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An Essay on the Comparative Economic History of Argentina and Australia

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Introduction

In this essay we will discuss why Argentina did not match Australia's economic performance when at least until 1930 it promised to do so, and whether now that it does not promise anything, it can surprisingly accomplish it. This implies an always complex comparison which seems to be necessary to justify. The authors of this essay have discussed its pertinence. During the first conversations, the younger author quickly cornered the older one: what could possibly be the basis of comparison if we observe current pictures, the abyss of hard economic data, of social indicators, the deep social differences? Australia occupies the tenth position in the ranking of income per capita (first in the Southern hemisphere) and Argentina is below the fortieth; Australia is second in the world list of human development prepared by the United Nations and Argentina is 34th; in Australia the wealthiest 20% of the population earns seven times more than the poorest 20%, nobody lives with less than two US dollars per day and unemployment is 5%; in Argentina the wealthiest 20% multiplies eighteen-fold the poorest 20%, over 14% of the population lives with less than two dollars per day and unemployment is over 12%. The older author would reverse the situation with difficulty by resorting to the arguments history provides: comparison makes sense today because it did, indisputably, in the past, and if today it seems to be meaningless it would be worthwhile to find out why. For instance, comparison was valid for many politicians from between the end of the 19th century and the Great Depression: during his first presidential period, Argentine president Roca sent a mission to the Australian colonies –which had not formed a federation yet- with the intuition that the detailed reports he received from his friends Llerena and Newton would unravel the mystery of Argentina's future; Godofredo Daireaux examined the impulse of the Argentine ranch in relationship with Australian rural establishments in the pages of the Cattle Census of 1908; Juan B. Justo never got tired of praising –to the very day of his death, in 1928– the structure of land holding of the new country in the antipodes; Rafael Herrera Vegas, the unfortunate first minister of Economy of Argentine President Alvear, decided a young fellow, Raul Prebisch, would travel to Melbourne to learn about the direct tax. Australia was not only a source of economic and social experiences Argentina could imitate: being in between two centuries, both countries also recognized themselves as rivals in the dispute for international markets of primary goods. If the severe title of a booklet published in 1901 by the well-known Australian *grazier* and politician A.W. Pearse (*Our Great Rival: The Argentine Republic*) does not say it all, we must at least give credit to the following statement Pedro Luro made before the House of Representatives in 1899 during a crucial monetary debate:

> Today the Argentine Republic and Australia fight in the arena of ovine production in conditions that have placed them in a leading position. Last year, the amount of export of frozen meat has been over six million head between the Republic of Argentina and Australia. Powerful packing companies have been established in both countries, and today that industrial technology advances have nearly suppressed the distance between the fields where Argentine and Australian cattle graze and the large cities of England and France, the immense future of this industry in both countries can be estimated. If we study the conditions of one and the other, we can assure that we will definitely succeed in this *fight for predominance*.[1]

The fear of Pearse before the advantages of their opponent (mainly in all aspects concerning low labor costs and what he foresaw as the political power of Argentine landholders[2]) is outstandingly complemented by the belligerent optimism expressed by Luro, for whom both countries competed in a zero-sum game Argentina promised to clearly win. However, a century later, the fight for predominance between Argentina and Australia would be limited, with diverse luck, to international tennis courts, for nobody would regard them anymore as economic opponents of the same size.[3] Was the wrong prediction of Luro and many of his contemporary men due to a lack of capacity to

[1] Argentine House of Representatives (1911), pp.28-29.
[2] See Dyster (1979), pp. 92-93.
[3] Between 1851 and 2001, Argentina and Australia shared the headline in 79 New York Times articles. Sixty nine of them are prior to 1950, and most of the articles mention the prices of wheat or meat. Out of the remaining 10 articles, 8 talk about tennis. Search performed at http://proquest.umi.com/pqdweb

appreciate the essential features of each economy which were already evident at the time? Or was it due to events that nobody could have foreseen and which reverted history? Whichever the answer, the fact is that at some point it was clear that, as the young economist objected, the gap in wealth between the two southern nations was becoming abyss-like, discouraging old parallels that excited men of action. It was then that, explicably, academic interest entered the scene: comparing Argentina to Australia was attractive not in spite of the deep and growing contrasts but *because* of them; thus in the mid-sixties numerous works appeared in economic history devoted to this comparison.[4] At least on the Argentine side, the best recalled moment is the seminar carried out at the Instituto Torcuato Di Tella in 1979 with the participation of Argentine and Australian social scientists.[5] In that meeting, nobody sought consensus but a quarter of a century later it is possible to build a coherent narration that link the presentations: the progressive relative deterioration of Argentina was mainly originated by Australia's geoeconomic and geopolitical advantages: its location in the South Pacific and its relationship with Great Britain had benefited it commercially during the war conflicts of the first half of the 20th century, and its plentiful mineral resources had contributed to diversify its industrial base and to reduce its dependency on imported supplies. Only marginally, there would be references to the differential features regarding the cultural and institutional fields which had so much troubled Llerena and Newton and which are the key argument of a great part of the recent literature: the British legacy of Australia as opposed to the Spanish legacy of Argentina; the early establishment of democracy in Australia and the strength of its economic and political institutions *vis a vis* Argentina's delayed economic and political modernization.[6]

The ruling favorable to Australia that emerged from the seminar, more related to fortune than to politics, was never excessively condemning towards Argentine development: after all, it was clear that the Atlantic country had grown more quickly until at least 1930, and even according to some versions until the onset of Peronism. The most skeptical postures regarding Argentine progress were not strong enough, according to Héctor Diéguez, "to backup the point of view of an Argentine failure and an Australian success". Diéguez himself stated that most of the difference in income per capita at the end of the 1970s was due to and explained by the initial levels of wealth. Could these convictions be backed up today– with current information? The answer is a palpable no. Something different happened since then, and what took place must not only be understood *per se* but the very process of understanding it might cast a new light on prior history. Marc Bloch has taught that studying the distribution of land in France in the 20th century was essential to understand the pattern of the medieval holding of the land. In our case, the brutal relative fall of Argentina during the last thirty years will also force us to rewrite the past.

