at the University of Turin and came into contact with a variety of governmental and economic systems. Notable among them were Mussolini’s fascism, Marxist-Leninism, and social democracy. This diverse education led to his own eclectic ideology. “The interesting thing about Peronism as an ideology was that its leader claimed to be able to draw on the best of the western humanist tradition in order to produce a theory of social solidarity that eschewed class conflict.” Peronism relied on support from across the traditional political spectrum; specifically the church, the military, and the labor movement. “The hallmark of Peron’s political thought, then, is its eclecticism. In a sense Peron can be thought of as a scavenger of two millennia of social thought.” This ‘eclectic’ ideology relies on “three main strands in the history of western thought” the Ancient world, Christianity, and Machiavellian

64 McLynn, F. J. “The Political Thought of Juan Domingo Peron.” Boletín de Estudios Latinoamericanos y del Caribe 32 (1982): Pg. 15
65 Ibid. Pg. 16
66 Ibid.
67 Ibid.
‘positivism’. In terms of rhetoric, Peronism is presented as a Christian ‘third way’ ideology which is equally critical of Capitalism and Communism.

Capitalism comes in for particular criticism from Peron. He describes it as a cold force of accumulation, which owes no national allegiance and as it is without a country is also without a heart, in a word an agglutination of all that is most spurious about money. International capitalism is par excellence a cold and inhuman force... Finally, and for Peron this is most important, capitalism has neither a clear sense of direction nor a distinct ideology, Capitalists are unable to explain what their aims for the future of the world are, what they owe to history or what their place is in historical process. Capitalism lacks a 'Weltanschauung', in a word, and for Peron no political tendency is credible without one.

Similarly “Communism is opposed as being simply the mirror image of capitalism and an effect of the latter; because it is 'totalitarian'.” The lack of weltanschauung – a particular philosophy or view of life – leaves both ideologies fundamentally flawed. Instead Peronism, guided by Christian morality, seeks to find the “optimum point of organization” through a dialectical process “between competing values, each of them intrinsically undesirable: individualism and collectivism, idealism and materialism, liberalism and socialism, capitalism and communism.”

Peronism is often termed a fascist ideology, although some scholars have taken issue to this characterization. Certainly Peronism is informed by fascism, especially in its corporatist economic model. Regardless, Peronism is universally agreed upon to be a left wing populism which tends towards the authoritarian, especially during the latter half of Perón’s first presidency. Unlike the right wing ideologies of Mussolini and Franco, Peronism relied heavily on unions and the working class. Sociologist Carlos de la Torre writes,

Perón radically changed the significance of words used to denigrate subaltern groups – such as descamisados – into the essence of true Argentine identity. Perón also widened the significance of key words of his epoch such as democracy, industrialism, and working

68 McLynn Pg. 20
class. "Perón explicitly challenged the legitimacy of a notion of democracy which limited itself to participation in formal political rights and he extended it to include participation economic life of the nation." The meaning of industrialism was articulated anew within social and political parameters, while the individual workers became instead the working class. Words like pueblo and oligarquía acquired concrete meanings with Perón, as opposed to their purely rhetorical use. El pueblo became el pueblo trabajador.69

In this framework, Labor becomes an active participant in the shaping of Peronist ideology.

Unlike Mussolini and Franco’s exclusively top down approach, Peronism was also “a creation of the workers who continued to shape and reshape its tenets to a point where Peron himself could hardly recognize his own offspring. If the Argentine working class was redefined by Peron, his own policies were redefined by the working class.”70 The impact of this back and forth is an economic ideology which placed heavy emphasis on meeting the needs of workers. Rightly or wrongly Perón’s Argentina heavily favored labor; which resulted in policies aimed towards higher wages, greater work protections, and a number of social safety nets. De la Torre writes

Contrary to previous governments that did not address workers' demands for social security and labor legislation, Perón in his post as the head of the National Labor Department (1943-45) met labor demands. Moreover, due to his power in the military government, Perón was able to coopt and repress the labor movement in accordance with his interests. In the 1946 elections and throughout his first two presidential periods, Perón thus counted on the support of most of the Argentine working class, who acted rationally in supporting a leader favorable to their short-term interests.71

It also included a process of societal restructuring, a string of industry nationalizations, government interventionism, and a number of questionable macro-development policies –

70 Da Costa, Emilia Viotti. "Experience versus structures: new tendencies in the history of labor and the working class in Latin America—what do we gain? what do we lose?." International Labor and Working-Class History 36 (1989): Pg. 8
71 De la Torre
including import substitution industrialization and the institution of “bilateral trade, exchange controls and multiple exchange rates.”  

Subsection 2 – Peronism and Labor: A Special Relationship

In terms of executing these plans, Peronism in practice takes on the appearance of corporatism, “a system of social organization that has at its base the grouping of men according to the community of their natural interests and social functions, and as true and proper organs of the state they direct and coordinate labor and capital in matters of common interest.”

Corporatism has always been associated with religious institutions, namely the Catholic Church, and has been used to describe multiple (and vastly different) political regimes including fascist Italy. “It is possible to distinguish among corporatist systems that are state or societal, Ibero-Catholic, traditional, or modern "rationalist," inclusionary or exclusionary, bifrontal or segmental.” These different forms of corporatism result in different economic organizations. Peronism is a form of inclusionary corporatism, an idea which will be expanded upon shortly. Within Argentina the general corporations – the organic socio-political groupings of men – are labor, business, the church, the military, and the state. The ideology of Peronism is concerned with the collective bargaining going on between these groups, with the state as the primary mediator. We can see the unique way in which mediation is enacted through Perón’s writings...

"Those who represent capital and those who are the workers should adjust their relationship to more Christian rules of community life and mutual respect for each other as fellow human beings.... Our movement is a movement of united Christianity.... Both

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74 State Corporatism. Pg. 61
the representatives of capital and labour should conform to more Christian principles and have more respect for each other.\textsuperscript{75}

Here Perón subverts class conflict by centering a Christian message which culturally unites Argentina. “Before Peronism, half of Argentina was Christian, half was socialist or communist.”\textsuperscript{76} After the Peronato there were Peronists and anti-Peronists. Between 1916 and 2015 every democratically elected President of Argentina was either a Peronist or a Radical (a centre-left socially liberal party); since 1983 only two of seven Presidents were not members of the Justicialist party. Peronism did away with traditional left-right politics and replaced it with a dialectical populism under the careful command of Juan Domingo Perón.

Peronism was involved in both collective bargaining and central planning. “Perón can be placed alongside other ‘Third-World’ advocates of national planning such as Nehru, Sukarno, Nkrumah, Kubitschek and Nasser.”\textsuperscript{77} In 1946 Perón presented his first five-year plan to the Argentine National Congress.

[The plan] covered a wide range of issues: agricultural and industrial policy, public health, social insurance, housing and public works construction, international relations, and state finances, among others... Estimates provided by the regime reveal a steady growth in infrastructure and public resources. Millions of Argentines were incorporated into retirement, health, and social assistance programs. New roads and bridges were constructed, and the number of persons with running water and sewerage grew from 6.5 million and 4 million respectively in 1942 to 10 million and 5.5 million in 1955.\textsuperscript{78}

The three major objectives of the Perón regime were:

The expansion of public spending, giving the state a stronger role in production and distribution; the alteration of relative prices to encourage a more egalitarian distribution of national income; and the progressive accumulation of a system of incentives that

\textsuperscript{75} Political Thought. Pg. 17
\textsuperscript{76} Ibid.
\textsuperscript{78} Ibid. Pg. 86
rewarded activities oriented towards the internal market and discouraged production destined for international markets.\textsuperscript{79}

This was a major shift in economic policy, and required significant structural changes. Perón nationalized the banks, the foreign owned railways, and completely paid off the significant amounts of foreign held debt (specifically to Great Britain). This period also saw the creation of the Instituto Argentino para la Promoción y el Intercambio (Argentine Institute for the Promotion of Trade) (IAPI), “an entity that had a virtual monopoly over foreign trade, provided the government with indirect access to the principal source of capital accumulation and permitted the diversion of the rise in export prices to benefit the public sector.”\textsuperscript{80} Profits from the IAPI helped fund the growing Argentine welfare state. Improvements in wages, growth in union membership – from 877,300 in 1946 to 1,532,900 in 1948 and “the rate of unionization climbed by 50 to 70 percent” –, and the creation of Latin America’s most vibrant middle class are all achievements associated with the Peronato.

