The High Costs of Fiscal and Monetary Anomie:
The Experience of Argentina since 1945

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> *If the practice persists of covering government deficits with the issue of notes, then the day will come without fail, sooner or later, when the monetary systems of those nations pursuing this course will break down completely.*
>
> Ludwig von Mises (1923)

1. Introduction

Since the late 1980s the adoption of fiscal and monetary rules became a global trend. This was a major factor behind the global disinflation trend of the last three decades. The primary objective of the former is to avoid deficits and pro-cyclical policy biases by constraining the government's use of discretion (IMF, 2017). In the case of advanced economics, fiscal rules were imposed to comply with supra-national treaties (e.g., Maastricht); in the case of emerging market economies, to commit to fiscal discipline after severe crises (e.g., Argentina) or to ensure sustained stability and growth (e.g., Chile). Monetary rules instead have price stability as their objective and have been associated with currency board regimes, a pre-specified growth rate for monetary aggregates (Friedman, 1960) or inflation targeting regimes (Taylor, 1993). Empirical studies confirm that a rules-based policy framework contributes to price stability, improved fiscal performance and sustained economic growth (IMF, 2009).

The Global Financial Crisis of 2008 (GFC) seriously tested many governments' commitment to rules and revived the rules versus discretion debate among academics and policymakers (Taylor, 2011). Supporters of discretion argue that "it allows central banks to take advantage of information about the macro-economy that is hard to write into rules" (Kocherlakota, 2016) and that "in an ever changing world" it is "an unavoidable aspect of policymaking" (Greenspan, 1997). The main arguments in favor of rules are the preservation of individual freedom (Simons, 1948, Friedman, 1948 and 1962; Taylor, 2019), incomplete information and limited knowledge of the causes of cyclical fluctuations (Friedman, 1959 and 1960),

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temporal inconsistency of macroeconomic policies (Kydland and Prescott, 1977; Buol and Vaughan, 2003) and policymakers' systematic cognitive biases (Calabria, 2015).

Argentina's experience in the last two hundred years perhaps offers the strongest empirical evidence in support of a rules-based fiscal and monetary policy framework. In their analysis of the 1853-1999 period, Della Paolera, Irigoin and Bozzoli (2003) concluded that, after taking into account initial conditions, the periods with the best macroeconomic performance were strongly associated with a hard-currency regime, which in turn proved sustainable only when it was associated with an inter-temporally consistent fiscal stance. Ávila (2011) analyzed the relationship between fiscal deficits, macroeconomic uncertainty and growth for the period 1915-2006 and concluded that recurrent deficits were a significant restriction on growth.

From 1900 until 1939, when the country mostly followed the rules of the gold standard, its inflation rate and fiscal balances were in line with those of Australia, Canada, the US and the UK, while its GDP per capita growth rates were similar. Something happened after WWII and its effects proved persistent: since 1945 inflation averaged 143% a year –with three bouts of extreme inflation– with persistent and high fiscal imbalances and low growth.[2] During this period Argentina restructured or defaulted on its public debt several times and its position in global GDP per capita rankings dropped from an average of 7 during 1900-1945 to 72 in 2019.

Argentina probably offers the clearest empirical confirmation of three important propositions: a) monetary rules are key to price stability in the long run, b) price stability is a necessary condition for sustained economic growth, and b) monetary rules are not sustainable without fiscal discipline. The country exhibits what may be described as fiscal and monetary anomie. The term anomie dates back to ancient Greece but was popularized in the late 19th century by French sociologist Emile Durkheim (Defiem, 2015, p.719). Etymologically, it is derived from the Greek word *anomos*, which means lawlessness. More generally, it describes a situation where laws or norms of interaction are not followed or respected. This is the meaning used in this paper. The evidence also suggests that Argentina's monetary and fiscal anomie results from a vicious feedback loop involving recurring crises, an institutionally weak political system with perverse incentives and certain predominant cultural beliefs.

The remainder of the paper is organized as follows. Section 2 documents Argentina's fiscal and monetary anomie tracing its historical roots and examining the dis-functionality of the budgetary process and the functional subordination of the Central Bank to the executive

[2] See Appendix C for a discussion of hyperinflation and Hanke and Krus (2013) for an alternative interpretation.

power. Section 3 provides some historical background on Argentina and Peronism. Section 4 compares the experience of Argentina with that of Chile and Uruguay since 1975. The last section presents some tentative conclusions.

2. The Relevance of the Argentine Case

As mentioned above, from 1900 until 1939, a period during which Argentina mostly abided by the rules of the gold standard, its inflation rate and fiscal balances were in line with those of Australia, Canada, the US and the UK, while its GDP per capita grew at comparable rates.

Argentina before and after 1945

Country	Primary Fiscal Balance	Net Fiscal Balance	Average Inflation Rate	GDP per capita Growth Rate
		1900-1939		
Argentina	0.4%	-1.6%	1.6%	0.9%
Australia	0.4%	-1.0%	2.0%	1.0%
Canada	0.0%	-1.8%	1.7%	0.9%
UK	3.0%	-1.9%	1.4%	0.7%
US	-0.8%	-1.4%	1.6%	1.1%
		1945-2019		
Argentina	-2.4%	-4.5%	143.0%	1.1%
Australia	0.0%	0.0%	5.5%	1.9%
Canada	0.7%	-2.0%	3.9%	1.9%
UK	-0.3%	-3.0%	5.0%	1.9%
US	-0.7%	-2.7%	3.7%	1.9%

Source: IMF Public Finance Database, IMF World Economic Outlook and Ferreres (2010).

In a comparative study of Argentina and Australia in the postwar, Smithies (1965) concluded that both countries were set for "another period of parallel advance seemed likely" but that "a *diabolus ex machina* appeared in Argentina" (p.23). He was referring to Juan Perón, who ruled Argentina from mid 1943 until September 1955 and between 1973 and 1974 and whose political party governed during most of the period since 1983, when democracy was reestablished. There is probably no other country comparable to Argentina at the start of WWII, in which contemporary political developments had such a lasting impact in current affairs. In fact, none of Perón contemporaries had such a lasting influence on their own countries as he did in Argentina. Peronism still dominates the country's politics, culture and economy.

Although economics is a very useful tool to understand the shortcomings of the "Argentine disease" and to quantify its dismal results, it is less useful to understand its origins. As Samuelson (1980) explained, Argentina's sickness "is political and sociological rather than economic... It has to do with the breakdown of social consensus. It has to do with the workings out of the logic of populist democracy" (p.69). Given this conclusion and the observable fact that Argentina's macroeconomic performance is an outlier (even among countries with comparable levels of development) one may wonder what is the usefulness of trying to understand the nature of its monetary and fiscal anomie. After all, it would seem the risk of contagion to other countries appears negligible.[3] However, this presumption may not be entirely accurate. In recent decades, right and left wing populism emerged in Europe and the US. Also, since the GFC, proponents of Modern Monetary Theory (MMT) have gained ascendance in in the US Democratic Party and challenged the established fiscal and monetary policy paradigm (Mankiw, 2020). As Edwards (2019) has pointed out, several Latin American countries have implemented policies that are predicated on the same assumptions as MMT with dismal results. In fact, it could be argued that Argentina is probably the best example of what happens to a country that consistently follows such policies for decades (Ocampo, 2020).[4]

Argentina's Fiscal and Monetary Anomie in Historical Context

Fiscal and monetary anomie has a long history in Argentina. The country's fiscal troubles started with independence due to large military expenditures. Successive wars with Spain (1810-1821) and Brazil (1825-1828) put public finances under stress and led to deficits and inflation. In 1827 Argentina played a leading role in the first global emerging markets crisis by defaulting on its first-ever issued foreign bond. From its institutional organization in the early 1860s until 1889, the economy experienced rapid growth punctuated by severe financial crisis in 1876, 1885 and 1890 (see Amado, Cerro and Meloni, 2005). During this period, fiscal and monetary anomie was the norm and adherence to the gold standard was sporadic. Following the 1890 crisis, which was one of the deepest in the country's history and provoked the collapse of Baring Brothers, Argentina embarked on a series of structural reforms. By 1899 the country had returned to the gold standard and become one of its most disciplined members. For the following fifteen years, the economy grew rapidly, inflation remained in check and the country risk premium declined (Della Paolera and Taylor, 2001, p.122-124). Argentina abandoned the gold standard on August 1914, and until 1927, when it rejoined it at the prewar parity, followed a "dirty" convertibility. The gold parity was abandoned again at the end of 1929 to avoid the deflationary impact of Wall Street's crack. Without external

[3] Only Venezuela seems to have developed and adopted its own version of Peronism, with equally dismal results.