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[4] Among the works of historians and economists who approached the comparison, the following must be mentioned: Smithies (1965), Diéguez (1969), Moran (1970), Dyster (1979), Gallo, E. (1979), Fogarty (1979), Fogarty (1985), DiTella (1985), Armstrong (1985), Díaz Alejandro (1985), Jones (1985), Alhadeff (1985), Twomey (1985), Duncan & Fogarty (1986), Schwartz (1989), Schedvin (1990), Asensio (1995), McLean (1996), Bértola & Porcile (2002), Sanz Villarroya (2003), Baldinelli (2004), Prados de la Escosura & Sanz Villaroya (2004), Mitchell (2005) and Gallo, A. (2005). To go over part of this literature see Korol (1992).

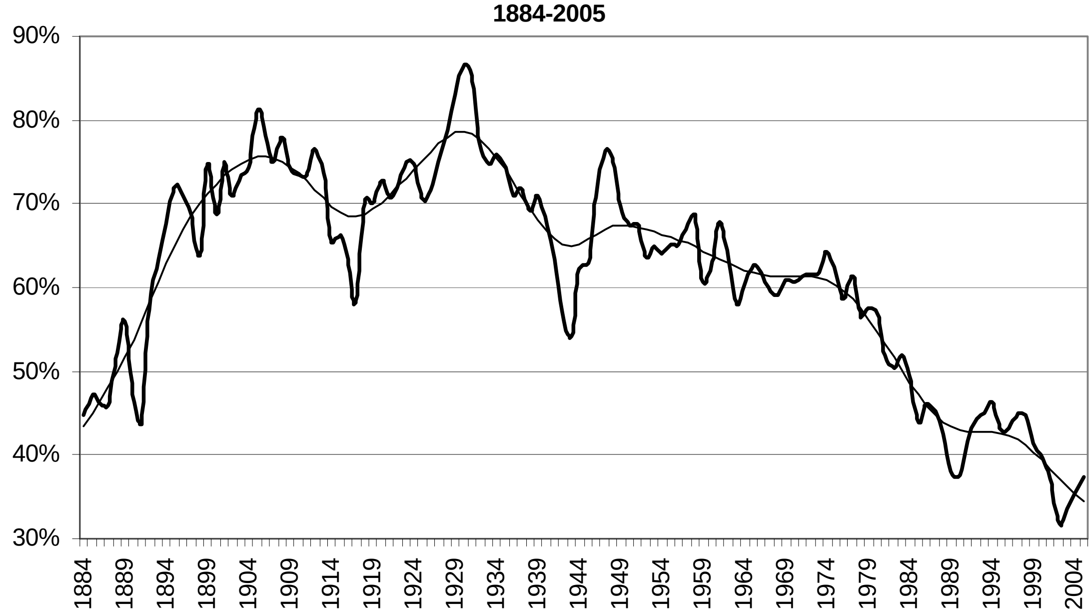
[5] Fogarty, Gallo & Diéguez (1979).

[6] After their trip to Australia and the United States in 1882 (they wrote five volumes on each country) Llerena and Newton wrote down, not without certain skepticism, that "Is the difference only... in the race or in the institutions? (...) Isn't the progressive power of the Anglo-Saxon race amazing? The thing is that their religion does not doom them to laziness and ignorance, that is to impotence and barbarism. (...) In all aspects, we are centuries behind North America and the Australian colonies. And this delay is our ruin. (...) Tomorrow a further developed race will expel us from our territory because today the illustrated and active races rule over the ignorant and inept ones." Newton and Llerena (1882).

Phases of the Comparison

If the comparison is justified, let us concentrate in its summary measure: Argentina's GDP per inhabitant compared to Australia's, that is to say, the ratio of the per capita GDPs. Graphic 1 shows the evolution of this variable over 120 years, accompanied by its trend. The immediate impression this graphic suggests is that of an stylized inverted U: at the beginning, Argentina's GDP per inhabitant grows faster than Australia's and it seems unavoidable that it would reach the same level (Luro's optimism). But Argentine hope will never be realized and after a certain time, the gap deepens until falling below the starting values. We will say that the left arm of the inverted U is *Argentine convergence,* that half century of drive that at some point induced the Times to talk about the "yankees of the south"; the right arm belongs to the discouraging *divergence* of seven decades. Where is the point of rupture between the two times located? Visual inspection provides two options: 1929 and 1947, the Great Depression and Peronism. There are two different histories behind each one of these dates. And there is also a dispute among econometricians.[7] In any case, it is not a banal argument. An analysis of the trend ends up placing us in a historiographic position. We will regard 1929 –the crisis of the 1930s- as the turning point.

Graphic 1: Argentina/Australia relative per capita GDP, 1884-2005



Until 2001: Elaborated based on Maddison (2003). 2002-2005: Product: ABS and INDEC growth rates. Population: Argentina: INDEC. Australia: the 2003 growth rate was used. Trend with Hodrick-Prescott filter.

Two long phases, two thick lines. We should better use a thinner pen to highlight the shades. The history of *convergence* is one until the break of the first world war (*initial convergence*) and a different one afterwards (*final convergence*). The year 1914 meant a harder hit for the lively Argentine economy than for the Australian mid-level one, and even though the converging path was resumed with peace, it would have different structural features and economic policies in each country. The history of *divergence* is that long three-stage road traveled until the uneven economic physiognomy of Argentina and Australia turn comparison into something nearly capricious. The first stage goes from the beginning of the Great Depression to the end of WWII (1929-1945) and we will refer to it as *moderate divergence*; the second stage coincides with the *thirty glorious years* of world expansion (1945-

[7] Historical as well as econometric analysis are not conclusive as regards the exact date of the onset of the Argentine divergence as compared to Australia. Gallo, A. (2005) –in agreement with Smithies (1968)- has dated it in 1950, Díaz Alejandro (1985) and Diéguez (1969) in 1930, Taylor (1994) in 1914; and Sanz Villaroya (2003) in 1899.

