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Discussion Paper

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on

Edgardo Catterberg's

STAGNATION AND DEVELOPMENT IN ARGENTINA

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COMMENTARY
ON STAGNATION AND DEVELOPMENT IN ARGENTINA

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Stagnation and Development in Argentina by E. Catterberg and L.V. Lerner is a good descriptive approach to Argentina development in the last ten years.

The authors stated purpose (p.2) is "to identify the main political factors explaining and contributing to the emergence of such an anomalous situation. It is an effort to bring out the major reason for the paralysis and regression affecting the country, and for the failure of consecutive projects of economic growth". To accomplish it, they divide their contribution in the following three parts:

- i) population values and beliefs;
- ii) a description of the contradictory economic policies between the Peronist government and the army dictatorship that followed it; and
- iii) the permanent political conflict among elite groups.

An introduction to this essay and a conclusion complete the content of this contribution.

It clearly shows the systematic process of economic deterioration, which is substantiated with a set of socio-economic indicators of Argentina *in comparison with* and other appropriate countries, such as Brazil and Mexico, ~~and for the purpose of comparative studies.~~ However, there is not a coherent attempt to explain it. The authors substantiate the question of "what has happened", but do not provide an answer to the question of "why has this happened".

The authors characterizes Argentina development by the following three interacting processes:

- i) a deteriorating position in the international sphere;
- ii) a period of socio-economic stagnation followed by an absolute involution in the last years; and
- iii) a gap between "modernization" and "development".

A set of economic indicators is provided with the purpose to account for the former two processes, without integrating them within a causal explanation of the Argentina's stagnation. As for the latter, they characterize Argentina's modernization by a single indicator, i.e. urban population, which in this case, other than being the least relevant, is a misleading and even a negative indicator. In effect, for a country with an important agrarian sector, which represents 70% of the total exports, and use to represent over 90%, the high urban population ratio instead of being an indicator for modernization is rather an indicator of socio-economic structural distortion. It is indeed part of the problem , as can be further verified by comparing the structure of production, disaggregated in primary, manufacture and services industries, with the disaggregation of the population in urban and rural. The 1980 census recorded a population of 28 millions, of which, 10 millions lived in the metropolitan area of Buenos Aires, one million in Cordoba City and one million in Rosario City. These are the three largest cities of Argentina and they account for 43% of the population. Buenos Aires alone account for 35.7% and the urban population (urban population with 5000 and more) reaches 80%. On the other hand, the agricultural sector represents 15.6 and 12.9 percent of the gross domestic product (GNP) in 1960 and 1980 respectively.

The authors stated purpose of identifying the main political factors that contributed to the socio-economic stagnation followed by an absolute regression is not substantiated, since they do not account for the main causes and the historical circumstances that made this aberrant Argentina's socio-economic and political process possible. They sharply unveil, with relevant statistics, the contradiction between the advanced social indicators and the poor economic performance, as well as between the observed strong sense of achievement of the population and the lack of its realization. But they do not provide any further elaboration in order to identify the main causes and their interaction in a dynamic process. Besides, the Argentina's advanced social indicators were already observed early in this century as an outcome of an advanced and decisive structural policy of socio-economic development that started during the historical constitutional presidency of Domingo Faustino Sarmiento (1866-72) and ^{was} followed by Nicolas Avellaneda (1872-78) *among other distinguished constitutional presidents.* The advanced social indicators were matched by advanced economic indicators until the country collapsed under the corruption of and political crime committed by the army dictatorship and the extreme right minority that supported it. Both colluded to profiteer the holding of an absolute power.

In this content it is highly relevant to provide an appropriate and workable definition of economic development to better understand the meaning of the words development and modernization very often used in Catterberg-Lerner's contribution. The best one in this reviewer's opinion is the one given by François Perroux (1961). It states that "development is a combination of a population mental and social changes which allows it a steady cumulative growth of its real output". This growth has to be matched by a reduction in the economic inequalities, with a particular reference to the

income inequality for the whole population, and its disaggregation according to some relevant socio-economic attributes for the specific case study, such as the Argentina regions, which exhibit an important economic disparity.

According to Perroux's definition of economic development and the socio-economic indicators provided by the author, the Argentina's population has achieved, a long time ago, the mental state to generate a process of sustained economic development. However, it is the socio-economic dimension which is frustrating it. For this, it is important to introduce an explanation of the main forces responsible for this national failure. Among them, I would like to state the following:

- 1) The political and economic circumstances that led to the first coup d'Etat by the subversive Argentina armed forces, which took place September 6, 1930;
- 2) The political decadence of the thirties that gave the army the excuse for a second coup d'Etat, June 4, 1943;
- 3) The emergence of Peron and the Peronism as a dominant political force in Argentina;

- 4) The Peronist contradiction between the social and the economic policy. While Peron pretended to implement an advanced state of social welfare, he was at the same time destroying the very foundation of the Argentina economy with his absurd price control regime and the total lack of investment in the socio-economic infrastructure, urgently needed for the economy to be on a sound competitive base in the international markets. There were almost zero investment in highways, electricity, petroleum, communication and in general research and development (R & D). Although Argentina had at that time a highly advanced human resources they were not fully employed because of political discrimination, which started the Argentina brain drain. His regime can be characterized by an affluent "panem et circenses" during his first presidency (1946-52); less "panem" and more and cheaper "circenses" during his second truncated presidency (1952-55), and finally the Kafkaian Argentina drama of his third presidency (1973-75), aggravated by his wife succession (1975-76), and the criminal period that followed with Videla's coup d'Etat and his finance minister Martinez de Hoz. They completed the total disruption not only of the Argentina economy but also of the Nation socio-political fabric.