[4] MMT presupposes that a country is not an "original sinner" (see Eichengreen, Haussman and Panizza, 2003), which means that it can issue foreign bonds or long-dated domestic bonds at fixed rate in its own currency. Until 1945, Argentina did not suffer from "original sin" and was able to borrow abroad and domestically in its own currency.

discipline and a flawed financial architecture, fiscal and monetary anomie started to rear its head. A mix of expansive monetary policies and fiscal austerity allowed the economy to weather the Great Depression relatively well but the economy never regained its former dynamism. Following the creation of the Central Bank in 1935 and the advent of WWII, fiscal and monetary discipline gradually started to wane:

Period	Primary Fiscal Balance	Real GDP per capita growth	Annual Inflation	Money Base Growth
1900-1913	1.1%	2.5%	1.7%	8.2%
1914-1929	-0.1%	1.8%	1.9%	3.0%
1930-1935	-0.0%	-1.2%	-6.3%	-1.8%
1935-1939	-0.5%	1.3%	3.0%	10.5%
1940-1945	-1.8%	1.1%	5.5%	21.9%

Source: Diaz Alejandro (1970), Ferreres (2010), Mauro et al. (2011).

However, by the end of WWII, Argentina had the fifth largest gold reserves in the world US$1.2 billion (UN, 1951, p.462). At that time, more than 160% of Argentina's monetary base was fully backed by reserves and the Treasury could borrow long term in pesos at an interest rate of 4-5% a year.

As to fiscal discipline, a recent study (Della Paolera, Irigoin and Bozzoli, 2003) concluded that it was “a transitory phenomenon from the 1850s to the 1930s, when budget deficits came to rule Argentine public finances”. From 1930 onwards, governments relied on monetary expansion to finance them “which led to inflation and allowed the government to repudiate some of its liabilities” (p.72-73). Another study (Araoz et al., 2007) found that during the 1865-2002 period fiscal sustainability was weak or non-existent.[5] However, it was relatively stronger during 1865-1914 and 1990-2002 when the economy was open to trade and capital flows. In contrast, there was no sustainability in 1951-1989, a period during which the economy was relatively closed. This study also concluded that a key explanatory factor behind all major financial crises in Argentine history was lack of fiscal sustainability. Most of them happened after 1946 (Reinhart, 2010).

Despite a tendency towards fiscal profligacy, from 1871 until 1944 the budgetary process was timely and transparent. In every single year during this period, the Executive sent an annual budget to Congress before the start of the calendar year and Congress approved it within the timeframe specified by law (Ministerio de Hacienda, 1945, pp.217-219). From 1945 onwards, the quality of budgetary institutions deteriorated markedly. Since then, the timely presentation

[5] Fiscal deficits are sustainable if the current market value of government debt equals to the discounted sum of expected future surpluses.

and approval of the annual budget has been the exception rather than the norm even under democratic rule. The evidence suggests that the quality of a country's budgetary institutions, which include procedural rules, have a significant positive influence on fiscal discipline and stability (Alesina et al, 1996, Alesina and Perotti, 1996 and Von Hagen, 2002).

During the Perón regime (1946-1955), the government also used an off-budget scheme involving the Central Bank and IAPI to finance large military expenditures and massive increases in public employment, an ambitious public works program and the nationalization of foreign owned companies.[6] As Reutz (1991) noted, during 1946-1955 off budget expenditures, of which the most significant were the losses incurred by IAPI, amounted to almost half of budgeted expenditures (p.120). The Central Bank extended special credit lines to state owned banks with which they financed those deficits. Between 1946 and 1949 IAPI's borrowings increased eight times in nominal terms and in the latter year represented 16% of GDP. With this financing scheme, the government didn't have to report almost all half of its expenditures and the Central Bank avoided statutory limits on financing them. Given that IAPI didn't publish balance sheets until 1949, financing gimmicks allowed the regime to "hide under the rug" almost a third of total government expenditures. IAPI closed the loop by financing the government directly with loans.

Also, after 1945, the Treasury started using "creative" accounting methods to disguise growing fiscal imbalances. The annual report for that year indicated that the government had a deficit equivalent to 0.9% of GDP. In reality it was ten times higher. The trick was simply to count the increase in public debt as a source of revenue. The following year, the clarity and quality of the information provided by the Treasury about Argentina's public finances deteriorated further.[7] In 1946 total government expenditures increased by almost 70% in real terms due to increase in off budget items while revenues declined slightly (Reutz, 1991, p.122). However, official statistics showed a slight surplus for the year equivalent to 0.1% of GDP. This accounting legerdemain didn't seem particularly troubling given that starting in 1946, a significant portion of the budget deficit was "borrowed" at artificially low interest rates from the state run pension fund. In 1949 Perón boasted that "we have our budget fully balanced; we have closed our budgets with a surplus" (Perón, 1949, Vol.II, p. 191). In fact, the previous year the Treasury had reported a slight surplus in fiscal accounts (Ministerio de Hacienda, 1949). However, the government's actual cash deficit had reached almost 16% of

[6] IAPI was a government agency that after 1946 monopolized foreign trade, particularly involving exports of agricultural commodities.
[7] In 1946, the Treasury pushed back the discussion of public finances to the back of its annual report instead of starting with it as it had been the tradition for decades. The quality and clarity of the information included in the *Memorias del Ministerio de Hacienda* deteriorated markedly after 1944.

GDP and would reach 13% in 1949 (Reutz, 1991, p.136). Transparency also suffered as the Treasury delayed eighteen months the publication of its annual reports.

On the monetary side there was also a clear break after 1946, when Perón nationalized the Central Bank and the entire deposit base of the banking system. The expansion of credit to finance budget and off-budget deficits increased 28 times in only three years. Between December 1945 and September 1955, monetary and credit aggregates grew at unprecedented rates. In August 1948, when the Argentine economy started to show signs of an impending external crisis, the Central Bank stopped publishing its monthly bulletin, which included detailed monetary and financial information. By the end of the Peronist regime, the debasement of the Argentine currency was almost complete: reserve backing of the monetary base had dropped from 160% in 1945 to 4% in 1955.

Monetary and Credit Expansion under Peronism (1946-1955)
(compounded annual growth rates)

Year	Monetary Base	M1	M2	Total Credit	Credit to Public Sector	Credit to Private Sector
1946	-18.3%	27.4%	26.8%	58.3%	400.0%	27.3%
1947	31.0%	24.7%	20.1%	89.5%	186.7%	54.8%
1948	43.5%	44.5%	35.4%	60.2%	95.3%	36.9%
1949	32.5%	23.4%	21.0%	24.3%	31.0%	18.0%
1950	29.8%	23.7%	20.0%	18.1%	3.6%	33.3%
1951	33.0%	22.6%	18.3%	26.0%	4.4%	43.6%
1952	20.1%	13.1%	14.5%	15.3%	6.7%	20.4%
1953	24.5%	26.2%	25.7%	16.3%	26.8%	10.7%
1954	19.2%	21.0%	20.6%	20.3%	26.7%	16.4%

Source: BCRA *Estadísticas Monetarias* and Orlando J. Ferreres (2010). Growth rates are based on end of calendar year figures.

According to official statistics, total public debt decreased to 45% of GDP in 1955 (from 63% in 1945). However, if off-budget debt is taken into consideration the ratio actually increased to 74% of GDP. More importantly, given that public debt was forcibly placed on state managed pension fund at yields significantly below the inflation rate, the "real" public debt burden was almost double (the difference was obviously borne by savers, mostly the pension fund system). A perverse consequence of financial repression was the destruction of the domestic capital market. As a result, Argentina became an "original sinner" as defined by Eichengreen, Hausmann and Panizza (2005): the public sector was never able again to borrow long term in pesos. Successive governments were forced to resort to increasingly devious mechanisms to finance recurrent fiscal deficits. Without a local capital market and limited access to international capital markets, the only option left was monetization.

Besides reshaping Argentine politics, Peronism also had a profound economic impact. During 1945-2019 Argentina experienced the period of highest macroeconomic instability in its history, which included, among other things, three hyperinflationary bouts (1975-76, 1989 and 1990), six banking crises (1980, 1982, 1995, 2001, 2008 and 2019), five balance of payments crises (1958, 1962, 1981-82, 1989 and 2018-19), four external public debt defaults (1982, 1989, 2001 and 2020) and three local public debt defaults (1989, 2007-2009 and 2019). A recent study of Argentina's monetary and fiscal history since 1960 (Buera and Nicolini, 2019) concluded that this endless string of crisis showed "symptoms of the same disease: the government's inability to restrict spending to genuine tax revenues" (p.23).