1975) and we will refer to is as *weak divergence*; the third stage (1975-2002) is the end of the history – the one that Diéguez was unable to see-, where *strong divergence* resides. Table 1 shows these periodization and will serve as a guide to our historic narration.

Table 1: Phases of the Comparison

Period	Phase
1884 -1929	Convergence
1884-1914	Initial Convergence
1914-1929	Final Convergence
1929 -2002	Divergence
1929-1945	Moderate Divergence
1945-1975	Weak Divergence
1975-2002	Strong Divergence

In order to confirm the pertinence of this periodization we will decompose –as we do in table 2- the series of relative GDP per inhabitant into its constituents: product, population and product per inhabitant in each one of the two countries. What does this procedure teach us? During the *initial convergence* Argentina exhibits the biggest population growth rate in its history thanks to the wave of immigration but because it is a young economy in which work still explains an important proportion of income, the increase in the product is even more pronounced. Therefore, increases in productivity and market in expansion go hand in hand, thus generating the high difference between the GDPs per inhabitant of Argentina and Australia. During the *final convergence*, a combination of domestic and international factors determines the deceleration of the product and population growth in both countries. Australia shows an expansion of the GDP per inhabitant near zero and the dynamic of narrowing the gap extends at a pace barely below that of the *initial convergence*.

Table 2: Rates of average annual growth in Argentina and Australia

Calculated on a series of three-month period averages

Period	Product			Population			Per capita GDP		
	Arg	Aus	Dif.	Arg	Aus	Dif.	Arg	Aus	Dif.
1884-1929	4.81%	2.39%	2.37%	3.08%	2.02%	1.04%	1.68%	0.37%	1.31%
1884-1914	5.19%	2.62%	2.51%	3.31%	2.14%	1.15%	1.82%	0.47%	1.34%
1914-1929	4.06%	1.92%	2.09%	2.61%	1.77%	0.83%	1.40%	0.15%	1.25%
1929-1975	3.23%	3.80%	-0.55%	1.78%	1.68%	0.10%	1.42%	2.08%	-0.64%
1929-1945	2.21%	2.84%	-0.61%	1.79%	0.91%	0.87%	0.41%	1.91%	-1.47%
1945-1975	3.78%	4.31%	-0.51%	1.77%	2.09%	-0.31%	1.97%	2.17%	-0.19%
1975-2002	1.22%	3.31%	-2.03%	1.44%	1.31%	0.13%	-0.22%	1.98%	-2.15%

Calculated on Maddison (2003)

As from the crisis of the 30s, the favorable winds blowing for Argentina revert briskly but in order to fully appreciate the extend and features of the change it would be useful to resort to the exercise of decomposing. Focusing only on per capita GDP we conclude that the relative fall of Argentina between 1929 and 1945 (-1.47% per year) is below the corresponding to the final debacle (-2.15% per year). But there is yet another perspective that reinforces the concepts of *moderate divergence* and *strong divergence*: between 1929 and 1945 the greatest growth of Argentine population accounts for over half the fall of the relative product per inhabitant, while between 1975 and 2002 nearly the entire explanation resides in the stagnation of the Argentine product. By *moderate* and *strong* we pretend to refer not only to the figures of relative product per habitant but also to the greater seriousness of the period of productive stagnation compared to that in which the market is expanding. Likewise, it would seem a priori inappropriate to postulate a *weak divergence* between 1945 and 1975 when the relative product per inhabitant had nearly the same value in both years (a little over 60%). In this case, the concept of *divergence* is sustained, once again, by the decomposition proposed: products per inhabitant grow at the same pace in Argentina and in Australia, but in Argentina it happens because the product as well as the population grow at a slower pace.

Time Lag and Argentine Convergence

Let us go into history. Why was there once an Argentine convergence? The explanation is simple, rudimentary and not always satisfactory and has been fathered by more than one author. From a neoclassic perspective, the growth of the product per inhabitant is explained –since the seminal work of Robert Solow (1956)– by the accumulation of resources (physical and human capital) and by technological change; with some assumptions (in a raw version: the free spreading of technology through national borders and decreasing returns to capital) we arrive at the conclusion that, in the long term, income per capita should be equal across all countries. Noteworthy, the argument is supported just as comfortably by Marxist sources: with open acknowledgement, Lenin wrote that "the export of capital greatly influences and accelerates the development of capitalism in those countries to which it is exported. If such export of capital may tend to a certain extent to arrest development in the capital-exporting countries, it can only do so by expanding and deepening the further development of capitalism throughout the world".[8] Regardless the approach, the truth is that Argentina and Australia benefited from this process of expansion of the periphery. But it is important to highlight that they did so with a certain *time lag*. Robert Lucas exploited this notion to formulate a metaphor of economic growth: international disparities regarding wealth can be interpreted as a horse race in which not all competitors receive the go-signal at the same time. In order to know the position of a horse in the race (a given country's relative product) we must know when they start the race as compared to the rest (how recently they started the process of accumulation).[9] Since the assumption of decreasing returns guarantees that countries with lower capital volume grow faster, a time lag at the initial time of development is enough cause to provoke that, during some time, the country which started the race later –in our case, Argentina- can grow at a greater speed. In his model, Lucas simulated the moments of start of each country at random, but does not ignore that in reality those moments are determined by particular historic and economic circumstances and that, in fact, there are countries that never start. Therefore, in order to understand why Australia entered the dynamic of world expansion before Argentina and why they both entered at some point, we will need to place a magnifying glass on those circumstances.

Considering that Argentina as well as Australia were empty spaces of recent colonization, it is tempting to identify "the onset of modern times" with the arrival and domination of conquerors. But that would be incorrect, for during a long period after the settlement of the first colonizers there were institutional and economic obstacles that hindered Argentina as well as Australia from embarking on a true process of wealth accumulation. Australian territory was *discovered* by Spanish navigators (if not by Chinese earlier) in the 16th century, but it officially became property of England after James Cook's arrival in 1770. Promptly regarded as a solution for the overflowing number of inmates in the British Islands, between 1788 and 1821 four settlements were built there using the labor of the same prisoners who would occupy the facilities.[10] [11] The first fleet to arrive after Cook transported 760 convicts (one quarter of them were women), 450 seamen and 200 army men; the following ship to arrive after this expedition -SS *Lady Juliana*, also referred to as "the floating brothel"- arrived in 1790 with 226 women on board; the third ship sailed with 1013 convicts, a quarter of whom perished during the trip and two thirds of those who survived arrived sick.[12] Thus during nearly forty years thirty thousand convicts arrived to the country and economic

[8] Lenin (1917).