The affluent "panem et circenses" of the 1946-1952 period was possible because of the huge national reserves in gold and foreign reserves. Once they were spent, the creation of an inefficient social security system provided the resources to continue the appearance of an advanced social policy, because of the first three years of net cash inflow. Meanwhile, there were not any significant investment addressed to the modernization

of the socio-economic infrastructure and the capital equipment of the industry, agriculture, mining and service to sustain an efficient and harmonic intersectoral and interregional economic development. The conflict between agriculture and industry was deepened instead of being reduced, since the Peronist regime expropriated an excessive amount of the agricultural surplus to partially finance an incoherent process of industrialization. Moreover, the agricultural sector, because of its efficiency, always demanded free international trade, since its main markets were in the rest of the world, whereas the industry, still not internationally competitive, with its production mainly delivery to the domestic market, demanded protectionist measures and control of exchanges. This contradiction were almost never harmonized from 1946 to 1976. The economic policy was fluctuating between protectionism to the industry and a more liberal agrarian economic policy, without arriving to a satisfactory synthesis. Since 1976, the new version of the dictatorship destroyed the whole national productive activity and stimulated the speculative activities and the emigration of a large amount of capital. It was achieved by the dual policy of an unrestricted free international trade and free market prices for goods and services, and a price control of the foreign exchanges, that strongly overvalued the national currency and thus destroying the competitiveness of efficient economic activities. Some of the consequences were, (1) a reduction of the material output of the country; (2) an increase in the inflow of short term and speculative capital; (3) an increase of capital investment by Argentinians in foreign countries; (4) an increase of the imports, especially durable goods; and (5) an increase of Argentinian tourism abroad. To describe this state of national irresponsibility it would be enough to mention that Miami's stores selling radios, TV, refrigerators and

other consumer goods advertised in Argentina newspapers, even in the local newspapers of towns with less than 200 000 inhabitants. To provide the golden token to this Kafkian period, the state owned air company (Aerolineas Argentinas) scheduled special non-stop flights to Miami and granted generous weights privileges for the passenger luggages. No need to say that when in 1981 the economy started to collapse, those flights and privileges were cancelled. There was not demand, since the American dollar recovered its parity and soon after was overvalued, turning the situation around. Now the neighboring country's populations become tourist and investor in Argentina, and the economy is again competitive in virtue of the army dictatorship manipulation of the exchange rate.

The analysis and interpretation of the phenomena just mentioned would lead to a coherent explanation of the Argentina stagnation. For additional analysis, see Dagum (1981). A special chapter has to deal with the army dictatorship expenses in armaments since 1976, which account for almost 50% of the country foreign debt, and the illegal economic and financial affairs which further contributed to the increase of this foreign debt.

We have to dig very deep in the Argentine history, at least since 1930, to account for the present stagnation. It is by far one of the most challenging reality that defies a coherent explanation and interpretation by economists, sociologues and political scientists. We can apply to this problem⁽¹⁾ Leibniz's and Michelet's statements advanced almost three centuries and over one century ago respectively. With the aim to explaining the actuality, Leibniz put the understanding of historical events in a beautiful and dynamic context. In 1704 he stated, in his contribution on Human Understanding, that "the origins of the present things are discovered

in the things of the past, because a reality is best understood by looking at its causes". Similar message is conveyed by Jules Michelet (1846) when he wrote in *Le Peuple* that "those that would like to consider only the present, the actuality, will not understand the actuality". Hence, the knowledge of an aspect of reality requires first of all to be able to penetrate the secrets of its history, which explain its present reality and provides the insight to forecast the future.

The political irresponsibility and the moral bankruptcy of the last 53 years, with the only exception of the constitutional government of Arturo U. Illia (1963-66), can effectively be rationalized applying Ortega Y Gasset's interpretation of Montesquieu's thought on the dynamic of history. With remarkable insight, as if it would be written for the Argentina reality of the 1973-83 period, Ortega Y Gasset (1946) stated that "Montesquieu's is the first to interpret historical phenomena dynamically. He conceives human life as made, in its ultimate reality, not of fixed patterns but of acting impulses, the monarchical form of government being the manifestation and results of 'honor' in action, the republican of 'virtue' in action. Honor and virtue are pure agents, when their impetus dwindles and dies, monarchy and republic decline and fall" (italics added). In this context, the 1973-83 Argentina history stands as a catastrophic evidence of the total lack of public virtue and its replacement by corruption and political crimes.

At the moment of finishing this comment, this reviewer read in the newspaper the outstanding democratic triumph of the Argentina's leader Raul Alfonsín, a distinguished fighter for human rights, democracy and economic development. Overwhelmingly, foreign commentators seem to see only a return to democracy, as if democracy can go and come at random or

according to the circumstantial will of the army commanders, or army junta. This reviewer strongly reject this very superficial view and does not hesitate to interpret this feast of Argentina mature democratic performance in line with Vortaire's message in his Essai sur les moeurs et l'esprit des nations. Voltaire did not consider the outstanding events such as wars and battles, political conspiracies, and coup d'Etat, and in this case, the Argentina national election of October 30, 1983, without interconnecting them with the customs and spirit of peoples in the dynamic of history. And the dynamic of history taught very dearly to the present Argentina's generation— which paid the price of humilliation, torture, assassination and disapperance of several thousand of its population, and an almost bankrupt economic state— for the lack of will and irresponsible negligence in supporting and fighting for the democratic way of life as consacrated in the Nation magna carta of 1854.

NOTE

- (1) The word 'problem' is here used in the context of an object of knowledge. According to Ortega Y Gasset (1946), "before a thing becomes an object of cognition it must have been a problem, and before it becomes a problem we must find it strange".

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