A History of Fiscal Profligacy (1956-2019)

Period	Primary Fiscal Balance (% GDP)	Interest on Public Debt (% GDP)	Net Fiscal Balance (% GDP)	Gross Public Debt (% GDP)	Inflation Rate	Real GDP pc growth rate
1956-1972	-3.5%	0.1%	-3.5%	15.1%	30.5%	2.1%
1973-1975*	-9.4%	-1.0%	-8.4%	19.6%	89.0%	-0.9%
1976-1981	-5.2%	1.4%	-6.6%	20.3%	193.3%	-0.4%
1982-1991*	-3.6%	4.0%	-7.6%	62.0%	793.7%	-1.0%
1992-2001	0.1%	2.0%	-1.8%	34.7%	5.0%	0.5%
2002-2005	3.4%	1.9%	1.5%	119.9%	13.3%	7.6%
2006-2015*	-0.1%	2.2%	-2.2%	50.6%	23.2%	1.7%
2016-2019	-2.8%	2.5%	-5.3%	72.4%	41.0%	-2.5%

Source: BCRA, IMF World Economic Outlook (2019), Ferreres (2010) and Mauro et al (2013). Note: * indicates a period during which populist economic policies were in place.

Argentina's recurrent and high fiscal deficits in the last seven decades reflect the persistent inability (or unwillingness) of Argentine society to live within the constraints imposed by economic reality. Peronism has been the main (but not exclusive) "enabler" of this fantasy, promising greater equality and rising prosperity without ever tackling the structural barriers that prevent them. Predictably, it never fulfilled its promise. Instead, its policies led to secular stagnation and high inflation with greater inequality and growing poverty. Populism also turned fiscal and monetary anomie into a chronic disease with no easy cure in sight.

Over the course of the last 200 years the fundamental cause of Argentina's fiscal unsustainability changed. In the first years after independence, it was military expenditures due to continued wars; from 1860 until 1939, bailouts of an over-extended financial sector; during the Perón years, the growth of the populist welfare state; in the sixties and early seventies, the losses of inefficient state-owned companies; in the late seventies, again military expenditures and war; in the eighties, the cost of excessive foreign and local debt (partly generated by bailouts of the private sector); in the nineties, the profligacy of provincial governments and state owned banks; and in the first decade of 21st century, again the growth of the populist welfare state.

One of the most remarkable aspects of the Argentine case is that, starting in 1991, after two consecutive hyperinflationary bouts, in order to regain price and economic stability, successive governments resorted to a rules-based policy framework. The rules were enacted as laws by Congress and reflected global "best practices". The best known was the Convertibility Law approved in March 1991, which created a convertible peso and legalized the use of the dollar and any other convertible currency in any kind of transaction or contract.[8] In the following decade, Congress also approved a Public Financial Management Law (1992) and a Fiscal Convertibility Law (1999) to a) provide transparency and accountability and b) limit the growth of primary expenditures and recurrent fiscal deficits (see Appendix A for a list of the major laws connected with fiscal and monetary rules approved during this period).

Compliance with these rules, which was sporadic even during 1991-99, almost vanished in the 21st century. During 2006-2017, *The Open Budget Index* (OBI), an independent global assessment of budget transparency, consistently placed Argentina near the middle of its global ranking, with scores that ranged between 40 and 60 points on a 100-point scale (Diaz Frers, 2017). In 2017, the last year for which there is data, the country occupied the 46th position in global rankings, between Ghana and Namibia. More importantly, an examination of the Congressional record (see Appendix A) shows a national proclivity to amend and repeal fiscal and monetary rules that restrained the power of the Executive branch with "Emergency Laws" also approved by Congress, always with the excuse that an imminent or ongoing financial crisis requires giving the former ample discretionary powers. Argentine politicians don't seem (or want) to understand that the point of having rules is to prevent such scenarios.

Two recent instances exemplify the extent of Argentina's fiscal and monetary anomie. At the end of 2017 Congress approved a Fiscal Responsibility law that capped the rate of growth of primary expenditures and public employment. At the same time the National Government also reached an agreement with Provincial Governments to limit spending and reduce taxes. The stated objective of both measures was to gradually reduce the weight of public spending on GDP and create "the fiscal space to also lower the tax burden and improve the tax system" (Galiani, 2018). Months later, in October 2018, as part of an agreement with the IMF, the Central Bank replaced the existing inflation targeting framework with a simple monetary

[8] As Steve Hanke observed in a previous version of this paper, the system implanted by Cavallo in 1991 was not an orthodox currency board since it allowed for much fiscal and monetary discretion. See Hanke (2002).

policy rule that limited monetary base growth to zero and allowed the exchange rate to float within a pre-specified band. The goal was to reduce inflation and let inflationary expectations push down the interest rate gradually. Simultaneously, to ensure public debt sustainability the government committed itself to achieving a primary fiscal balance in 2019 and modest surpluses starting in 2020 (IMF, 2018). Twelve months later both rules were abandoned after a victory of the Peronist candidate in the presidential election triggered a severe currency crisis. By December 2019, the remnants of Central Bank independence had completely disappeared and Congress approved an "Emergency Law" that gave "super powers" to the incoming president, Alberto Fernández. And so ended another experiment with fiscal and monetary rules. In Argentina, "Emergency Laws" are a euphemism for undermining the constitutional separation of powers. They allow the Executive to arbitrarily intervene in markets and impose taxes or exactions and confiscate resources (usually from savers or exporters) without the prior approval of (or debate by) Congress. Their ultimate objective is to find creative ways of financing an ever growing fiscal deficit.

3. The Argentine Disease: Some Historical Background

Argentina as a Paradigm of Populist Democracy

Argentina's decline is probably one of the few subjects on which Paul Samuelson and Milton Friedman agreed. Samuelson (1980) once admitted almost ashamedly that if in 1945 someone had asked him which country was more likely to experience dramatic economic growth in the following decades he would have replied: "Argentina is the wave of the future". According to Friedman (1975) after WWII Argentina "went very rapidly and very far in the direction of a welfare state, in the direction of Government controls. It lost its political freedom and it lost its economic prosperity" (p.18). Samuelson and Friedman not only seemed to agree on the causes of Argentina's economic problems but also feared that the US and the advanced Western economies could follow in its footsteps. In the early eighties, Samuelson (1980, 1984) again argued that Argentina was the wave of the future, but this time in a different sense. He believed then that Schumpeter's famous prediction had to be reformulated by replacing socialism with populism. Friedman (1975) also worried that the US and other advanced democracies could follow Argentina's path. "A great source of pessimism is the apparent inability of anybody to learn through anybody else's mistakes. We see what happens in Britain, we see what happens in Argentina, we see what happens in Chile, and with our eyes open we walk the same path towards the same end".

Although Friedman and Samuelson agreed that Peron had set Argentina on the wrong course they disagreed about how much he could be blamed for its continuing problems. According to

Friedman (1981), what had changed Argentina was "the emergence of Mr. Peron and the Peronist movement" (p.8). Samuelson (1980) insisted that it was "superficial" to blame Perón for the country's problems given that those problems remained years after he had died. He also thought that Brazil, Chile and Uruguay –which during the 1970s and 1980s also experienced stagflation and political instability– suffered from the same disease. In his view, Peron could not be the explanatory variable. It was a "Latin American disease": the paradigm of populist democracy. However, reality proved him wrong. Although many countries in Latin American have experienced sporadic bouts of populism in recent decades (see Edwards, 2010 and 2019), in Argentina it had unique characteristics that made it endemic.

In their classic analysis of populism, Dornbusch and Edwards (1991) argued that the Latin American economic policy paradigm could be summarized as ignoring the existence "of any type of constraints" and relying on macroeconomic policy "to redistribute income, typically by large real-wage increases that are not to be passed on into higher price" (pp.9-10). They also identified four phases in the typical Latin American populist experiences: 1) a short lived economic boom driven by consumer demand fed by higher wages, 2) a slowdown provoked by internal and external bottlenecks, 3) accelerating inflation due to monetary and fiscal expansion, capital flight and foreign exchange shortages, and 4) an "orthodox stabilization" under a new government". As Dornbusch and Edwards pointed out, after the whole cycle was finished, real wages were usually lower, i.e. those who were supposed to benefit ended up being the most hurt. Dornbusch and Edwards also noted that populist governments repeatedly implement self-destructive policies "in spite of abundant historical evidence on their harmful consequences" and wondered, "whether countries have an economic and political memory that allows them to learn from their own mistakes" (p. 8). This is clearly not the case in Argentina. When it comes to designing stabilization plans, policymakers seem to pay no attention to recent history (see Ocampo, 2017). One possible explanation for Argentina's persistent inability to learn is the predominance of a flawed ideology that proposes spurious causality.