As mentioned above, the relationship between labor and the state is arguably the defining characteristic of Peronism. When Perón began running for President he represented a rallying point for opposition. The Radical Civic Union (social democrats), the National Democratic Party (conservatives), the Socialist Party, the Communist Party, and the United States of America all vehemently opposed Perón. “[Perón] faced the challenge of contesting an election against a coalition that comprised nearly all of the political parties with little

\textsuperscript{79} The Cambridge History of Latin America. Pg. 78
\textsuperscript{80} Ibid. Pg. 80
organization of his own.” In October of 1945 his entire political base was Buenos Aires union members. This was a bold political strategy on the part of Perón.

Whereas in the 1930s, workers were treated like animals and were told they “weren’t worth anything,” and in the 1940s, even their own political parties spoke down to them, assuming that they constituted “a morally and intellectually inferior audience,” Perón gave the *descamisados* (the poor and downtrodden – literally, ‘the shirtless’) a strong sense of dignity and self-respect. Even the term ‘decamisado’ is an excellent example of this. The word had previously been used as an epithet to signify the inferiority of the lower class, but in Peronism, it was inverted; Perón reclaimed it as a declaration of self-worth and pride. In his speeches, Perón praised the *descamisados*, saying they were the “true Argentine people,” and he spoke publically about the problems that they had previously been told were private affairs.

Perón also engaged in significant coalition building, and not only won his presidential election in 1946, but also won re-election in 1951 with 62.5% of the vote. Perón, through corporatist mechanisms, cultivated this special relationship.

The Peronist regime represents an inclusionary corporatism. “Inclusionary state corporatist systems employ a broad array of inducements coupled with the selective application of constraints to encourage and reward labor cooperation with government.” This strategy of inducements began in 1943, and continued throughout the entire Peronato. As Secretary of Labor “laws were dictated regarding the registration and legalization of unions depending on their degree of support for the authorities.” In 1947 the CGT, Perón’s political core, became the only recognized union in Argentina. Perón created a “vertical framework that centrally and exclusively controlled the organized labor movement from above.”

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81 Ibid. Pg. 69
83 State Corporatism. 62
84 Ibid. 64
85 Ibid.
done through the Labor Department, headed by Perón’s wife Eva. According to Perón “‘the Justicialista state defends union organizations, and these sustain the Justicialista state,’ in which national labor administration embodied a ‘profoundly patriotic humanism that makes it distinct from all other public agencies.’”86 This relationship was designed to benefit both labor and Perón, however “it was the state, not the unions, who was the dominant partner in this alliance and who therefore ultimately controlled the fortunes of the working classes.”87

Subsection 3 – Trade, and Industrialization

Having laid out Perón’s special relationship with Labor, we can now turn to the other practical manifestations of Peronism. As has been mentioned before, Peron engaged in a series of industry nationalizations, actively pursued interventionist policies, and was forced to radically redefine Argentina’s trade relationships. Political neutrality until late in World War 2 hurt Argentina’s standing on the world stage; specifically as a result of U.S. influence.

When Perón became president in 1946, Argentina was the only Latin American country that did not belong to the IMF and World Bank. Argentina was not a member because the United States had decided it should not be. In April 1943, US Secretary of the Treasury Henry Morgenthau Jr., with the full support of Secretary of State Cordell Hull, had demonstrated his firm intention to exclude Argentina (and other nations neutral in World War II) from the foundational event of both institutions. In May 1944 the US government sent out the invitations to participate in the Bretton Woods conference. All the nations of Latin America were invited except Argentina.88

While Argentina would be a founding member of the United Nations, they would not be admitted into the IMF until 1956, a year after Perón was overthrown by a military coup. As was

86 Ibid.
87 Ibid.
established in the introduction, shifting terms of trade were a key concern in post-war Argentina. This section will begin by discussing the shifting terms of trade in the post-war era and how that influenced Perón’s nationalist economics. From there we can analyze the effects of these policies on Argentina’s agricultural sector – which, as was established in the first chapter, represented the backbone of Argentina’s pre 1914 economic growth policy. This will result in an investigation in how the historical circumstances effected the industrialization path of Argentina. To return to the secondary questions posed at the beginning of this chapter, this section will look to directly address questions two and three.89

During the Second World War there was a contraction in the global market place. European nations, once the supplier of the world’s manufactured goods, had retooled their industry to produce for war. Include the fact that the major powers all had significant navies, it is clear that global trade going from core countries to periphery countries had decreased. Historian Claudio Belini writes, “The principal problem faced by the Argentine economy was the decline in imports of consumer and capital goods. The reorientation of industrialized economies towards war production, which caused the withdrawal of a great variety of manufactures from the world market, encouraged ISI.”90 This was only exacerbated by U.S. foreign policy; “as early as 1942, and until the end of the 1940s Argentina was treated under U.S. trade policy as an enemy nation. A partial fuel embargo was applied, and Argentina was denied other vital imports, over and beyond the restrictions imposed by the war.”91 As a result of decreased

89 Question 2: How does this model, if it exists, manifest itself in terms of policies enacted by the Peronist government from 1946 to 1955? Question 3: What effect did said policies have?
91 Cambridge History Pg. 81
exports by the traditional manufacturing countries, markets were left wanting. Argentina, who had some industrial development, used this as an opportunity to enter these markets with their own manufactures.

Between 1939 and 1945, Argentina’s total exports increased 55 per cent while industrial exports rose 625 per cent. Between 1939 and 1943, the period in which industrial exports hit their highest point during wartime, growth reached 762 per cent. In 1939 the sale of industrial products abroad had represented only 2.9 per cent of the total export trade; by 1943 it had reached a peak of 19 per cent, a value that would not be repeated during the following decades.92

Belini includes two illustrative figures in his paper, one displaying the destination of Argentine goods, and the other their composition (to the United States). I have included them here:

It is clear from these graphics that Argentina experienced a significant growth in market share amongst other Latin American countries, while also providing goods to the United States, the United Kingdom, and other nations involved in the war. “One of the characteristics of foreign

92 Belini Pg. 291
trade during the war was its reorientation towards South American markets. In the case of manufactures, the distribution according to destination shows an important diversification of markets.” It is interesting to note that while the United States actively tried to deny Argentina from importing, they still bought Argentina’s exports. These exports did shrink however after the U.S. joined the war effort, which prompted a growth in exports to Argentina’s close neighbors. Latin American markets “altogether they represented 47 per cent of industrial exports, while the countries neighboring Argentina represented 28 per cent of sales.” These markets became viable options due to “the US ban on the export of certain products,” and the total retooling of their economy to the war effort. This export growth allowed Argentina to pay off all of their foreign debt (done under the Peronist government) and establish “favorable balances of trade.”

At the end of the war, Argentina found itself free of external debt and in possession of substantial reserves of foreign currency, benefiting from high demand and high prices for its food exports and a growing industrial base. Within this framework, the Peronista administration implemented an economic policy with three major objectives: the expansion of public spending, giving the state a stronger role in production and distribution; the alteration of relative prices to encourage a more egalitarian distribution of national income; and the progressive accumulation of a system of incentives that rewarded activities oriented towards the internal market and discouraged production destined for international markets.

However, overall confidence in maintaining this war time growth after peace was restored was low, hence the push for the economic program described above.