[9] Lucas (2000). Rigorously, the author considers a model of technological diffusion, in which the first countries to start are those where technological advances are originally generated (the first is the United Kingdom at the dawn of the Industrial Revolution), while the rest of the countries join in the race as new technologies spread throughout the world.

[10] The economic rationality of creating a colonial satellite so far away with the sole purpose of having access to a prison have been frequently doubted and it is even today subject of debate. This even has rather been interpreted within the context of the imperial struggle of the 18th century as a compensation for the loss of the thirteen American colonies Great Britain had just suffered. Nicholas (1990) summarizes the argument.

[11] A toy example of the same social experiment can be found in Argentina in the penitentiary built by convicts at the beginning of the 20th century to populate Ushuaia, at the most austral point of the South Cone.

[12] Shaw (1974), pp.6-11.

progress was limited by the static structure of the inmate society, conceived to keep officers, soldiers and inmates alive but not to do business. Even in 1820, over 65% of the inhabitants of the immense island were children and inmates, and a good part of the economic activity was related to the illegal distillation and trade of alcoholic beverages. An illustrative example of the economic habits ruling in the young Australian colonies and their institutional consequences is represented by the fact that for a long time rum was the only token of exchange, and the fact that the attempt of governor of New South Wales, Captain William Bligh, to do away with this practice ended in a successful coup-d'etat against him in 1808. The colonies seemed to be doomed to specialize –as its more sophisticated production- in the hunting of whales that populated its coasts and whose oil illuminated part of Europe. But after the 1820s Australia experienced its first "rural boom". The immigration of workers from Great Britain and the increase of the free population born in the colonies improved the quality of the human capital; at the same time, the abundance of pastures and the benign climate favored the production of fine wool meeting the standards of the textile industries of the British Yorkshire, born at the heat of the Industrial Revolution and unsatisfied by the European supply. Between 1830 and 1850 wool production increased twenty fold and population multiplied by six, going from 70 to 405 thousand inhabitants.[13]

In Argentina, what is currently called in a rather vague way "an environment favorable to growth", arrived about half a century after the boom of Australian wool. Though the Río de la Plata Viceroyship was created at about the same time James Cook's conquest took place, the never-ending history of domestic and foreign armed conflicts that took place until the last quarter of the 19th century was the counterpart of the pacific evolution of the Australian colonies. In the continent of European roots inlaid in Asia, the transition to self government took place without a revolutionary fight against the mother country (furthermore: the British ended up being anxious to accelerate independence) and there were no neighboring countries to fight against because the fact of being an island and the distance operated as inexpugnable defenses. On the other hand, the native population was easily eliminated and inter colony dispute did not go beyond competing to attract immigrants and the inoperative differences regarding trade policies, besides other details that compared to the turbulent Argentine counterpart could be nothing but picturesque. With reference to the rivalry among colonies –originated in a petty "bell tower patriotism"- Ernesto Quesada wrote in 1913:

> Until before the federative unification of 1900, that rivalry translated in practical facts, which have left traces that observers cannot avoid; thus, travelers who go by railroad from one state to the other –from Adelaide to Brisbane- are forced to change cars constantly because each interprovincial border represents a different railroad gauge, deliberately chosen to concentrate the traffic of people and products within the borders of each state and make it difficult to go from one to the other.[14]

The case of Argentina was different: the fight for independence was followed by internal confrontation between the so-called Unitarian and Federal wings, the wars against neighboring countries (mainly the *Guerra de la Triple Alianza*), domestic rebellions –conducted by local leaders known as *caudillos* from the provinces, but also by Mitre in 1874 and by Tejedor in 1880- and the annihilation of the native population, taken to paroxysm of the final solution with the crusades led by Alsina and Roca. Thus, traditionally, we can date the consolidation of an institutional order favoring progress in 1880 – the delay suggested by Tulio Halperín Donghi.[15]

Should we then compare the Argentina 1880s to the Australia 1820s?; is this time lag the one that matters to our argument? Again, the answer is no. It would be a mistake to equate Argentine economic expansion of the turn of the 19th century to the Australian growth propelled by its early rural blooming. That mistake would have implied an unfair oblivion, because we would be leaving aside the fact that Argentina can narrate precisely enough of a prehistory with certain economic dynamism prior to Roca: in fact, Argentina started producing and exporting leather, jerked beef,

[13] Greenwood (1975).
[14] Quesada (1913), p.123.
[15] Halperín (1995).

and wool well before the venture against native population known as *Campañas al Desierto* were finished.[16] Since the onset of free trade, with the revolutionary episode called *Revolución de Mayo*, Argentina initiated a slow and certainly primitive journey towards integration with the flow of world trade, and along that journey it would dispute some of the markets of Australian wool towards the mid-century. But furthermore, the comparison would be wrong because Argentine growth of the end of the century–and the dramatic social transformation it brought about- was too impressive to compare it to the Australian agrarian take-off. The acceleration of the Argentine progress depicted a fortunate combination: the strengthening of the nation state coincided with a time of sophistication in international economic relationships and the evolution of transportation and production techniques qualitatively superior to those of the beginning of the century. It was possible to generate significantly higher gains from trade when the steam engine and artificial cold preserved meats were invented. But then, when did Australia start a phase of progress analogous in size to the one Argentina started after the 1880s? Australia did not need to wait for exceptional context conditions that Argentina so profited from, because it found resources in its own territory which would allow them to enjoy for decades the highest income per capita of the world. As in Argentina, the beginning of this era of unusual prosperity has been accurately dated by local historiography, though the birth certificate also lets us know a specific location: April 1851 at Bathurst, New South Wales. Such is the time and such is the location of the first important discovery of gold in Australia, which was soon followed by others. That motivated a new wave of immigration–the population grew three-fold in a decade until reaching 1.2 million in 1861. It did it again during the thirty following years[17]- and it multiplied the interest of British capitals.