Another distinctive feature of populism in Argentina is that it is that it has been fueled by agricultural commodity price cycles (Ocampo, 2015). There are obvious economic and political reasons for this. First, rising food prices have a negative impact on real urban wages while they generate extraordinary profits in the land-intensive agricultural sector. Second, the policy of those profits and redistributing them to feed urban consumption (and the profits of the protected industrial sector) has an obvious electoral appeal. In the Peronist narrative, farmers are the "oligarchy" that, allied with foreigners, "exploits" the Argentine "people". This conspiratorial and paranoid narrative feeds and supports populist policies. Its effectiveness is beyond doubt, since the Kirchners revived it in 2008 and Fernández is doing it in 2020. This cultural factor is not present in Brazil, Chile, Paraguay or Uruguay even though they are also large commodity producers and exporters.

A Brief Economic History of Argentina under Peronism

Sociologists and political scientist outside Argentina usually have a hard time defining Peronism. The usual categories they apply in most countries don't seem appropriate. It is not Fascism but draws many elements from it, it is not socialism but it appeals to class struggle and leads to similar results. Extremists from the right and the left claim to be the true heirs of Perón and still cohabit, not without conflict, in the movement he created. According to *New York Times* columnist Roger Cohen (2014) Peronism is "a strange mishmash of nationalism, romanticism, fascism, socialism, backwardness, progressiveness, militarism, eroticism, fantasy, musical mournfulness, irresponsibility and repression" that has proved "impossible to shake".

To understand Peronism it is critical to understand what drove Peron, an army colonel, to enter politics. His overriding objective was to neutralize what he believed was an imminent existential threat to Argentina: a communist revolution. Peron's ideas were greatly influenced by a sojourn in Italy as a military attaché in 1939-1941. He believed communism was engendered by the unfairness of the capitalistic system. Therefore, to prevent the former it was necessary to reform the latter by introducing "social justice."[9] Unlike Hitler or Mussolini, Perón never managed to seduce the business establishment and therefore he increasingly relied for political support on the leaders of the labor movement, the Catholic Church and the Army. It was a modified version of Mussolini's corporatism system. Ironically, although his original intention was to prevent a revolution, he incited one with his policies and rhetoric that turned out to be more detrimental to long-term prosperity that one it was meant to prevent.

At the beginning of the 20th century, Poland's GDP per capita was half of Argentina's and by 2018 it doubled it. Even after 50 years of communist rule, Poland's political and economic institutions are also more advanced than those of Argentina.[10] The comparison between both countries is striking:

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[9] As Hayek pointed out "almost every claim for government action on behalf of particular groups is advanced in its name, and if it can be made to appear that a certain measure is demanded by 'social justice', opposition to it will rapidly weaken" (Hayek, 1976, p.65). In Argentina, social justice has meant higher salaries and social benefits for urban workers and higher profits for crony capitalists. The former divorced from productivity and the latter from efficiency, both financed by exactions on the agricultural sector.

[10] This comparison in no way seeks to minimize other aspects of communist rule in Poland such as political persecution and incarceration. Interestingly, Poland's institutional quality indicators deteriorated markedly after 2016 when the populist Law and Justice won parliamentary elections.

Peronism vs. Communism: Comparative Economic and Institutional Impact

Variable/Index			Argentina	Poland
1)	GDP per capita	US$ PPP 2011	18,261	28,439
2)	GDP per capita growth rate since 1990	Annual	1.6%	4.6%
3)	Inflation rate	Annual	47.6%	1.6%
4)	Political Freedom	1 to 100	85	84
5)	Liberal Democracy	0 to 100%	67.6%	54.8%
6)	Economic Freedom	0 to 100%	52.2%	67.8%
7)	Control of Corruption	-2.5 to 2.5	-0.08	0.64
8)	Government Effectiveness	-2.5 to 2.5	0.03	0.66
9)	Regulatory Quality	-2.5 to 2.5	-0.24	0.88
10)	Rule of Law	-2.5 to 2.5	-0.24	0.43
11)	Voice and Accountability	-2.5 to 2.5	0.57	0.72

Source: IMF (1-3), Freedom House (4), V-Dem Institute (5), Heritage Foundation (6), and World Bank (7-11).

Waisman (1987) has argued that Peronism institutionalized two policies that transformed the structure of Argentine economy and society: a corporatist strategy toward labor, supported by the church and the military, and radical protectionism (pp.136-137). One could not survive without the other. Their main consequence was to divorce wage levels from productivity and politicize them. The industrial sector was willing to go along with Peron's mirage of "social justice" in exchange for protection and myriad subsidies. The "populist bash" required across the board wage increases and subsidies, financed at the expense of farmers and savers, and loose credit and monetary policies (Diaz Alejandro, 1970). As Smithies (1965) pointed out, any sophomore could have told Perón that this system was not viable. In fact, after a short-lived boom, starting in mid-1948 the economy experienced a severe external crisis. Three years of stagnation and indecision followed. Finally, in 1952, after having secured his reelection, Peron launched an austerity plan. He toned down his anti-Yankee rhetoric and he emphasized in his speeches that wage increases had to be linked to productivity. In a counter-factual scenario Perón could have cured Argentina of the virus that he had inoculated it with. However, a confrontation with the Catholic Church, one of his erstwhile allies, led to his overthrow in September 1955.

Even though Peron was exiled for eighteen years, the military and civilian governments that succeeded him were unable or unwilling to reform the essence of the Peronist economic system. Part of the problem was that the inefficient and highly protected industrial sector that grew under the Peronist regime had become the economy's largest employer and the business sector grew accustomed to guaranteed profits. Union leaders and crony capitalists forged a lasting alliance. Consequently, wage levels became a political decision divorced from productivity. In exchange businessmen obtained protectionism and subsidies. The only novelty added during the sixties was foreign investment, which helped the economy to recover some of the ground lost during 1946-55. However, political uncertainty remained high as Perón continued to pull strings from his Madrid exile.

When Perón returned to Argentina in mid-1973, the world was experiencing another boom in commodity prices that, thanks to high taxes on agricultural exports, filled the coffers of the Argentine treasury. It seemed as if the old dictator had learned nothing and forgotten nothing. The country experienced another "populist fest", but it was more short-lived than the first. After Peron's death in July 1974, the country sank into political instability and violence while inflation spiraled out of control and the economy stagnated. A military coup in 1976 brought chaos to an end but at a very high cost. The new regime brutally repressed a leftwing insurgency and tried to stabilize the economy. However, the military feared labor unrest and their innate nationalism prevented cuts in public spending or the privatization of highly inefficient state-owned enterprises. A tight monetary policy was combined with an expansive fiscal policy and lower trade barriers. The result was predictable: currency overvaluation with growing fiscal and current account deficits, followed by a sudden stop when it became obvious that the situation was unsustainable. Although the military regime managed to survive the crisis that ensued, it could not survive a defeat in the 1982 Malvinas War.

In the 1983 presidential election a center-left coalition led by Raul Alfonsín defeated the Peronist party. However, the new administration adopted the same policies that had led to the stagnation of the Argentine economy: protectionism, fiscal profligacy and political wages. However, unions remained loyal to Peronism. Another fiscal crisis and hyperinflation followed. In the 1989 election, a Peronist candidate, Carlos Menem, won by a landslide. To everybody's surprise he abandoned the classic Peronist economic recipe. In January 1991, he appointed Domingo Cavallo as economy minister. A few months later, Cavallo launched the Convertibility law, which established a fixed parity between the peso and the dollar and prohibited the Central Bank from financing the treasury. The plan also contemplated the deregulation of the economy, lower tariffs and the privatization of all state-owned companies. For a decade it seemed as if Argentina had been finally cured of its disease: from 1992 until 2000, it had one of the lowest inflation rates in the world and the economy boomed. But cumulative fiscal imbalances at the provincial level, a heavy debt load and the effect of several international crises undermined confidence in the Convertibility program. In December 2001, after the IMF withdrew its financial support even though Argentina had complied with the fiscal targets that had been set in the Stand-by Agreement signed months earlier. A political and economic crisis ensued. President De la Rua and Cavallo resigned and a new government controlled by the Peronist party repealed the Convertibility law, devalued the peso and defaulted on the public debt.