By the end of the war, positions advocating industrialisation had been strengthened. A trend of thought composed of economists, engineers, military officers and business

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93 Ibid. Pg. 294
94 Belini Pg. 294
95 Cambridge History Pg. 78
96 Romero Pg. 82
97 Cambridge History Pg. 78
leaders held that it was essential to protect, though with some limits, the industries that had been born during the war. The renewal of world trade instilled fears that a sector of the industry that had surfaced under emergency conditions and had used its equipment intensively would now succumb, bringing about unemployment and social unrest. A report prepared by the Consejo Nacional de Posguerra (National Post-War Council) estimated that 70,000 direct jobs in the manufacturing sector would be lost, together with a similar loss of indirect employment. Exporting industries would be the ones to suffer most, with a loss of 70 per cent of the total, around 32,000 jobs.\(^{98}\)

For these reasons some scholars argue that “Peronist economic policies were not as aberrant as many have contended.”\(^{99}\) Instead they should be understood in their historical context. Latin American historian James P. Brennan argues that “the decision to use wartime reserves on the nationalization of the railroads and other foreign-owned businesses and repatriation of the external debt had much to do with the fact that Argentina’s reserves were frozen as inconvertible sterling deposits in British banks.”\(^{100}\) Similarly movements towards internal production for domestic demand, and switching to an ISI model was “at least partly the result of U.S. agricultural policies that undermined Argentina’s traditional agricultural exports, especially the continuing restrictions on Argentine farm products in the U.S. market and the decision to forbid recipients of foreign aid under the Marshall Plan to purchase Argentine goods.”\(^{101}\) This analysis falls in line with Prebisch’s own, who writes “It is under these new conditions of international economy, that the process of industrialization has begun to develop in Latin America. The fundamental problem lies in adaptation to these conditions—in so far as they cannot be altered—while seeking new rules in keeping with the new circumstances.”\(^{102}\)

\(^{98}\) Belini Pg. 300


\(^{100}\) Ibid.

\(^{101}\) Ibid.

\(^{102}\) Prebisch Pg. 17
For Perón a major aspect of maintaining a healthy economy was dependent on achieving high levels of employment. This is clear based on the rapid expansion of public employment, made possible through his ambitious industrial nationalization project. “Between 1945 and 1955, the national civil service expanded from 203,300 to 394,900, while the creation of state-owned steel mills, oil refineries, shipyards, and armaments plants helped boost the number employed in state enterprises and autonomous agencies from 109,000 to 148,300.”

Similarly, Perón’s government was heavily invested in increasing income to be spent domestically. “In 1945, Peron created two institutions that would later boost wages: the National Institute of Compensation, which implemented a minimum wage and collected data on wages, prices, and living standards, and the Aguinaldo—a bonus that gave each worker a lump sum at the end of the year amounting to one-twelfth of the annual wage.” For industrial workers this corresponded to an increase of real wages “by 53% between 1946 and 1949.” This is significant in terms of GDP, which is calculated by $C+I+G+Nx=GDP$, where $C$=consumption, $I$=investment, $G$=government spending, and $Nx$= net exports. Increase in real wages translates into either money spent on consumption, or money saved. The period 1946-1949 was considerably prosperous for the Argentine economy, but primarily in the industrial sectors in urban centers. Prominent Latin American economist Carlos Diaz-Alejandro wrote that “the Argentine economy boomed during 1946-48” as a result of “favorable export prices and

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104 Ibid. Pg. 53
[foreign] reserves accumulated during the war.”¹⁰⁶ His hundred year study of Argentina’s economy, in comparison to Australia’s, includes a useful breakdown of employment in 1947, which is reproduced here.

<table>
<thead>
<tr>
<th>TABLE 8</th>
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<tbody>
<tr>
<td>Allocation of the Economically Active Population, 1947</td>
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<table>
<thead>
<tr>
<th>Percentages of Total Economically Active Population</th>
<th>Women as Percentage of Population in Each Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Australia</td>
</tr>
<tr>
<td>Agriculture, forestry hunting, fishing</td>
<td>25.2</td>
</tr>
<tr>
<td>Mining, quarrying</td>
<td>0.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>22.1</td>
</tr>
<tr>
<td>Construction</td>
<td>5.2</td>
</tr>
<tr>
<td>Electricity, gas, water</td>
<td>0.5</td>
</tr>
<tr>
<td>Commerce</td>
<td>13.3</td>
</tr>
<tr>
<td>Transport, storage, communication</td>
<td>6.0</td>
</tr>
<tr>
<td>Services</td>
<td>21.3</td>
</tr>
<tr>
<td>Activities not adequately described</td>
<td>3.1</td>
</tr>
<tr>
<td>Unemployed</td>
<td>2.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

As the table shows a substantial percentage of the male working population (1/4th) still worked in the agricultural sector in 1947. However a growing number of men had moved to industrial occupations, including general manufacturing (22.1%). Alternatively, nearly half (43.4%) of work eligible women were concentrated in the service industry, taking place primarily in urban centers. The unemployment rate for men (2.8%), is significant because it is considerably below the controversial “natural” rate of unemployment. The Phillips-curve suggests that there exists a negative relationship between inflation and unemployment. According to the model, as a country moves closer to full employment – or a 0% unemployment rate – wages will rise causing inflation. In 1949 Argentina was beset with an inflation crisis:

At its peak in November, inflation reached a rate of 37.4%. MacLachlan estimates inflation to be have been around 68% annual going into the 1950s\textsuperscript{107}. According to MacLachlan, this was a result of “wages [becoming] a political reward rather than an exchange for time and labor.”\textsuperscript{108}

Other scholars, including the contributing writers of the Cambridge History of Latin America, point to Perón’s pursuit of full employment and the welfare state as the major cause for Argentina’s inflationary troubles.\textsuperscript{109} The link between employment and inflation has been called into question by a number of scholars, including Post-Keynesian economists who advocate Modern Monetary Theory (MMT). Since 1944 Argentina has experienced a number of inflationary events, including inflation reaching 20,000% in the first quarter of 1990. These events correspond to varying levels of unemployment (8% in 1989), indicating that some other factor is a more dominant determinant.

Regardless of whether or not Perón’s pursuit of full employment was responsible for Argentina’s inflation problems during his Presidency, monetary policy made up a key aspect of

\textsuperscript{107} MacLachlan Pg. 120
\textsuperscript{108} Ibid.
\textsuperscript{109} Cambridge History Pg. 57
his economic policies. The manipulation of exchange rates and import/export prices was a key aspect of Peronist policy. To this end Perón created the Instituto Argentino para la Promoción del Intercambio (Institute for the Promotion of Foreign Trade). “IAPI, as it came to be known as, took control over foreign trade and became one of the major policy tools for the incoming Peronist government.” Working in conjunction with the Argentine central bank, the IAPI “served three major goals: a) to guarantee stable prices for the producers and, hence, to minimize their risks; b) to make sure that the profits that had formerly been siphoned off by large transnational corporations such as Bunge & Born would hitherto remain in Argentina; and c) to secure higher prices for Argentina’s producers on the world market.” Technically the IAPI was signed into law by General Edelmiro Farrell, but this was done at the behest of Perón who had just won the election and was waiting to be sworn in as President. Functionally, the IAPI was a state run agricultural monopsony which “replaced middlemen in the purchasing and marketing of agricultural commodities. The idea to buy directly from producers and sell to foreigners as expensively as possible would provide capital for other schemes.” Historian Gisela Cramer, who wrote a history of the IAPI, argues that this organizational structure served three purposes.

From a macroeconomic perspective, there existed three outstanding reasons to create such an export monopsony. Firstly, as mentioned above, it served as a means to strengthen Argentina’s bargaining position in order to positively influence the country’s terms of trade. Secondly, it generated considerable funds that were more than welcome in view of the vast and costly reform program the Peronist government had just started to implement. Thirdly, IAPI served as a means to counteract inflationary pressures. By establishing a buffer between the internal and the external prices for agricultural commodities, IAPI kept the internal prices for food artificially low and, as such, helped to stabilize the cost of living. This benefited, above all, Perón’s foremost political clientele:

111 MacLachlan Pg. 110
urban low wage households that had to spend a relatively large proportion of their income for food.\textsuperscript{112}

As has been argued above, a key issue facing Argentina was its deteriorating terms of trade. This was a result of U.S. policy, the recovery of traditional industrial economies, and the market phenomena of decreasing prices for primary products as argued by Prebisch in his promotion of dependency theory.\textsuperscript{113} The IAPI represents an attempt by the Peronist government to stem this tide, by becoming directly involved in the bargaining process. This is in some ways similar to the government’s role in collective bargaining between capitalists and labor described in subsection 2 of this chapter. Prebisch argues that wage rigidities in core countries necessitate economic contractions in periphery countries during times of economic downturn. He writes,

\begin{quote}
During the upswing, part of the profits [in core countries] are absorbed by an increase in wages, occasioned by competition between entrepreneurs and by the pressure of trade unions. When profits have to be reduced during the downswing, the part that had been absorbed by wage increases loses its fluidity, at the centre, by reason of the well-known resistance to a lowering of wages. The pressure then moves toward the periphery, with greater force than would be the case if, by reason of the limitations of competition, wages and profits in the centre were not rigid. The less that income can contract at the centre, the more it must do so at the periphery.\textsuperscript{114}
\end{quote}