Thus, only when it was able to leave behind the climate of continuous belligerence and profit from the virtues of trade, Argentina was ready to experience a leap towards economic progress equivalent to the one Australia had experienced after overcoming the vices of its penal structure and finding the precious metal. Both processes did not happen simultaneously. Australia started its dynamic of accumulation earlier, so that if it were possible to extend Graphic 1 to more remote times, we would surely observe a strong drop in the series of relative per capita GDP. Since 1880, Argentina inaugurated its own history with unique prosperity coinciding with the time during which high profit of Australian gold production was declining, and it was the combination of both circumstances which allowed for the optimist echoes of comparison to start sounding in the country in the south Atlantic. Then, the hypothesis of convergence and the "horse race effect" help us understand the Argentine drive during half a century, but does not allow us to go beyond 1930. The premises that backup this theory imply that convergence should occur monotonously until the equalization in the income per person.[18] But had it been so, we would have not observed a relative declining of Argentina since the Great Depression: other factors must have intervened. From here on, our task will be to identify them.

Two countries, one distributive conflict

If there is a simple explanation for the process of convergence, the process of divergence offers other complications. *Strong Economics* can explain convergence but not divergence, which leaves us with the bitter taste of an incomplete analysis; *Strong History* would reply that the failure of Economics has its origin in the ignorance that each case is a case apart, but that invalidates comparison.[19] We need to reconcile Economics with History. History will help us recognize that

[16] See Sábato (1989) and Barsky & Gelman (2001).

[17] Australian Bureau of Statistics (2002).

[18] Atkeson & Kehoe (2000) show that there are contexts in which is possible that the late onset of the accumulation process determines also a lower level of income per inhabitant in the long term.

[19] Reder (2003) highlights the tension between the approaches of *strong economics* and *strong history*. Related to the idea of convergence, the first approach implies that in economics variables of interest always progress towards one same destination regardless of the starting point. The paths previously followed are not relevant because they all lead to the same arrival point. On the contrary, for *strong history* economic development –as every historic process- is too complex to be covered by a theory without leaving some of its main features out. Changes experienced in the past determine those that will follow in the future. This property is refered to

starting points –however they are defined- are not necessarily identical, and that neither are the *historic accidents* that left their mark on each country; furthermore, should these historic accidents be identical, nothing tells us that they were processed in the same way. But Economics will come to assist us to show us that Argentina and Australia share some features that open up the road to comparison and -by contrast- let us identify the factors that split the paths. Stabilizing those common features means, as Ezequiel Gallo has suggested in that seminar at the Torcuato Di Tella Institute, surreptitiously introducing a third object of comparison, a third "ideal country".[20] In this section we will devote ourselves to describing such a country, to pull out of the tangled web of history the elements present in Argentina and Australia which allow us to outline it.

For merely pedagogic purposes, let us refer to this imaginary country as *Argentalia*. *Argentalia* has a variety of climates but mild temperatures predominate. According to the long narration of history this is a young nation, which belongs to that small group of nations that -since Ragnar Nurkse coined the expression- are known as "regions of recent settlement"[21], located in the southern hemisphere (Buenos Aires and Sydney are on parallel 34) and a long way from the centers of power (Buenos Aires is located 11,082 kilometers from London and 8,454 kilometers from New York; Sydney, at 16,997 and 15,989 respectively). From its very origin, *Argentalia* has scarce population and plenty of land (already in 1896 Argentina and Australia were the two countries with the lowest number of persons per square kilometer of productive land) and as a consequence of these resources salaries have been relatively high as regards the world average. As a producer of raw materials, *Argentalia* has seen both sides of the coin: for decades it established a privileged relationship with the dominating power, exporting the land products which that power needed to facilitate its industrialization and importing supplies, capital goods and the labor required for its own progress; since the Great Depression, on the contrary, it has personally experienced the decadence of the trade in primary goods.

With fortune in some periods and lack of fortune in others, *Argentalia* bumped into the revelation that its original gene pool included a cursed gen. In the heat of expansion of the internal market and technological evolution of the productive process, within its border there appeared some manufacturing industries, especially industries which transformed the raw materials which the country exports. But as limited as it is by the scarce labor, *Argentalia* is not a country well equipped to face a sustained and diversified industrialization process. This is the awakening of the dormant cell: while world trade continues to be vigorous and spreading its produce, free trade is convenient for *Argentalia* because it propels growth, but protectionism is more convenient for its workers because, given the country's structural conditions, it will increase employment and real salaries and will improve income distribution. Already in 1941 Stolper and Samuelson proved in theory that when the price of a good is increased, the relative remuneration of the factor most intensively used to produce that good also increases. Given the fact that protectionism improves the relative value of that which is imported (and considering that due to its original resource endowment *Argentalia* imports goods relatively intensive in terms of labor), protectionist measures improve the relative income of labor. In the conclusion of the article in which they formulated their classic theorem, Stolper and Samuelson themselves emphasized applying the same in the cases we are discussing, pointing out that "...in Australia, where land may perhaps be said to be abundant relative to labor, protection might possibly raise the real income of labor. The same may have been true in colonial America".[22] Carlos Díaz Alejandro (1985) and Pablo Gerchunoff and Lucas Llach (2004) have developed their arguments in this same direction, underlining the potential conflict between free trade and progressive distribution of income in Argentina. In Díaz Alejandro's words, referring to the Argentine economy

as *path dependency*. In this sense, in order to study the comparative economic development of two countries we need always to refer to particular historic circumstances.

[20] Gallo, E. (1979), p.12.

[21] Nurkse (1962).

[22] Stolper & Samuelson (1941), p.73.