By early 2002, thanks to China's extraordinary growth, a new commodity super-cycle started. The rise in the price of soybeans, a major Argentine export, supported the economic recovery. Nestor Kirchner became president in 2003. Although he resorted to traditional Peronist rhetoric, initially he maintained fiscal and current account surpluses. At some point, however, he and his wife Cristina Fernandez, who succeeded him in 2007, convinced themselves, just like Perón did in 1946 and 1973, that agricultural commodity prices would remain high forever. After several years of net fiscal surpluses, an anomaly in Argentina's history, the Kirchners increased primary expenditures from 13% to 24% of GDP. Coincidentally at that time, Vito Tanzi, one of the world's foremost fiscal experts, argued that Argentina needed a structural reduction in spending of at least 10% of GDP (2007, p.47). Most of the increase in spending was in social programs and subsidies to utility companies forced to keep prices below operating costs. The classic Peronist recipe of redistributive fiscal profligacy and monetary expansion lasted until mid 2012, when commodity prices started to decline. Overburdened by a high level of public expenditures and growing deficits, the Argentine economy veered rapidly towards a new crisis that was staved off by the widespread expectation of an imminent regime change.

In 2016, Mauricio Macri, a former businessman, won the presidency with the promise of change. Optimism was high in Argentina and abroad that he would be able to steer the country in a different direction. However, his "gradualist" economic policy not only avoided structural reforms but also led to additional spending financed with foreign debt. As a result, during the first two years of Macri's presidency the primary deficit increased while the Central Bank attempted to impose an "inflation targeting" regime. The inconsistency between monetary and fiscal policy came to the fore at the end of 2017 and effectively resulted in the end of whatever independence the monetary authority still had (if any). A severe drought significantly reduced agricultural exports and fueled uncertainty about the government's ability to continue to finance its deficits with foreign borrowings. A "sudden stop" in April 2018 put an end to Macri's gradualist experiments. A few months later the IMF came to Argentina's rescue with the largest financing in its history. The drastic fiscal adjustment that it imposed on the country worsened economic conditions. The crisis that followed was compounded by the results of the 2019 election, which brought Peronism back to power with Cristina Kirchner as Vice President (and the decision maker on key policy issues).

The fourth Peronist revolution started on December 10, 2019, and it is unclear how it will fulfill its promises given that the Argentine economy is literally on its knees. As usual, the likely candidates for confiscation are farmers and local and foreign savers. In early 2020, for the third time in three decades, the new government defaulted on its external debt and started negotiations with bondholders. It also imposed higher taxes on agricultural exports and publicly criticized farmers for not being “good patriots”. The Covid-19 crisis compounded the severity of the crisis. A strict lockdown led to the biggest quarterly drop in GDP in Argentine history. The Central Bank doubled down with a massive monetary expansion.

Populism, Anomie, Culture and Institutions

Rules or institutions are ink on paper. As Simons (1948) explained, to the extent they limit the action of government and prevent special interests groups from imposing policies that benefit them at the expense of the majority, they help preserve individual freedoms. Institutions that preserve freedom are critical to sustained economic growth. The critical question is why certain societies adopt institutions that are inimical to growth? The history of Argentina raises another important question that is even more difficult to answer: why does a society that experienced extraordinary economic growth thanks to the adoption of certain institutions at some point willingly chooses to abandon them? Theories that claim institutions are all that matters cannot explain the secular economic decadence of one of the most institutionally advanced countries in the world in the early 20th century. Theories that claim that education precedes institutional development, cannot explain the institutional degradation of one the most educationally advanced countries in Latin America. Theories that assert that culture is the determinant factor cannot explained what changed in Argentina’s culture after WWII that pushed the country into a secular decline.

The literature on the causes of Argentina’s decline is vast and a summary is beyond the scope of this paper. However, understanding why its experience is relevant requires at least an outline of an explanation. The compliance and effectiveness of institutions requires not only enforcement but also supportive cultural values and beliefs. One of the main conclusions Alexis De Tocqueville (1838) drew from his study of the United States, was that customs were more important than written laws. John Stuart Mill also stressed that, “a philosophy of laws and institutions not founded on a philosophy of national character is an absurdity” (p.104).[11] More recently, Hayek (1973) argued that the institutions a society chooses to govern itself are the result of a long evolutionary cultural process. Because culture is, in Hayek's description, the product of spontaneous evolution, the rules that restrict power are shaped by a “spontaneous order.” If a society’s cultural norms do not require limited government, constitutional restrictions on the executive branch will prove useless (Boykin, 2010). Douglass North has argued that “culture that provides the key to path dependence”

[11] Argentina copied the US constitution in 1853 but its author, Juan B. Alberdi, who had read De Tocqueville, warned that one hundred years would be necessary to eradicate customs shaped by centuries of Spanish colonial rule. It only lasted seventy-seven years. In 1949 Peron replaced it with a constitution inspired in Mussolini’s corporatist state.

(1994, p. 364). In his view, culture provides a cognitive model that allows society to evaluate the costs and benefits of different forms of social organization over time (North, 1996). There is a close relationship between a society's predominant ideology and its institutions. In certain cases, to the extent it is predominant, the former can condition, or even hinder, a society's learning process and institutional development.

Even if we accept that culture and institutions mutually reinforce each other, the key question is how and when Argentina went from being an institutionally developed and prosperous society to a decadent one. To the extent Peronism reflects an imperfection (or failure) of the collective "cultural" learning process, explaining its origin requires understanding: a) how certain values and beliefs that hamper that process became predominant in the electorate, and, b) in which way they filter the impact of social, demographic and/or economic the exogenous shocks that eventually generate a frustration gap. Ocampo (2018) identified four deeply rooted cultural traits and beliefs significantly contributed to the rise of Peronism: *caudillismo* (fealty and attachment to strong leaders), anomie (non-compliance with formal and informal rules of social interaction) and entitled indolence (a belief that having a high standard of living without having to work for it is a unalienable right) and malignant collective narcissism (an unwarranted feeling of national superiority coupled with xenophobia). The first two traits are common to Latin America. The third is also widespread but without the entitlement dimension. The last is unique to Argentina. It was not only the consequence of particular historical circumstances but also the indoctrinating efforts of successive governments in the earlier part of the 20th century. These four cultural traits/beliefs mutually reinforced each other, in particular, *caudillismo* and anomie: the authority of a strongman always prevailed over the rule of law.[12]

Peron was a narcissistic strongman who embodied cultural traits and beliefs that were predominant in Argentina in the 1930s and 1940s. His policies and rhetoric appealed to national pride and the system of social and economic organization he imposed promoted anomie (by requiring absolute obedience to his authority) and entitled indolence (social justice ensured that a good standard of living would be guaranteed by the state, i.e. Perón). The special economic interests engendered by Perón's economic policies also fostered, and benefited from, these cultural traits. By a establishing a web of mutually reinforcing interests and beliefs, Peronism became path dependent. The status quo became tyrannical.

[12] There is a subtle difference between anomie and anarchy. The former denotes non-compliance with existing rules and norms whereas the latter describes the absence of such rules.

There was another important mechanism at work that led to path dependence. Peronism's dismal economic results did not lead to its electoral defeat but the opposite result. In the worldview proposed by Peronism, Argentina's failure can only be explained by a foreign conspiracy led by the US. From this notion derives another equally pernicious belief: only another strong leader can save the country from this foreign conspiracy. Populist politicians have a strong interest in promoting the "wrong" ideology. This is one of the reasons why once in power they give so much importance to propaganda and control of the media.

4. Argentina, Chile and Uruguay in Comparative Perspective

Argentina shares with Chile and Uruguay a similar colonial, religious, ethnic and cultural background. Between 1960 and 1990 all three countries exhibited the same symptoms: political instability, high inflation and low growth. However, the situation changed after 1990, when they all had a well-functioning electoral democracy. Chile and Uruguay recovered from their past populist spells and in the last three decades were able to develop institutionally and economically. At the end of 2019 both countries had the highest GDP per capita, HDI and institutional quality indices in Latin America as well as lowest poverty rates (although Chile exhibited higher levels of inequality). This divergence can be visualized with an index scaled from 0 to 100 that measures how each country diverged from a benchmark along three dimensions: institutional quality, inflation and economic growth (see Appendix B for details).[13]

Symptoms of the Populist Disease in the Southern Cone since 1990

Period	Argentina	Brazil	Chile	Uruguay
1990-95	56	108	27	99
1996-99	4	20	11	33
2000-01	2	10	2	17
2002	50	13	1	34
2003-07	30	6	3	6
2008-11	57	6	3	9
2012-15	67	15	4	9

Source: V-Dem Institute, Reinhart and Rogoff (2010), The Maddison Project (2018) and IMF WEO October 2019.