Ostensibly, the IAPI and the Ministry of Labor would have allowed the government to respond readily to such contractions. However, Perón’s political reliance on labor, as well as his ideological aversion to class conflict, and his economic goals of wealth redistribution, made such deliberate contractions unviable. The “IAPI was one of the central mechanisms to implement a massive redistribution of income that benefited industrialists and urban consumers, particularly the urban working class, and rested on funds channeled out of the

\begin{footnotes}
\footnotetext{112}{Cramer Pg. 56}
\footnotetext{113}{Prebisch Pg. 9}
\footnotetext{114}{Ibid. 13}
\end{footnotes}
agricultural export sector and on a thorough distortion of prices.”\textsuperscript{115} As such, the IAPI set agricultural buying prices low, and as a legally established monopsony had the market power to achieve that end. These “redistributive strategies at first showed impressive results in terms of (urban) employment, real wages and industrial growth.”\textsuperscript{116} However, as Cramer points out, the artificial suppression of prices “acted as a major disincentive for the production of [Argentina’s traditional] export commodities.”\textsuperscript{117}

Due to the establishment of the IAPI, and its subsequent policies of agricultural price suppression, Perón’s presidency is cited as a major cause for Argentina’s economic problems. Cramer calls it “one of the major sins Juan Domingo Perón committed in the realm of economic policy making.”\textsuperscript{118} This follows from a belief that there existed two paths towards industrialization, one based on import substitution, and another based on exports of primary goods. “Argentina’s slow growth during the second half of the twentieth century has been attributed to the inward-looking model adopted by the administration of Juan Domingo Perón during the post-war years.”\textsuperscript{119} It is argued that Perón, in his pursuit of the path of internal industrialization, destroyed a viable export led growth path. This is predicated on the assumption that following 1945 “external conditions for Argentina’s exports were improving.”\textsuperscript{120} Belini however calls this assumption into question. He writes, “Argentina did not face two opposing alternatives. In spite of the export boom during the war, industry did not

\textsuperscript{115} Cramer Pg. 74
\textsuperscript{116} Ibid.
\textsuperscript{117} Ibid.
\textsuperscript{118} Ibid.
\textsuperscript{119} Belini Pg. 287
\textsuperscript{120} Cramer Pg. 74
possess the competitive capacity necessary to confront the resumption of world trade; consequently, a strategy based on industrial exports did not offer an alternative path.” As such, only an ISI model was available to Argentina during the Peronato. He argues that the agricultural sector was already experiencing a contraction prior to the Peronist presidency, and that this corresponded with the increase in industrial exports seen during the Second World War.

In the first place, this increase in industrial exports occurred at the same time as a substantial drop in agricultural exports. Taking 1938, a relatively normal year, as the base, agricultural exports shrank 36 per cent in volume between 1938 and 1945. The decline would be greater if we stopped in 1943, when they were 54 per cent lower than in 1938. Altogether, agricultural exports went from representing 80 per cent of the volume of Argentine trade to representing 62 per cent in 1942–43. Their share in the total value of exports dropped from 50 to 32 per cent between 1938 and 1945. They were at their lowest in 1941–43, when they fell to 23 per cent of the total.

This rapid decrease in the viability of agricultural exports would have been fresh in the mind of Perón’s government. As such, policy makers were interested in “[breaking] the link between internal prices and world prices.” This way shocks to the international commodities markets could be minimized by the government. In favorable times, the IAPI could buy low from agricultural producers and sell high to foreign markets, generating revenue which could then be repurposed towards the urban economy and industrialization. In unfavorable times, the IAPI could maintain low domestic food prices to ensure that the people of Argentina would remain fed.
It is clear however that the export oriented agricultural sector suffered in Argentina due to Perón’s emphasis on industrialization. The IAPI’s “rock bottom prices...resulted in a drastic drop in grain and beef production.”\textsuperscript{124} Diaz-Alejandro found

The low priority given to exports and other Peronist policies had a sharp negative impact on Pampean production of rural exportable goods, particularly cereals and linseed, whose per capita output in 1945-49 was 57 percent of the 1935-39 level; during 1950-51 per capita production of cereals and linseed were only 46 percent of the 1935-39 level. Livestock did better; as labor flowed out of Pampean areas that land-intensive activity actually had an incentive to expand, in spite of the overall Peronist policies toward exportable rural goods...Taking the aggregate of all rural activities, their per capita production shows a decline of about 11 percent between 1935-44 and 1945-54.\textsuperscript{125}

Agricultural production for domestic use saw some expansion however. Again, Diaz-Alejandro reports, “other rural activities selling overwhelmingly in the domestic market, as in the case of most of those outside the Pampean area, experienced substantial expansion.”\textsuperscript{126} It is clear that while Pampean agriculture suffered, other areas of the country did experience some prosperity. An additional factor in the failure of the Pampean region was severe droughts that plagued the area in the 1950s. Finally, Belini identifies currency manipulation as a key aspect of industrial policy. He writes,

Currency appreciation was the other side of industrialisation policy, which was based on income redistribution from the primary export sector to industry and the urban economy. On the one hand, the exchange rate lag and the state monopoly on exports delinked the domestic prices of primary products, which were also wage goods, from the world market. During the years in which world prices of grain and meat increased, this policy allowed the state to capture part of the extraordinary income and, at the same time, to improve real wages by keeping the price of wage goods low. On the other hand, industry benefited from a low exchange rate which made the import of machinery and inputs cheaper. Producers in the pampa were the worst hit, as their income fell at a time in which they had to invest in machinery and plant. Exporting industries also

\textsuperscript{124} MacLachlan Pg. 120
\textsuperscript{125} Diaz-Alejandro Pg. 40
\textsuperscript{126} Ibid.
suffered the effects of the lag and although incentives were offered, they were not enough.\textsuperscript{127}

It is clear that such policies benefited the industries that Perón was trying to build up, but had a negative effect on Argentina’s traditional economy. Such a preference is in line with the one-path view that argues exports would not be sufficient to continue to push the economy forward, but lies in contrast with traditionalist theories who are opposed to ISI.

Chapter 2: Conclusion

At the beginning of this chapter I posed four questions to guide my investigation into the Argentine paradox. Here in the conclusion I would like to go back to them, and tie together the many threads presented above. The first: “Does Peronism represent a coherent theoretical economic model?” I posit that it does. As argued in the first subsection of this paper, Peronism represents a sincere desire on the part of Juan Domingo Perón to avoid class conflict and lead Argentina into the future by combining what he saw as the best elements of Capitalism, Communism, western ‘pragmatic’ philosophy, and Catholicism. Far from being an impossible synthesis, Perón established a long lasting populist Corporatism which has maintained its influence on the Argentine people despite periods of its direct suppression by the state. Above all what makes this model function is its chief decider, Catholicism, and its intellectual feedbacks from organized labor. This model also presented clear economic policies, informed by Justicialismo’s social theory.