> ....economic policies that are more efficient from the point of view of growth (for instance, free trade, or nearly free trade) determine an income distribution that favor those who own the most abundant production factor (that is to say, the land).[23]

And trying to outline a contrast with Great Britain, where the features of the productive resources are inverse to that of Argentina (and also to that of Australia), Díaz Alejandro states

> While in Great Britain popular (measures) were economically efficient, in Argentina these two objectives seemed to be antagonistic.[24]

Thus, there is a specific logic that links the original factor endowment to economic policy, as there is a logic that links that policy to the dynamics of growth.[25] This distributional conflict characteristic of *Argentalia* –this unstable equilibrium of the economic policy according to which those elements preferred by popular majorities are not always those which stimulate progress– can have different manifestations according to the countries which *Argentalia* embodies historically. The conflict will be deeper, the more distributive the protectionism is. And protectionism will be more distributive, the more labor-intensive are the industrial sectors arising from it, the greater the proportion of total employment explained by protective activities, and the greater the participation of raw materials exported in the popular consumption basket (see Annex for a simple model in which these results are derived).

What happens, in turn, when distributive protectionism has already settled down as a regime of economic policy? The risk is the *stop and go*, a term familiar to Argentines and Australians. By expanding, protected industrial sectors demand imports (supplies and capital goods) and do not provide exports, therefore their contribution to net exports is low and it can even be negative. If exports of raw materials grow weakly, there will be recurrent imbalances in the external sector that governments will try to correct by means of nominal devaluations, but this will reduce the real salaries that have emerged from distributive protectionism. Inasmuch as popular sectors maintain resistance capacity, that will translate into a real volatility and growing inflation, which will only be controlled if exports of raw materials are reanimated or industrial sectors start making a positive contribution to net exports.[26]

We can already anticipate that what will emerge from our history in the phase of divergence is that Australia has had a distributive conflict and a *stop and go* cycle milder than Argentina. Meanwhile, the following detour is worthwhile noting: that in *Argentalia* protectionism being distributive does not imply that distributive policies necessarily emerge from protectionism. Eventually, there could be distributive measures of a different type, but if world trade is dynamic, protectionism will serve as a tool to prevent relative prices of an open economy to neutralize the distributive impact of those other measures and to make the increase of labor costs bearable for companies. It is not by chance that Paul Samuelson opened his discussion on the progress that thanks to the "Australian case" took place in the field of protectionism theory quoting the famous Bridgen Report, a meticulous analysis of the Australian economy ordered by the government towards the end of the twenties. The report concluded that Australian population would have never reached the standards of living it enjoyed at that time under a regime of free trade (by the time the report was written Australia had already accumulated a rooted protectionist tradition), even when a wide range of other distributive mechanisms had existed for a long time.[27] That is to say that in Australia, as well as in Argentina –

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[23] Díaz Alejandro (1985), p.73.

[24] Díaz Alejandro (1985), p.74.

[25] Different works have explored this relationship in order to explain international contrasts regarding exposure to trade. One of the best known studies was writen by Rogowski (1989). This author shows how differences in factor endowments account for variations regarding the impact of trade on political cleavages at domestic level. Williamson (2003) found that Hecksher-Ohlin logic is enough to explain most of the commercial politics until WWII.

[26] The political aspects of *stop and go* have also been analyzed in works such as Portantiero (1973) and (1989), and O'Donnell (1977).

[27] Samuelson (1981), p.148.

that is, in *Argentalia*- if there are distributive policies that do not emerge from protectionism, protectionism will naturally emerge support them.

Therefore, *Argentalia* faces a distributive conflict and a cycle of *stop and go* derived from its own economic architecture, an architecture modeled in great part by nature and geography and on which politics does its job. The history of Argentina and Australia which we will now undertake starts from this hard nucleus; each one of the countries is a version of *Argentalia* but they are different from it in some aspects and they are different among themselves in others. Historic cases are precisely so because they drift from the abstract model representing the ideal third country and they have their own specificities: Argentina and Australia will be different already at the top of the hill and also when coming down the sides to the present. Differences at the top will persistently influence during the way down, and accidents during the descent will in turn leave persistent traces.[28] However, we must not forget one point: that Argentina and Australia are versions of *Argentalia* means that they are at the same time versions of the distributive conflict and of the cycle of *stop and go*. The goal of the authors of this work is to find out how the conflict has unfolded in both our countries and how do differences account for their relative economic performance. But there are other possible objectives, surely grounded on other analytical basis. Australian historians and economists have focused at times on the Australian decadence compared to the most developed countries in the world. "In 1900 Australia was arguably the highest-income country in the world. By 1950 it was ranked third; by 1970 it was eighth; and by 1999 it was twenty-sixth", reads the beginning of an article on Australian economic development.[29] Going over Australian economic historiography, McLean has also stated recently that "one of the most widely remarked features of the Australian growth story is that, from having the highest per capita income in the world in the late nineteenth century, a relative decline in living standards has since occurred."[30] In this same line of thought, McLean and Taylor have placed Australia in the same spot we put Argentina and they have compared it to the state of California (by itself one of the largest economies of the world), only to confirm their own lament.[31]

This fall is evidenced on Graphic 2, which shows the per capita GDP of Argentina and Australia as a ratio of the average per capita GDP of a group of rich countries. Clearly, the first impression arising from the graphic is not the contrast between Argentina and Australia that we found on Graphic 1 but the similar behavior in the trends of both series. Except for sporadic periods, during the 20th century for both countries per capita GDP grew more slowly than that of the panel of developed nations. In Australia the relationship starts at 170%, when its inhabitants were the richest ones in the world, and ends at 90%; Argentina starts at 75%, while towards the end of the series, its relative GDP per inhabitant amounts to 35%.[32] Certainly, our purpose is not to explain the