As the table below shows, during the last decade, the divergence between Argentina and its neighbors deepened as Chile and Uruguay reinforced their commitment to fiscal and monetary discipline:

[13] Brazil is added to the analysis even though it is very different both culturally and economically.

Growth, Inflation and Volatility in Argentina, Chile and Uruguay (2010-2019)

Country	Average Monthly Inflation Rate	Monthly Inflation Volatility	Average GDP growth rate	GDP growth Volatility	% of Years in Recession
Argentina	2.0%	1.2%	0.2%	340%	50.0%
Chile	0.3%	0.3%	2.1%	52%	0.0%
Uruguay	0.6%	0.6%	1.6%	74%	0.0%

Source: INDEC (Argentina), Banco Central de Chile and Instituto Nacional de Estadisticas (Uruguay). Note: Inflation volatility is measured as the standard deviation. GDP growth volatility is measured as the coefficient of variation.

The most obvious explanation for this divergence is Argentina's lack of fiscal sustainability. Ironically, although the country was one of the pioneers in Latin America in establishing fiscal rules, its government was never able to consistently comply with them. Whereas the IMF (2017) recommends that developing countries that are exporters of commodities should design fiscal rules that reduce and/or eliminate the pro-cyclicality of the fiscal stance "by delinking expenditure from volatile revenue sources", Argentina has done exactly the opposite. Among developed and emerging economies, between 1980 and 2016 it had the highest correlation between output and both total primary and discretionary expenditures (Izquierdo, Pessino and Vuletin, 2019, pp. 23, 27).

Argentina's problem is not only fiscal unsustainability but also economic unsustainability, given the distortive effects of a large, expensive and inefficient public sector. In the last decade, it not only had significantly larger deficits than Chile and Uruguay but also significantly higher public revenues and expenditures. A recent IADB study of Latin America and the Caribbean revealed that Argentina had the highest levels of government spending, both at the national and subnational level (Izquierdo, Pessino and Vuletin, 2019, pp.49, 91).

Fiscal Discipline in the Argentina, Chile and Uruguay (2010-2019)

Country	Total Revenues	Primary Expenditures	Primary Fiscal Balance	Net Fiscal Balance	Gross Public Debt
Argentina	33.9%	36.8%	-2.8%	-4.4%	51.1%
Chile	23.1%	23.9%	-0.8%	-1.0%	16.3%
Uruguay	29.3%	28.8%	0.4%	-2.0%	55.7%

Source: IMF WEO October 2019.

The cost of the Argentine welfare state is comparable to that of OECD countries with much higher GDP per capita. Public sector employees represent 20% of the labor force and their remuneration, at 14% of GDP, is the highest in Latin America (*Ibid*., pp. 56-57). The IADB study also estimated that losses due to waste and inefficiencies in government spending amounted to 7.2% of GDP in Argentina (the highest in the region), compared to a 4.4% average for Latin America, 3.7% for Uruguay and 1.8% for Chile (*Ibid*., pp. 63-64).

In contrast, since the beginning of the 21st century, Chile has been a "poster child" for fiscal and monetary rules. Central bank autonomy is enshrined in the Constitution and has been strictly respected. Under a floating exchange rate system, monetary policy has loosely followed an adapted Taylor rule (Claro y Opazo, 2014). As to fiscal policy, since the early 2000s it has also been guided by a rules-based framework with the objective of achieving a structural surplus for the Central Government equal to 1% of GDP (García, García and Piedrabuena, 2005). This rule has achieved high credibility and has reduced pro-cyclicality. It has also contributed to a reduction in public debt, easier access to international capital markets at favorable conditions, greater macroeconomic stability, and a more effective countercyclical use of both fiscal and monetary policy (Larrain, Ricci and Schmidt-Hebbel, 2019). Chile has had for several years the highest credit rating in Latin America (A+ by Standard & Poor's), which has lowered the cost of capital for the private sector. Over the last decade, this rules-based fiscal and monetary policy framework served Chile well even in the face of seriously negative external shocks. Unfortunately, there is a not insignificant risk that the political crisis that started in October 2019 may end up undermining it, particularly if an upcoming referendum favors a constitutional reform.

In the case of Uruguay, although successive governments have eschewed a rules-based framework, they have consistently maintained a primary surplus (even those of a leftist persuasion). The deterioration of the country's fiscal position in recent years is explained by a growing deficit of the public pension fund system. Uruguay's Central Bank has also remained autonomous from the Executive branch with the sole statutory mandate of price stability. Thanks to fiscal and monetary discipline, Uruguay enjoys an investment grade rating and has been able to tap international bond markets in favorable terms.

The different level of fiscal and monetary discipline of the three countries is partly explained by differences in the quality of their respective institutions. Argentina significantly lags behind Chile and Uruguay in several indicators of institutional development.

Comparative Indicators of Institutional Quality

	Average value 2006-2018			As % of Argentina	
Indicator	Argentina	Chile	Uruguay	Chile	Uruguay
1) Economic Freedom	49.7	77.8	68.9	156%	139%
2) Liberal Democracy	61.8	82.6	82.7	134%	134%
3) High Court Independence	68.3	79.2	82.0	116%	120%
4) Legislative Constraints on the Executive	76.1	94.6	89.4	124%	118%
5) Rule of Law	38.3	75.6	62.8	197%	164%
6) Control of Corruption	42.5	77.3	75.7	182%	178%
7) Voice and Accountability	57.9	71.0	72.2	123%	125%
8) Political Stability	50.7	59.3	68.2	117%	135%

Source: Heritage Foundation (1), V-Dem Institute (2-4), and World Bank (5-8).

Not surprisingly, these institutional differences seem to be positively correlated with certain beliefs regarding the advantages and disadvantages of a liberal democracy. Argentina and Chile exhibit significantly lower levels of support for this system than Uruguay. In the case of Chile, these results may help explain its recent political crisis and are grounds for some pessimism about its future (see Newland and Ocampo, 2020, and Newland, 2019). However, Argentina exhibits the highest level of skepticism about the aims of government policies: a majority of respondents believes that they are designed to benefit powerful interest groups.

Percentage of Respondents that hold Beliefs supportive of Democratic Institutions

Belief	Argentina	Chile	Uruguay
Democracy is preferable than any other system	66.7%	57.3%	73.4%
Agree that democracy has problems but is the best system	81.9%	76.4%	87.4%
Fully or somewhat satisfied with democracy	44.3%	40.5%	67.2%
There is full democracy in my country	4.5%	4.5%	15.5%
Government policies take into account everybody's wellbeing	19.4%	22.4%	45.6%
Completely trusts judicial system	4.0%	3.0%	12.0%
No Judges are corrupt	28.0%	26.0%	49.4%

Source: Latinobarómetro (2006-2018).

There is also a positive correlation –strongest in the case of Uruguay– between these beliefs and the predominant economic ideology. The following table shows the results of two surveys –*Latinobarómetro* and *WVS*– that assess the level of support for a free enterprise system. Interestingly, although relatively fewer Argentines identify themselves as having a leftwing ideology than Chileans and/or Uruguayans, they exhibit a stronger anti-capitalist and anti-free trade mentality.

Percentage of Respondents that have beliefs inimical to a free markets

Country	Don't believe a market economy is good for the country (1)	Don't believe free trade is good for the economy (2)	Believe one can only get rich at the expense of others (3)	Average
Argentina	29.6% (100%)	9.1% (100%)	42.2% (100%)	27.0% (100%)
Chile	26.1% (88%)	3.8% (42%)	39.2% (93%)	23.0% (74%)
Uruguay	21.5% (73%)	2.2% (24%)	31.1% (74%)	18.3% (57%)

Source: Latinobarometro (2000-2018) and World Values Survey (2010-2014).

This bias against capitalism in Argentina, and particularly foreign capitalists, is not new. In fact, it preceded Peron, as confirmed by the observations made in 1942 by Francis Herron, an American journalist who spent a year visiting the country (Herron, 1944). Herron also noted two other cultural traits that distinguish Argentina from Chile and Uruguay: first, an extreme national pride based on a strong belief of superiority, and, second, and a profound dislike of the United States. Both subsist today. In the annual *Latinobarometro* surveys since 2000, on average, Argentina exhibits the strongest negative view of the United States among eighteen Latin American countries.[14] National pride and anti-Americanism figured prominently in Peron's rhetoric and dictated his economic and foreign policies from 1943 until 1953. Argentina's continued decadence during the Kirchner administration intensified xenophobic feelings, which were also fueled by government propaganda.