Second: “How does this model, if it exists, manifest itself in terms of policies enacted by the Peronist government from 1946 to 1955?” I addressed this question directly in subsection’s

\textsuperscript{127} Belini Pg. 309-310
two and three, by breaking down Peronist policies into two separate parts – labor policy, and other macro-policy. In subsection two, I put forth an inclusionary corporatist model of labor administration. In inclusionary corporatism, the State acts as primary arbiter in collective bargaining between societies’ many corporations (meaning collectives based around shared interests). In Argentina’s case this was done by enacting a vertical command structure within the labor movement, ultimately answerable to Perón himself. In each industry only a single union was state sanctioned, and their loyalty to the government was rewarded through state support. This allowed Perón to use the labor movement – their strikes in particular – as a weapon against economic and political opponents. It also involved a number of policies favorable to labor, including better working conditions and a raise in wages. In subsection three of this chapter I put forth Peronism’s industrial policy as informed by global conditions. Perón, in the face of deteriorating terms of trade, U.S. political pressure, and at the behest of Argentina’s leading economists and business leaders, pursued a path of import substitution industrialization. In this model, Argentina focused on developing industries whose primary production was intended for domestic markets. This came at the expense of promoting industries, especially in the Pampas region, whose goods were intended for export. Additionally, Perón created the Instituto Argentino para la Promoción del Intercambio, or IAPI, which was designed to redistribute wealth to urban centers, disconnect domestic agricultural prices from global agricultural prices, and build wealth for domestic industry by buying low domestically and selling high globally. Perón also attempted to pursue full employment through a robust nationalization project – which notably included railroads and telephone cables – in order to create public sector jobs to benefit unemployed workers. Finally, the Peronist
government pursued a policy of intentional exchange rate manipulations to encourage different import/export conditions depending on the needs of the economy.

The third question; “What effect did said policies have?” was also addressed in subsections two and three. In subsection two I addressed Perón’s labor policies. The effects of these policies can be seen in the creation of a vibrant middle class, the raise in wages in urban industry, and growth in unionization rates. Argentina’s middle class was built on the foundations of favorable labor policy. Simultaneously this made wages rigid, and an argument can be made that these rigidities, and Perón’s political reliance on labor, made Argentina less equipped to deal with economic contractions in core countries. Additionally, scholars like MacLachlan point to Perón’s union favoritism as a reason for falling productivity – due to worker holidays and paid time off – and because it reduced the capacity of businesses to fire employees who were less productive. Similarly, in subsection three, it is made clear that Perón’s other macro policies were highly controversial. While Belini claims that early ISI in the 1940s led to stable growth for a time, economic crises in 1949, and 1950-52, resulted in significant policy failures. Perón’s manipulation of currency, and his pursuit of full employment, were both cited as inflationary. The main economic problem in both 1949 and 1950-52 was inflation. Additionally, the favoritism towards domestic markets, and the IAPI’s institutional policies, were in part responsible for the deterioration of Argentina’s agricultural sector (specifically in the Pampas).

Finally, the fourth question: “Were these policies consistent with the historical circumstances of Argentina, and contemporary development theory?” This question was most directly answered in subsection three of this chapter. This argument comes down to whether or
not two development paths were open to Argentina at the close of World War 2. These paths are ISI and export oriented industrialization (EOI). Some contend that at the end of the Second World War, global markets began to recover, and at this time terms of trade would have become more favorable to Argentine agricultural goods. As such, Perón went against a more viable model in favor of ISI. Belini contends however that such an option was not realistic – that EOI was not a model that could be followed based on historical conditions. Due to the political influence of the U.S., Argentina was precluded from a number of markets and financial institutions, making ISI the only viable option. I am inclined to agree with this assessment.

The reason I originally posed these questions was to better address the key question of this entire project – can we blame Peronism for the Argentine paradox. So how do these questions help us answer that one? Well, if a Peronist model didn’t exist we could not claim that it was to blame for Argentina’s economic regression. Similarly, without understanding Perón’s policies, there effects, and the historical context in which they were enacted, it would be impossible to determine if his model was to blame. I feel it is important to note the positives that came out of Perón’s policies, especially his work towards strengthening the unions, growing the middle class, and pushing for full employment. It is well-known that currently developed economies (most significantly the U.S. and U.K.) that the growth of their middle class played a key role in their development. Even today Bernie Sanders and Jeremy Corbyn are pushing to reinvigorate and regrow their nations’ middle class. Additionally, the history of the labor movements in both countries have been intimately tied to their long term success. Growing inequality in both nations has been tied directly to the systemic disenfranchisement of organized labor. As such, Perón’s policies in promoting these factors should be understood in
the same context. It is clear also that Perón’s push towards ISI, in the material way it was
executed, effectively depressed Argentina’s traditional source of wealth, the Pampas. It is up to
debate how that should be interpreted. I air on the side of Belini, who argues that such policies
were the result of historic circumstances, and as such cannot be solely attributed to Peronism. I
feel that such an interpretation is in line with the contemporary development theories that
Perón would have been influenced by – namely Raul Prebisch, Latin American structuralism,
and advocates of dependency theory.

So where does that leave a qualitative judgement of Peronism as an effective or
ineffective model? I contend at this point that we do not yet have a clear answer. The reason is
that some of Perón’s policies were demonstrably good for a great number of Argentines,
however, some of them were not. With such a mixed bag it becomes necessary to compare the
Peronist models with other successful ones. In this way we can compare and contrast different
policies and their resultant effects. To do this I will spend my third chapter comparing the
model I have established above with the much more successful “Asian Miracle Model.” My
reasons for choosing this as a point of comparison are two fold, the first is that the traditional
understanding of the Asian Miracle Model is one of Export Substitution Industrialization, which
sets up an excellent contrast to Perón’s ISI model. The second is that such comparisons were
done by economists evaluating the “Asian Miracle Model”, most notably the World Bank’s
official report and the analysis done of it by Turkish economist Dani Rodrik. This comparison will
take place in chapter three of this thesis.
Chapter 3 – Peronism in Comparison: The Asian Miracle Model vs Justicialismo

The first chapter of this project laid out the historical economic circumstances of Argentina leading up to the rise of Juan Domingo Perón in the 1940s, culminating with his election to the Presidency in 1946. The second chapter of this project then laid out a Peronist economic model, taking into account his government’s labor policy, and other macro oriented economic policies. This included a discussion of Import Substitution Industrialization (ISI), in contrast to Export Substitution Industrialization (ESI), which has been the primary criticism of Perón’s economic policy. I argued, in line with Claudio Belini, that this model was the result of historical circumstances, and that ESI was not an available path to Argentina following World War 2. I concluded the second chapter with a brief comment on the necessity to compare the Peronist model with another model in order to better understand it. The focus of this chapter will be that comparative analysis – specifically in comparison to the “Asian Miracle Model.”

I feel that such a comparison is both relevant and elucidating for a number of reasons. First and foremost, both models are fundamentally concerned with the same problem: how to industrialize and grow an economy in the 20th century. Second, while both models seek to address the same fundamental question, they appear to have done so in contrasting ways with radically different results. Later in the chapter I will challenge the assumption that the models are entirely opposed. Finally, as is made clear in chapter 2 of this paper and in the World Bank’s report entitled The East Asian Miracle: Economic Growth and Public Policy, both models establish a large role for the government in economic development. In the first subsection of this chapter, I will begin by presenting a brief summary of the traditional understanding of the
East Asian model, as presented in the World Bank’s report. Then I will move on to the criticisms of the report as presented by Turkish economist Dani Rodrik. This will establish what exactly we mean when we say the Asian Miracle Model (henceforth referred to as AM model), and give a number of points of comparison between the AM model and the Peronist model. Then, in subsection two of this chapter, I will compare and contrast Argentina’s Peronist model, and the results, with the AM model based around the comparison points generated in the first subsection. Finally, I will use this analysis to briefly draw some conclusions about what was successful/unsuccessful in the Peronist model, which will subsequently be expanded upon in the conclusion section of this project.

Subsection 1 – The Asian Miracle Report and Rodrik’s Corrections to the Asian Miracle Model

The so called high-performing Asian economies (HPAE) is traditionally held up as “an example of what export-led growth can achieve in countries that chose to open themselves to international trade.”128 In other words, in so far as an AM model exists it is fundamentally oriented towards ESI. In fact “export push” policies are one of the three interventionist policies mentioned in the World Bank report, and the only one which the report considers to be a generalizable policy recommendation to other developing nations. Rodrik summarizes the report’s argument for the benefit of exports as follows, “First, exports are alleged to be the source of many technological spillovers to the rest of the economy. Second, it is argued that the cross-country evidence demonstrates the growth benefits of openness. Third, the use of exports as “performance standards” is claimed to have rendered government interventions

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more effective (and less costly) than they would otherwise have been.”\textsuperscript{129} These three benefits allowed the HPAEs to experience an average GNP per Capita growth rate of nearly 6% for the period 1965-1990, “due to superior accumulation of physical and human capital.”\textsuperscript{130} Of course accumulation is not enough, the HPAEs were “also better able than most to allocate physical and human resources to highly productive investments and to acquire and master technology.”\textsuperscript{131} This was achieved through “a set of common, market-friendly economic policies, leading to both higher accumulation and better allocation of resources.”\textsuperscript{132} Fundamentally, the report sees the AM model as reinforcement of neoclassical principles – market liberalization, openness to trade, and specialization due to comparative advantage – while still making room for “some selective interventions”\textsuperscript{133} but only within specific context; overall the report does not believe that majority of specific policies can be generalized as a model for development. Public policy is desirable only in so far as it supports “good macroeconomic management.”\textsuperscript{134} Rodrik contends however, that “despite a large body of research, there is little consensus on the role that public policies have played in the spectacular performance of East Asian economies.”\textsuperscript{135} This is due to a number of weaknesses in the \textit{Miracle Report}, both in neglecting certain variables and in drawing some spurious conclusions.