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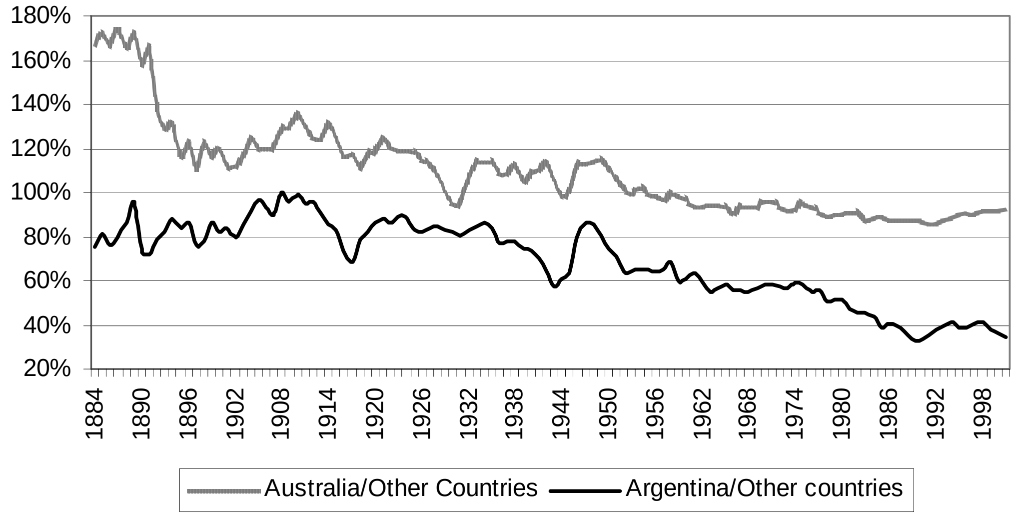
[28] Referring to the notion of *path dependency*, Kennet Arrow wrote that "the long term evolution of economy depends on where it started, or perhaps on some alterations the system received along its history. The critical point is that these initial conditions or alterations have a permanent effect; which does not go away gradually over time. (...) The classic example is rain falling on a hilltop. When it lands, water flow is determined by the law of gravity and topographis peculiarities. Rain will eventually to into a vally, but which valley depends on the point of initial contact with the ground." Arrow (2003)
[29] Anderson (2002).
[30] McLean (2004).
[31] Taylor & McLean (2002).
[32] This drop common to both countries reminds us of the concept known in literature as "resource curse": in recent times, the growth of product per inhabitant has been systematically lower for countries with a relative abundance of natural resources. Even though Argentina and Australia are typical cases as regards to the regressions that illustrate this phenomena, up to know they have not fit into most of the traditional arguments oriented at determining the economic and historic logic underlying this statistical regularity. One of the best known explanations is an institutional kind of *path dependency* argumentation: the relative abundance of certain natural resources would have promoted Latin American and Caribbean colonies to suffer, from the beginning, an uneven distribution of wealth, which in turn had promoted the proliferation of elitist and non participative political institutions not very appropriate for development. This argument is rather apt for economies with tropical climates whose production technology favor exploitation of poorly-skilled workers (Engerman & Sokoloff, 2000). Another argument is that known as *dutch disease*: positive shocks on the productivity of the primary sector generate an overvaluation of the real exchange rate that

common fall of Argentina and Australia as compared to most developed economies but rather their contrasts, the inverted U during the different phases. But this momentary change of the viewpoint cannot but enrich our view: now we know that we are comparing the discouraging Argentine divergence to a country whose economic evolution in the long term has deserved the adjective of mediocre by most scholars.

Graphic 2: Per capita GDP of Argentina and Australia relative to that of developed countries, 1884-2001



Prepared according to Maddison (2003). The countries are the United States, Canada, Austria, Belgium, Denmark, Finland, France, Germany, Italy, Holland, Norway, Sweden, Switzerland, and the United Kingdom. Average weighed by population.

Argentina and Australia at the top of the hill (1851 - 1914)

The second half of the 19th century has started. Within the territory populated by ovine herds Australians have just found gold, and with that they have also discovered that progress can occur by leaps and modify the social structure dramatically. Technological conditions of mineral exploitation differ greatly from rural production, especially as regards two essential features. On one hand, during the first stages of extraction, those in where "easy gold" is available at the surface of the earth, the metal is practically a common good and there is no legal system that can guarantee property rights over it. In order to illustrate the essentially anarchic and popular characteristics of the rush it is useful to remember the description that writer Stefan Zweig made of the case of California, where the metal was discovered two years before than in New South Wales. The author narrates what happened to rural tycoon Johann Suter when they found gold in his property

> Immediately, Suter's men stopped their work. Blacksmiths, the furnace. Sheperds, the herds. Vinters, the grapes. Soldiers, their arms. They all seem possessed, and with the screens and pots they grabbed, they quickly run to the mill, to separate the gold from the sand. At night, the region is abandoned. Nobody milks the cows, which mow and burst. Oxes break free and trod on the fields, where grains go bad on the grass (…) An

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reduces competitivity and the size of the industrial sector (Corden, 1982). The sporadic findings of mineral resources in Australia have been interpreted in these terms by Dornbusch & Fisher (1984) but they are not enough to explain the Australian fall in the long term, at least without introducing differentials in the rates of technologial innovation between the rural and industrial sector like in Matsuyama (1992), something that has not been verified empirically. For Anderson (1997) the root of the curse lays in the greater implementation of protectionist policies by countries with abundant natural resources, but he arrives at this conclusion by just by discarding other explanations. To review this literature you can resort to Stijns (2001).