5. Conclusion

Argentina's history offers perhaps the most extreme empirical confirmation of three important propositions: a) monetary discipline is key to long-run price stability, b) price stability is the key to sustained economic growth, and b) monetary discipline is not sustainable without fiscal discipline. It also provides empirical support for another hypothesis: monetary and fiscal anomie results from a vicious feedback loop involving certain predominant cultural beliefs, an institutionally weak political system and recurrent crises.

Although fiscal and monetary discipline delivered good macroeconomic results in certain periods, it was almost impossible to maintain, particularly after the 1930s. Anomie cannot be solely explained by political economy considerations. In this and other dimensions, it seems to be related to culture, which, in turn, explains path dependence. No matter how well designed, monetary and fiscal rules will not be complied with under a dysfunctional political system beholden to special interest groups and supported by certain predominant cultural traits and beliefs. Macroeconomic instability has also contributed to its fiscal and monetary anomie. It is unclear whether Argentina will be able to escape this negative feedback loop. If history offers any guidance, there is not much room for optimism.

The GFC and the Covid-19 pandemic have tested the fiscal and monetary discipline of most nations. Like individuals, societies rarely learn from the experience of others. Otherwise, Argentina could serve as the most powerful antidote against fiscal and monetary anomie.

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Appendix A: Summary of Legislation involving fiscal and monetary matters since 1989

Date	Law Number and Title		Brief Description	First Amended by Law		Total number of Amendments
Sep-1989	23697	Economic Emergency	Gave the Executive branch flexibility and power to deal with the crisis: reformed Central Bank, suspended subsidies and Industrial and Mining Promotion schemes, facilitated foreign investment, consolidated public debt, established emergency budgetary provisions, limits growth in expenditures of state owned companies, froze public hiring, etc.	M	Oct-1990	106
Sep-1990	23967	Economic Emergency	Repealed article 34 of Law 23697			0
Mar-1991	23928	Convertibility	Established a new peso convertible to the US$ at 1 to 1 exchange rate. Legalized transactions in US$. Central Bank reserves must be equal to 100% of the Monetary Base. Eliminated indexation.	R	Jan-2002	67
Sep-1992	24144	Independence of the Central Bank	Established the Central Bank as an independent entity. President and Board members nominated by the Executive with a term of six years with the consent of the Senate	M	Mar-2012	93
Sep-1992	24156	Financial management of Public Sector	Established criteria for financial management of public sector including budgeting, accounting and treasury.	M	Nov-2003	1054
Feb-1996	24629	Rules for national government's budget	Added the obligation to produce data on expenditures by geographic distribution, In-Year Reports on budget execution, and the Pre-	M	Aug-1999	36

			Budget Statement. The law mentions Congress as the direct recipient for these documents.			
Aug-1999	25152	Fiscal Convertibility	Established that a) the primary fiscal deficit could not exceed 1.9% of GDP, b) primary expenditures could not grow faster than real GDP, c) 3-year budgeting process and 4) set limits to the growth in public debt.	M	Mar-2002	168
Oct-2000	25344	Economic-Financial Emergency	Allowed the Executive to take extraordinary measures to deal with crisis such as unilateral termination of supply contracts and renegotiation of public debt. Allowed a one-year with a possible extension of another year.	M	Dec-2001	54
Dec-2001	1602	Economic-Financial Emergency	Extended Law 23544 for another year.			0
Jan-2002	25561	Emergency	Repealed the Convertibility Law. Gave the Executive flexibility to adopt any economic and financial measures to minimize the impact of the crisis.	M	Dec-2003	279
Dec-2003	25820	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 25561 and extended it for another year.	M	Nov-2004	10
Nov-2003	25827	Budget approval and modification	Approved 2004 budget and modified Law 24156 giving significant leeway to the Executive to reallocate expenses at its discretion and raise debt.			168
Aug-2004	25917	Federal Fiscal Responsibility	Imposed transparency and reporting criteria for budgets at all levels of government. Delegates powers on the Executive to restructure budget credits.	M	Dec-2004	49

Nov-2004	25972	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 25820 and extended at the request of the Executive for another year. Prohibited private sector companies from firing employees	M	Dec-2005	6
Dec-2005	26077	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 25561 and extended at the request of the Executive for another year.	M	Dec-2006	4
Aug-2006	26124	Financial management and control systems for National Public Sector	Allowed Executive branch to make any reallocations in the budget as long as total budget did not change Congress to approve total level of revenues, expenditure and debt.			1
Dec-2006	26204	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 25561 and extended at the request of the Executive for another year.	M	Dec-2007	8
Dec-2007	26339	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26204 and extended at the request of the Executive for another year.	M	Dec-2008	4
Dec-2008	26456	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26339 and extended at the request of the Executive for another year.	M	Dec-2009	7
Oct-2009	26530	Fiscal Responsibility for Provincial Governments			Nov-2011	7
Dec-2009	26563	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26456 and extended at the request of the Executive for two years	M	Dec-2011	3
Dec-2011	26728	National Budget for 2012	Approved 2012 national budget. Modified Law 26530 and 26456.	M	Nov-2012	67
Dec-2011	26729	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26443 and extended at the request of the Executive for two years	M	Oct-2013	4

Mar-2012	26739	Reform of the Central Bank	Modified Law 24144. Nominally preserved independent status but established that monetary policies have to "conform" the policies set by the Executive. Allowed the National Government to finance itself with the reserves of the Central Bank.	M		3
Oct-2013	26896	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26739 and extended at the request of the Executive for two years	M	Nov-2015	3
Nov-2015	27200	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26204 and extended at the request of the Executive for two years	M	Dec-2016	5
Sep-2016	27275	Right to access to public information	Guaranteed public access to any information produced or held by the government, including specific details about the allocation of public expenditure.			46
Dec-2016	27342	Financial management and control systems for National Public Sector	Modified Law article 37 of Law 24156 granting the Executive Allowed the Executive to rearrange budgetary allocations within the total amount approved up to certain limits that decreased after 2017.	M	Dec-2019	2
Dec-2016	27345	Public Emergency and Reform of Foreign Exchange Regime	Extended Law 27200 until 31 December 2019, created "National Council for the Popular Economy and Complementary Social Wages" and allowed the Executive to fund the expenditures required to implement the law			6
Dec-2017	27428	Fiscal Responsibility Law	Established financial agreement between National and provincial governments to limit growth in expenditures.	M	Jan-2018	2

			Established rewards to provinces with fiscal balance or surplus. Required transparency and performance reports.			
Jan-2018	27429	Fiscal Consensus	Approval			
Dec-2019	27541	Economic Emergency	Declared the country in a state of economic, financial and social emergency. Gave "super-powers" to the Executive branch.			26
Jan-2020	27544	Restoration of Public Debt Sustainability	Allowed the Executive to restructure the public debt to achieve sustainability.			2

Appendix B: Political and Economic Divergence Index

The PED Index measures how much each country's Index of Liberal Democracy (V-Dem Institute), the average annual inflation rate (IMF World Economic Outlook) and the annual rate of real growth of GDP per capita measured by PPP 2011 (IMF World Economic Outlook) diverged from a benchmark: in first variable an average for South America and Southern Europe, in second variable an average of Australia, Canada, UK and US and in the third variable the average of the Western Offshoots and Western Europe. In the case of inflation, the difference was capped at 50% per annum to avoid the distortion created by extreme inflation and hyperinflation, particularly in Argentina and Brazil. The data used for the calculations is shown below.