\textsuperscript{130} World Bank Summary Pg. iii
\textsuperscript{131} WBS Pg. iii
\textsuperscript{132} WBS Pg. iv
\textsuperscript{133} WBS Pg. iv
\textsuperscript{134} WBS Pg. iv
\textsuperscript{135} Rodrik \textit{King Kong Meets Godzilla} Pg. Non-Technical Summary
Rodrik contends that “there is much more to [the HPAEs] story than outward orientation,” and that “the [World Bank] report is too heavy-handed in attributing a key role to what it calls “export-push strategies” and too quick in explaining away the various puzzles that the HPAEs’ experience with trade raises.” Rodrik raises two broad critiques of the report, the first is insufficient attention to initial economic conditions, and the second a misunderstanding of the role of industrial policy in HPAEs.

Rodrik argues that when looking at the HPAEs, researches are presented with a great variety of public policy strategies. This is in line with the summary of the *Miracle Report*, which states “the eight economies studied used very different combinations of policies, from hands-off to highly interventionist.” Rodrik writes,

The model encompasses highly interventionist strategies (Japan and Korea) as well as non-interventionist ones (Hong Kong, Thailand); explicitly redistributive policies (Malaysia) as well as distributionally neutral ones (most of the rest); clientelism (Indonesia, Thailand) as well as strong autonomous states (Korea, Japan, Singapore); emphasis on large conglomerates (Korea) as well as small, entrepreneurial firms (Taiwan). This range of strategies, all followed more or less successfully, suggests that the search for a parsimonious explanation of the East Asian Miracle may well be futile. Due to this variety, Rodrik suggests that “in searching for the secrets of the East Asian miracle, the obvious first place to look is the set of initial conditions that preceded economic take-off.” He argues that “there are two respects, not entirely unrelated, in which the HPAEs differed substantially by 1960 from other developing countries at similar levels of

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136 Rodrik “East Asian Mysteries”
137 Rodrik *King Kong Meets Godzilla* Pg. 22
138 WBS Pg. IV
139 Rodrik *King Kong Meets Godzilla* Pg. 37
140 Ibid. 4
These are high levels of education, and low levels of inequality. In terms of education, Rodrik points to high levels of primary schooling enrollment, and with the exception of Singapore, exceptionally high rates of literacy. “All of the HPAEs had virtually universal primary schooling by 1960, whereas the cross-country benchmark puts the expected primary enrolment levels 30-40 percentage points below those observed in countries like Korea, Malaysia, Singapore, and Taiwan.” In terms of inequality, according to income and land Gini coefficients selected by Rodrik from the 1960s, all HPAEs had a “striking degree of equality...compared to other developing countries.” I have reproduced his table here – the table includes Argentina as one of the comparative nations, making it additionally relevant to this paper. Upon including these factors into a regression analysis for growth performance,

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141 Rodrik *King Kong Meets Godzilla* Pg. 4
142 Ibid. Pg. 5
143 Ibid. Pg. 4
144 Ibid. Pg. 5.
Rodrik contends “in a statistical sense there is nothing miraculous about the HPAEs growth performance.” In fact, “around ninety percent or more of the growth of Korea, Taiwan, Malaysia, and Thailand can be “accounted” for by these countries’ exceptionally high levels of primary school enrolment and equality around 1960.” In undervaluing initial conditions, the report missed significant explanatory variables which are consistent across the HPAEs. The question remains why were these initial conditions so important?

Rodrik explains the importance of initial levels of education in terms of human capital stocks. First, there is a well-known connection between education and human capital. There is also a well-established link between human capital stocks and growth. “Human capital makes investment more productive, facilitates the transfer and adoption of advanced technology from abroad, and enables the establishment of meritocratic, efficient, and capable public administration.” As such, initial education conditions indicate that prior to their take-off HPAEs had high stocks of human capital, and a reasonably well educated work force which was able to translate that education into higher levels of productivity.

In terms of inequality, “initial results on the negative relationship between inequality and growth have been subsequently shown to be statistically robust by Clarke (1993).” Rodrik presents two non-mutually exclusive theories as to why this may be the case. The first is that “a sufficiently equal distribution of income is a prerequisite for industrialization, because the middle class is the natural source of demand for home-based manufactures.” The second

145 Rodrik King Kong Meets Godzilla Pg. 4
146 Ibid. Pg. 8
147 Ibid. Pg. 9
148 Ibid.
149 Ibid.
is that high levels of inequality lead to a number of negative political outcomes which may produce instability and toxic investment environments. The argument goes that “inequality results in demands to alter the established order; political instability in turn reduces investment.” This pressure to redistribute wealth can take the form of protests, strikes, and even political revolutions. In either case, Rodrik contends that without a sufficiently equal society “the single-minded pursuit of economic growth which has been a characteristic of many of the HPAEs could [not] have been maintained.”

Moving on from initial conditions, Rodrik’s other issue with the Miracle Report is a misunderstanding of industrial policy and government intervention in HPAEs. This begins with confusion in the report regarding policy goals, and policy instruments. The Report identifies three interventionist policies, “(i) “promotion of specific industries”; (ii) “mild financial repression combined with directed credit”: and (iii) “export push”.” Promotion of specific industries is a policy goal, while the other two are policy instruments. Incorrectly grouping them together obfuscates the actual effects of industrial policy. As a result of this confusion, the report makes a number of claims about export policy – exports resulted in technological spillovers, openness is good for growth, and exports operated as performance standards which made government intervention more effective – which Rodrik feels are unsupported or unconvincing.

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150 Rodrik King Kong Meets Godzilla Pg. 10
151 Ibid.
152 Ibid. 13
To begin, “the report concludes that a high growth rate of manufactured exports, which was a consequence of export-push policies of the HPAEs, led to an economy-wide increase in TFP growth.”\textsuperscript{153} This was achieved through some mechanism by which HPAEs translated exports into either direct foreign investment (DFI) or global technological exchange. Rodrik contends that “the report provides no direct evidence to support this proposition,” and in fact includes in a footnote that “DFI has been important as a source of investment growth neither in Japan, nor in Taiwan, nor in Korea!”\textsuperscript{154} Moving to the second claim, Rodrik takes issue with the measures of openness – done primarily through the David Dollar openness index. Rodrik writes that the “openness index is essentially a measure of real exchange rate divergence. Its links to openness, as economists understand the term (the ratio of trade to GDP, or the presence of import or export restrictions), are tenuous.”\textsuperscript{155} Even if this measure accurately captured trade openness, the argument that openness is was a significant factor doesn’t follow because “according to the index, Japan’s and Taiwan’s economies were more “closed” during 1976-85 than Argentina’s, Brazil’s, India’s, Mexico’s, the Philippines’, or Turkey’s!”\textsuperscript{156} Rodrik argues that the only conclusion that can be drawn from the evidence presented is “that overvalued exchange rates are detrimental to long-run economic performance.”\textsuperscript{157} Finally, Rodrik doesn’t feel sufficient evidence was provided in the report that exports function as performance standards, nor that the presence of performance standards is unique to HPAEs.

\textsuperscript{153} Rodrik \textit{King Kong Meets Godzilla} Pg. 22
\textsuperscript{154} Ibid. Pg. 23
\textsuperscript{155} Ibid. Pg. 24
\textsuperscript{156} Ibid. Pg. 25
\textsuperscript{157} Ibid. Pg. 26
Having reviewed the *Miracle Report* through Rodrik’s lens I would now like to establish the points of comparison I will address in subsection 2 of this chapter. The first is a comparison of initial conditions. As shown above, initial conditions played a significant role in the success of the HPAEs, and as such should be included in any AM model. How do initial conditions in Argentina compare? The second point of comparison is in industrial policy. There is still much controversy as to what industrial policies were effective both in the AM model and in the Peronist model. Having called into question the role of exports in the AM model, is it fair to claim that ESI is the correct path for development? Additionally, would pursuing a strictly ESI model have resulted in better outcomes for Argentina? My final point of comparison will be based around government efficiency – which I did not directly address in this subsection – and whether or not the claim that HPAEs “were blessed with relatively incorruptible bureaucracies,” in contrast to Argentina having an inefficient and corrupt government, is true.

Subsection 2 – Comparing the Asian Miracle Model and the Peronist Model of Development

Having established the relevance of initial conditions, how do conditions compare in Argentina to the HPAEs. I will begin by addressing income, and then move to land distribution. British economist James A. Robinson argues,

Argentina’s pattern of inequality matches its political history, with inequality falling during democratic periods and rising under dictatorships. Inequality fell rapidly during the 1920s, rose at the end of the authoritarian 1930s and fell dramatically under Perón’s more populist administration. After he was overthrown in 1955 it rose rapidly, stayed

This is in line with Perón’s income redistribution policies as described in chapter two. Given this analysis, we know that the Gini coefficient reported by Rodrik in 1960 would have been higher than a Gini coefficient taken during the Peronist government. However, Robinson’s published Gini coefficients do not reach back to the Peronist period, and as such cannot be directly compared. We do know that in 1960 income inequality was higher in Argentina than any HPAE with the exception of Hong Kong. Given the trends described by Robinson, we can assume that there was not sufficient income equality prior to the Peronist period to motivate the same growth as experienced in the HPAEs. We might suppose that Perón’s move towards a more equal income distribution, had it continued, would have had a positive effect on Argentina’s growth in the second half of the 20\textsuperscript{th} century. However, this is purely conjecture since inequality did rise after the 1955 military coup. Land distribution is clearer cut in the Argentine case. As described in chapter two, Argentina had a heavily imbedded landowner class, especially in the Pampas. When Perón did attempt land reforms, the political pushback was strong enough to prevent their implementation. In 1960, as reported by Rodrik, Argentina had the most unequal distribution of land of any country observed in the study. In contrast, virtually every HPAE engaged in some significant land reform project prior to their growth. As such we can conclude that in terms of equality, Argentina was not sufficiently equal to take advantage of the growth model pursued by the HPAEs.
In terms of education, the story is a little more complex. Rodrik identifies education as a key precondition because of its contributions to human capital. As mentioned above, the HPAEs all had high levels of primary schooling in 1960, much higher than most other developing nations. It is interesting to note however that Argentina was one of the earliest adopters of state funded public schooling. Education was also radically expanded during the Peronist period, especially in terms of vocational training. Historian Verónica Oelsner in her work “Forging the Fatherland”: Work and Vocational Education in Argentina during Peronism (1944-1955) makes the case that education was a key aspect of Peronist development policy. Specifically through the radical expansion of a “vocational education system, which grew notably during his presidency (1946–1952 and 1952–1955).”159 At the beginning of the 20th century Argentina had a literacy rate “between 35% and 45%.”160 By 1940 this had increased to over 80%.161 By 1950 this had increased to just under 90% adult literacy.162 Additionally, according to the line of best fit established in the UNESCO report, Argentina’s literacy rate was significantly greater than other nations with similar levels of primary school enrollment (Greece, Puerto Rico, Fiji, Cyprus, and Thailand). Based on UNESCO’s tracking of literacy rates in developing countries, Argentina had a higher literate population in 1950 than any other developing nation tracked, the next country (Cuba) only had a literacy rate of 75%.163

161 Ibid.
162 Ibid. Pg. 193
163 Ibid. Pg. 192
For all intents and purposes, Argentina should have had the educational levels—and as such the stock of human capital—necessary to take advantage of technological innovation. However, this didn’t happen. I argue there are two compelling reasons why this is the case. The first is that during the Peronist era, education was focused on workers, however, even at that time education was becoming segmented between elites and the working class. This can be seen in the steady growth of private school enrollment rates starting in 1940 which was “three times higher than the annual growth rate of the public system for the same period.” There is also “a direct (and very strong) relation between public enrolments and percentage of the population with ‘Unsatisfied Basic Needs’.” Data shows that “for every ten students that study in private institutions, nine belong to the most economically advanced sectors.”

Dynamic differences in school choice; wherein the rich overwhelmingly choose to send their children to private institutions, while the poor are forced to attend public schools, is indicative of overall schooling quality. The mass exodus from public education by the rich beginning in the 40s can be understood in two ways—either the public schools were getting worse, or private education was significantly better—but in either case it is a damning judgement on the quality of Argentine public education. If public schools were of a sufficient quality, we could expect that parents would choose to enroll them in free public education, as opposed to expensive private education. There are obviously many factors which go into school choice (which will not be addressed here), but the balance of price and quality is something which should not be ignored. Additionally the literature surrounding public education in Argentina indicates the

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164 Fogarty, John. “Education in Argentina: Past, Present, and Future Tendencies.” Pg. 4
165 Ibid.
166 Ibid. Pg. 6
public schooling was more about national identity formation (as seen in the works of Oelsner and Fogarty) and less about producing an intellectual class. This can be seen in the wide gulf between primary and secondary school enrollment throughout the 20th century. As noted in The Economist,

The landowners who made Argentina rich were not so bothered about educating it: cheap labour was what counted. That attitude prevailed into the 1940s, when Argentina had among the highest rates of primary-school enrolment in the world and among the lowest rates of secondary-school attendance. Primary school was important to create a sense of citizenship, says Axel Rivas of CIPPEC, a think-tank. But only the elite needed to be well educated.\(^{167}\)

This attitude has been directly tied to industry formation and economic performance. “Without a good education system, Argentina struggled to create competitive industries,” as such “Argentina mainly consumed technology from abroad rather than inventing its own.”\(^{168}\) The step between technological adoption, and technological innovation, has been the key focus of literature on the middle income trap.

Related to this is the second point I want to discuss briefly about education, that following Perón, there was an active attempt at reducing the quality of public schools. Schooling, especially in the Peronist era, was tied directly to the symbolism of the worker. The rhetoric surrounding the expansion of public schools, and vocational training, was “deliberately constructed” to include “positive representations of manual work, [and] the worker.”\(^{169}\) This was enacted through hiring policies favorable to Perón appointees – “A great number of educators denounced the interference of the government in the hiring of teachers, favouring

\(^{168}\) ibid.
\(^{169}\) Oelsner
Peron’s followers, while discriminating against presumed or real opponents,”\textsuperscript{170} – and in the construction of curriculum to favor Argentine identity and Peronism – “Since the end of the nineteenth century to 1940, two objectives were salient in the rulings related to textbooks: to guarantee the universal provision of books for all of the school population, and to control the contents of the textbooks that were to be used in schools.”\textsuperscript{171} Following the Peronist period “the succeeding governments brought the political centrality of the worker to an end and repressed all symbology related to him. In the following years, the vocational education system created during the Peronist era gradually fell apart.”\textsuperscript{172} The intentional dismantling of the public education system, and the increasing rise of educational privatization, is directly related to eroding stocks of human capital which was detrimental to Argentina’s long term development. It should be noted that both of these effects came about in direct spite of Peronism – and as such cannot be used as evidence against the Peronist model.