	Index of Liberal Democracy (IDL)				**Annual inflation rate (average)**				**GDP per capita growth**			
Year	Arg	Bra	Chi	Uru	Arg	Bra	Chi	Uru	Arg	Bra	Chi	Uru
1990	60.9%	71.7%	58.2%	81.2%	2314.0%	2947.7%	26.0%	112.5%	-0.1%	-7.0%	2.0%	0.0%
1991	60.8%	71.2%	73.7%	81.8%	171.7%	477.4%	21.8%	102.0%	-2.5%	-0.7%	6.0%	2.8%
1992	59.9%	70.5%	73.7%	81.8%	24.9%	1022.5%	15.4%	68.5%	2.0%	-2.2%	10.3%	7.3%
1993	60.4%	71.3%	74.4%	81.8%	18.5%	1927.4%	12.7%	54.1%	3.2%	3.2%	5.1%	2.1%
1994	59.8%	71.5%	78.7%	81.4%	4.2%	2075.8%	11.4%	44.7%	3.6%	4.2%	3.9%	6.7%
1995	62.2%	69.6%	78.7%	83.3%	3.4%	66.0%	8.2%	42.2%	2.2%	2.6%	8.8%	-2.0%
1996	62.3%	71.5%	79.2%	83.5%	0.2%	15.8%	7.4%	28.3%	2.8%	-2.7%	5.9%	4.8%
1997	62.5%	71.5%	79.2%	83.0%	0.5%	6.9%	6.1%	19.8%	2.9%	1.8%	5.2%	4.6%
1998	64.3%	72.4%	78.9%	83.2%	0.9%	3.2%	5.1%	10.8%	3.9%	-1.2%	1.8%	4.0%
1999	60.5%	74.9%	77.1%	81.2%	-1.2%	4.9%	3.3%	5.7%	2.9%	-1.0%	-2.1%	-2.8%
2000	64.5%	73.4%	81.2%	84.9%	-0.2%	7.0%	3.8%	5.4%	2.3%	2.9%	3.1%	-2.2%
2001	64.4%	71.1%	81.1%	85.5%	-1.1%	6.8%	3.6%	5.6%	1.2%	0.0%	2.2%	-4.4%
2002	67.6%	72.2%	80.0%	85.5%	25.9%	8.5%	2.5%	9.1%	2.8%	1.7%	1.1%	-8.5%
2003	66.4%	72.8%	80.0%	83.9%	13.4%	14.7%	2.8%	5.9%	1.8%	-0.1%	2.6%	0.4%
2004	63.1%	72.8%	80.1%	85.5%	4.4%	6.6%	1.1%	1.4%	2.8%	4.5%	4.9%	4.6%
2005	62.8%	76.5%	81.1%	83.9%	9.6%	6.9%	3.1%	3.4%	1.8%	2.0%	4.7%	6.8%
2006	66.2%	76.6%	84.6%	83.9%	10.9%	4.2%	3.4%	4.6%	1.1%	2.8%	5.3%	3.7%
2007	61.8%	77.4%	83.9%	83.9%	16.4%	3.6%	4.4%	7.2%	2.6%	5.0%	3.8%	5.8%
2008	57.7%	77.9%	83.5%	84.1%	23.6%	5.7%	8.7%	11.0%	0.3%	4.0%	2.4%	6.5%
2009	57.6%	77.9%	83.6%	84.8%	16.2%	4.9%	1.5%	7.1%	0.0%	-1.1%	-2.7%	1.9%
2010	59.7%	78.2%	82.2%	87.4%	24.7%	5.0%	1.4%	4.3%	1.0%	6.5%	4.7%	8.5%
2011	61.1%	78.3%	83.7%	87.4%	25.3%	6.6%	3.3%	5.0%	1.0%	3.1%	4.9%	4.9%
2012	62.4%	77.0%	84.3%	87.4%	24.9%	5.4%	3.0%	5.6%	1.9%	1.0%	4.2%	3.9%
2013	58.4%	79.9%	84.2%	83.2%	24.5%	6.2%	1.8%	5.8%	0.5%	2.1%	2.9%	4.0%
2014	58.6%	79.3%	84.4%	82.7%	38.6%	6.3%	4.7%	6.1%	1.3%	-0.3%	0.9%	3.1%
2015	60.2%	76.9%	80.7%	77.0%	27.1%	9.0%	4.3%	4.6%	1.0%	-4.4%	1.2%	0.4%
2016	67.0%	71.4%	80.7%	78.6%	37.2%	8.7%	3.8%	6.3%	1.0%	-4.1%	0.5%	1.2%
2017	64.5%	57.7%	81.2%	76.5%	24.8%	3.4%	2.2%	5.3%	1.5%	0.3%	-0.1%	2.2%
2018	67.6%	56.3%	77.1%	78.3%	47.6%	3.7%	2.3%	4.6%	-3.5%	0.3%	1.1%	1.2%

Benchmarks

Year	IDL	Inflation	Growth
1990	62.2%	6.1%	0.5%
1991	63.8%	5.1%	-0.1%
1992	64.0%	2.4%	1.4%
1993	63.6%	2.3%	0.4%
1994	63.6%	1.7%	2.6%
1995	63.8%	3.1%	1.9%
1996	64.2%	2.4%	2.0%
1997	65.0%	1.5%	2.9%
1998	64.7%	1.2%	3.0%
1999	63.6%	1.7%	3.1%
2000	64.3%	2.8%	3.3%
2001	65.1%	2.7%	0.9%
2002	66.2%	2.0%	0.9%
2003	66.1%	2.3%	1.2%
2004	67.0%	2.0%	2.3%
2005	66.6%	2.6%	1.8%
2006	66.9%	2.8%	2.1%
2007	66.1%	2.4%	1.6%
2008	65.5%	3.5%	-0.7%
2009	65.5%	1.0%	-4.1%
2010	66.5%	2.4%	1.7%
2011	67.1%	3.5%	1.0%
2012	66.3%	2.0%	0.3%
2013	64.3%	1.9%	0.3%
2014	64.3%	1.9%	1.3%
2015	63.5%	0.7%	1.4%
2016	63.7%	1.2%	0.6%
2017	62.3%	2.1%	1.9%
2018	62.7%	2.3%	1.7%

Source: V-Dem Institute, IMF World Economic Outlook.

Appendix C: Extreme Inflation and Hyperinflation in Argentina

According to the traditional definition proposed by Cagan (1956), an hyperinflationary episode starts in the month in which the monthly inflation rate exceeds 50% and ends in the month when it drops below 50% and stays below that threshold for at least a year. As shown by Hanke and Krus (2013), based on this definition Argentina experienced only one hyperinflationary episode that lasted from January 1989 until March 1990.

However, Cagan admitted that this definition was arbitrary but that "it served the purposes of this study satisfactorily" (Cagan, 1956, p. 25). Adhering strictly to it can lead to conclusions of limited value from the perspective of economic history. In a later work Cagan clarified that hyperinflation "is an extremely rapid rise in the general level of prices of goods and services" for which "there is no well-defined threshold. It is best described by a listing of cases, which vary enormously" (Cagan, 1987, p.179). In a study of the monetary and fiscal dynamics of hyperinflation, Kiguel (1989) defined it as "an inherently unstable process which countries could experience even if inflation remains below the 50 percent level arbitrarily set by Cagan" (p.148). Dornbusch, Wolf and Sturzenegger (1990) instead used the term "extreme inflation" to analyze the experience of countries with chronically high inflation rates that were "lower than the extravagant levels studied by Cagan." According to their definition, the threshold for "extreme inflation" was a more modest 1,000% per year or rates above 15-20% per month, sustained for several months (ibid., p.2). Under any realistic and useful definition of the term, Argentina suffered three hyperinflationary bouts in its history.

In March 1976, the monthly inflation rate measured by the consumer price index increased 38%. It would be useless to debate whether this qualifies as a hyperinflationary episode. The difference between an increase in the CPI of 37.6% or 50.01% is undistinguishable to economic agents. Also, the CPI would not be the best measure of inflation given that the government had imposed price controls (Sturzenegger, 1991, p.113).[15] In fact, Cagan's original definition referred to "prices" and did not distinguish between consumer and wholesale. In early 1976, the evolution of the wholesale price index and the exchange rate a more realistic picture of the inflationary situation. During March 1976 the former increased 54.1% while the price of imported goods increased on average 88%, in line with the devaluation of the latter.[16]

[15] Price controls rarely eliminate price increases in the face of massive monetary and fiscal imbalances but can slow their growth.

[16] During the period June 1975-March 1976 the peso lost 97% of its value against the US dollar, as measured by the black market exchange rate.

Therefore, even under Cagan's original definition, there is no question that during March 1976 Argentina suffered a hyperinflationary bout. Inflation was brought abruptly under control by a military coup on the 24th of March. A radical and abrupt change in the political situation and the economic policy led to different expectations about the future trajectory of the money supply and the primary fiscal balance.

Regarding the January-March 1990 and the May-July 1989 hyperinflationary episodes according to Cagan's original definition they would constitute only one. However, from the perspective of economic history it makes more sense to treat them as separate. First, in June 1989 there was a change of government and economic policies that also led to a change in expectations regarding future fiscal consolidation (which were not fulfilled). Second, as a result of this regime change between August and December 1989 the monthly inflation rate dropped significantly below 50%.