Moving on from initial conditions, I would now like to focus on the role of exports in both models. In the previous section I laid out Rodrik’s critique of the \textit{Miracle Report}’s favoritism of an export led growth explanation. But for a moment let’s consider that exports were the key factor in the miraculous growth experienced by HPAEs. How did nations achieve industries which were capable of being immediately competitive on the world market? One argument is that nations specialized in exports for which they had a comparative advantage, namely labor intensive agriculture. By actively choosing to move away from agricultural production, Perón pursued an industrial policy counter to Argentina’s ‘natural’ industry. This

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\textsuperscript{170} Fogarty Pg. 3
\textsuperscript{171} Ibid.
\textsuperscript{172} Oelsner
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ignores the argument presented at the end of my second chapter, that agricultural exports were not viable due to market interference and political pressure from the United States. In contrast to Argentina, the HPAEs were being heavily supported by the United State up through the 1960s. In an effort to fight Communism in the region, the U.S. actively pursued policies to integrate the HPAEs into the global capitalist economy. Additionally, the HPAEs benefited from a variety of ‘rebuilding’ projects after the close of numerous wars in the region. This was not the case in Argentina.

Another explanation for the development of competitive industry can be found in Japan. While the *Miracle Report* makes the case that openness to foreign goods made industry more competitive, evidence from Japan suggests this is untrue. As mentioned above, by the metric used in the report, Argentina was actually more open than a number of HPAEs – including Japan. In fact, Japan actively pursued protectionist policies to grow their infant industries before exposing them to global competition. Rodrik notes that “An authoritative study on Japan’s innovation system concludes that import restrictions were the most significant and helpful industrial policy as regards R&D effort.”

Ogagiri and Goto identify protectionism as a key factor in the development of Japan’s automobile industry.

The restriction on imports and foreign direct investment into Japan was probably the most important policy until the early 1970s (as regards innovation). Restricting the growing Japanese market, already the second largest in the capitalist economy in the late 1960s, to Japanese firms who were competing intensively among themselves gave a strong incentive to invest in plants, equipment, and R&D. In addition, because postwar Japan’s Peace Constitution meant that the military was no longer a significant customer to businesses, industries such as automobiles, which had been helped by military procurement before the war but was still in its infancy relative to American and

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173 Rodrik *King Kong Meets Godzilla* Pg. 26
European producers, might have been wiped out were the market made open to foreign competition.\textsuperscript{174}

This directly calls into question the criticism of Perón’s protectionist strategies, and makes the case that Japan had to follow ISI until ESI was a viable option – which was only after infant industry had been sufficiently grown.

It is also unclear if exports were even the impetus needed to jumpstart the HPAEs. Rodrik argues, in the cases of Taiwan and South Korea, that “since export/GDP ratios were exceptionally low in both countries early on - below 5 percent in South Korea in 1960 and barely above 10 percent in Taiwan - it is difficult to imagine how exports could account for the takeoff that these economies experienced in the early 1960s.”\textsuperscript{175} Instead, both countries needed “a coherent investment strategy put [into] place by their governments.”\textsuperscript{176}

Finally (on exports), while it remains ambiguous as to the positive growth effects of openness to trade, there is a much clearer connection between growth and exchange rate manipulation. As discussed in the second chapter of this project, exchange rate manipulation was a key aspect of Peronist trade policy. This resulted in an overvaluation of goods, which decreased their demand on the world market. Rodrik writes that “it is primarily exchange-rate mismanagement that appears to be harmful to growth,” and “is that overvalued exchange rates are detrimental to long-run economic performance.”\textsuperscript{177} It is clear that the Peronist government failed to manage exchange rates, and this is a significant criticism of the model.


\textsuperscript{175} Rodrik “East Asian Mysteries”

\textsuperscript{176} Ibid.

\textsuperscript{177} Rodrik King Kong Meets Godzilla Pg. 26
Moving past exports, my final point of comparison is in terms of government corruption and overall efficiency. Common criticisms of Perón, as laid out in the introduction and second chapter, include a discussion of his government’s corruption. Nepotism, despotism, and inefficiency are all terms thrown at the regime. In contrast, the HPAEs are hailed as exemplars of openness, fairness, and incorruptibility. The argument goes that if Perón hadn’t been corrupt then his government would have been more efficient in dealing with economic hardship. There is evidence that democracy is good for growth. Amartya Sen points out that no democracy in the 20th century has experienced a famine, and Rodrik notes that “democratic societies tend to be better at dealing with the consequences of external shocks.” This is reinforced by evidence in OPEC countries in the 1970s and 80s.

Systematic evidence from an earlier period of external turbulence - the late 1970s and early 1980s - confirms the importance of democracy in fostering economic adjustment. Contrary to conventional wisdom, countries with closed political systems and autonomous executives proved worse at managing the consequences of the oil shocks of the 1970s than countries in which non-elites had access to political institutions. This seems to be a clear difference between HPAEs and Argentina, and a clear indictment of Perón. However, the idea that HPAEs were “incorruptible bureaucracies” is largely a myth. Rodrik argues that “corruption has figured prominently as a key issue in recent election campaigns in Japan, Korea, and Taiwan alike. The Economist has recently called Taiwan ‘a country where corruption scandals are a dime a dozen.’” As such, the connection between growth and democracy is more complicated. Rodrik provides one reason as to why corruption...

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178 Rodrik “East Asian Mysteries”
179 Ibid.
180 Rodrik King Kong Meets Godzilla Pg. 34
181 Ibid.
in HPAEs had different results. He argues, “One qualitative difference seems to be that corruption in HPAEs has been limited to the very top echelons of the bureaucracy, while in many other developing countries it runs all the way down to the lowest ranks.” \textsuperscript{182} The argument goes that when corruption is concentrated in the upper echelons of power, as opposed to being present at all levels, it is easier and more cost effective to engage in bribery. In other words, bribing one chief official is much easier than bribing a host of intermediaries. Thus it is more cost effective to invest in corrupt HPAEs (where corruption is concentrated), then in Latin American nations (where corruption is more spread out). It remains unclear however if the Peronist government was more diffusively corrupt, or what effect the perception of corruption (as a result of deliberate propaganda campaigns by the United States) as opposed to actual corruption has on investment climates.

**Chapter 3: Conclusion**

Comparisons between the AM model and the Peronist model are both relevant and elucidating. Both models are concerned with the same fundamental problem – how to develop – and yet have achieved radically different results. While traditional comparisons focus on a perceived diametric opposition between ISI and ESI, there is far more to the story. By challenging traditional assumptions about the AM model, I have tried to provide a more meaningful analysis of Peronism. The findings of this chapter are as follows: initial conditions in terms of income and education were radically different between the HPAEs and Argentina, as such Argentina was unprepared to follow the AM model. The categorization of HPAEs as purely ESI runs contrary to the experience of Japan, and is not sufficient in discrediting Perón’s pursuit

\textsuperscript{182} Ibid. Pg. 36
of ISI. Finally, perceptions of Argentina and the HPAEs are more myth than fact in terms of government corruption. The most important conclusion we can draw is that context matters; it isn’t as simple as saying, here is a successful set of policies follow them and you will achieve growth. The real story is much more complex, and requires further analysis.
Conclusion

At the beginning of this project I set out to examine one of economics great ‘mysteries’, the so called Argentina paradox. Instead of trying to answer “What caused the Argentine Paradox?” I choose to address “Was Perón responsible for Argentina’s economic regression?” In this way I focused in on a more testable claim. In the first chapter of this project I laid out the historical factors leading up to the election of Juan Domingo Perón. In the second chapter I interrogated his model through four intermediary questions. In the third chapter I compared the Peronist Model with the Asian Miracle Model, in an attempt to better understand the effects of Peronism.

The key findings of this project are as follows. First, Juan Domingo Perón did construct a unique and coherent economic model. This model was based on the contemporaneous economic literature – including the works of Raul Prebisch – and was in direct response to both shifting terms of trade and political pressure being placed on Argentina via the United States. The Peronist model had a number of successes, mostly revolving around raising standards of living and incorporating the working class into politics and the economy more effectively. However, it also had a number of failures – most notable of which are corruption and poor exchange rate management. Perón is often criticized for pursuing Import substitution Industrialization, however it is clear after comparing Argentina to HPAEs that export substitution industrialization was not an option open to Argentina – nor is it the silver bullet that some scholars contend. The most important finding of this project is that context matters; Argentina and Peronism cannot be understood in a vacuum, but rather on their own terms in
their distinct historical realities. Given this, I find that Peronism cannot be solely to blame for the Argentine paradox. Alas, we must continue searching for a more sufficient explanation to one of the world’s great economic mysteries.
Bibliography