> unleashed, brutal horde, that knows no law other than that of their own fist, and no ruling other than that of their gun, spreads over the blooming hill.[33]

In Australia, this regime of free exploitation triggered the mass arrival of immigrants and workers whose capital was limited to a few manual tools, the necessary to guarantee a high income with the daily effort. But, on the other hand, the fact is that minerals are not a renewable resource: at a certain point, the easy gold is exhausted and it becomes necessary to invest in tools and heavy machinery to extract it: the industry becomes less labor-intensive and the magic of the free access to the mineral disappears. Then, worker's average income no longer depends on their number and the yield of the mines, and the structure of the extractive industry starts governing their earnings, now transformed into wages. Eventually, when the gold is exhausted, the industry disappears. Thus hundreds of thousands of immigrants that since 1851 headed for the multiple Australian *Dorados*, at some point in the second half of the 19th century found themselves employed at mining companies or unemployed, but in any case not included in the productive architecture to which they had made an irreplaceable contribution. It is true that the repeated findings -there were rushes in the colonies of New South Wales, Victoria, Queensland and Tasmania during the next twenty years, and Western Australia turned into the main producer from the end of the eighties until the first decade of the 20th century[34]- palliated the situation of many; it was also true that the gold fever gave origin to two related phenomena: on one hand, the new rural expansion, because the human sea in the gold fields consumed foods produced by the *graziers*, and in some cases, thanks to the blessing of geographical closeness, they worked simultaneously at the mines and at the fields; on the other hand, the discovery, at the pace of the search for gold, of other minerals that with the passing of time would become growingly important for production and the export trade: copper, silver, tin, and coal. Nevertheless, as soon as the mid 1850s, the movement of workers born around the mining phenomena –the seed of the labor movement- started pressing for some kind of protection,[35] that one of the most powerful and influential men of Victoria –newspaper tycoon David Syme- used to transform into industrial protectionism. In 1865 the proposal of the first Tariff Bill was submitted to the parliament of Victoria –along with New South Wales, the most populated and prosperous colony- and in 1883 import rights were fixed at 25%.[36] From there on no government of Victoria would deviate from this protectionist position that since 1901 would also be that of the Federation.

Meanwhile, in Argentina, together with the reception of British capital and European immigrants, the incorporation of fertile territory was the engine of growth between 1880 and 1914. During that phase of expansion, no phenomenon reduced worker's original average income as sharply as the changing conditions of Australian mines exploitation. Maybe that was the reason why the first attempts of protectionism in Argentina were far from being inspired in social issues. Rather on the contrary: when towards the mid 70s the financial crisis with epicenter in Vienna expanded to the rest of the world and affected Buenos Aires, the answer of Argentine President Avellaneda was to submit to the Congress a bill to increase import tariffs on a wide range of goods, but particularly, with higher rates on those items whose non-elastic demand would guarantee an increase in Custom's intake and whose own consumption could be objected to from a moral perspective: wine, liquor, brandy, beer, tobacco, cigars, cards and arms.[37] Until then, nobody would be disgusted by Avellaneda's liberal convictions, worried as he was for correcting the imbalances of public accounts caused by the economic depression. But Avellaneda was defeated, and not by free-trade advocates

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[33] Zweig, 2002, pp.174-175. First, American courts recognized Suter's property rights over the gold but then they were forced to retract themselves due to a popular uprising after the court ruling.

[34] Australian Bureau of Statistics (1910).

[35] The tough working conditions in the mines and the demographic pressure on a territory with scarce infrastructure caused only three years after the first discoveries of gold the famous Eureka worker's armed rebellion in Ballarat, that one historian of the Labor Party has traced as the first movement towards the creation of that political party. See Fitzpatrick (1968), pp.77-80.

[36] Reitsma (1960), pp. 8-9.

[37] Cortés Conde (1989), p. 118. In New South Wales, where throughout the 19th century free trade inclination had also limited tax levying to strictly collecting needs, the list also included opium imported from the East. See Dyster & Meredith (2002).

but by the guard of young protectionists who, lead by Carlos Pellegrini, attempted and managed to go beyond strict fiscal motivations. Thus legislators incorporated shoes, clothing and furniture to the range of products protected by extraordinary taxes, which with the passing of time would also add sugar. What was the purpose?: to widen the basket of consumer goods manufactured within our borders with domestic raw materials, without affecting the incipient export dynamic. What was the cost?: the drop in real income of a very ample sector of the population.

Therefore, there was an enormous distance between the Australian *social* protectionism, and the *fiscal and productive* Argentine one. There was also something in common: in both cases, protectionist policies would have weak consequences on the productive structure.[38] Neither Argentina nor Australia would become industrial nations. Was it possible to achieve this desired transformation when both countries then lacked the primary goods that starred the First Industrial Revolution? Argentine had not even traces of iron, coal, and cotton; Australia had very little coal of dubious quality and iron in yet small doses. Was it possible to achieve a robust industrialization when the main commercial partner, England, occupied first place among the world's manufacturing powers and imposed, from that privileged position, the rules of trade? Was it possible with wages relatively high and when neither Argentina nor Australia had the kind of craftsmen that usually appears at the prehistory of industrialization? Motivations did not matter: Australian equalitarianism, the Argentine thirst for material progress. The fact is that manufacturing diversification would progress slowly and it would never reach the dimensions of a revolution.[39]

It was within this context at the turn of the century when the crisis of 1890 emerged, the first historic accident of large proportions that had an impact on Argentina and Australia simultaneously. The deep and unexpected collapse interrupted the uneven dynamism of the economies and drastically reduced worker's real income, but as Ian McLean has pointed out, in Argentina this coincided with the expansion of the productive frontier and in Australia with its exhaustion.[40] If the concept of time lag has any sense, this is one of the moments when it acquires full meaning. For Argentina, the crisis was a painful pause on its road up, a "*crisis del progreso*" (crisis of progress), as many public figures of the time would call it; for Australia these words would have sounded absurd: the crisis knocked at their door in the midst of the irreversible agony of the age of well-being based on the gold. Even though there were new findings well into the nineties -at Kalgoorlie, Western Australia, they found one of the largest deposits ever- and other minerals continued to appear, that was not enough to reverse the general state of depression of the economy, moreover when the worse drought they could remember took place between 1895 and 1903 and reduced by 50% the sheep heard. Under these gloomy circumstances, preexisting labor organizations became main characters. With unemployment peaking in the colonies –the unemployment rate of the once prosperous Victoria touched 30% towards the middle of the decade- living conditions of the working class turned very harsh and one after another the union's attempts to defend the wages of those they represented failed. From those failures emerged an important change that has been the subject of analysis by Australian historiography: the labor movement originated in union organizations started traveling towards the sphere of political action,

[38] In the case of Australia tere was a sort of natural experiment ongoing: New South Wales, neighboring and rival of Victoria, openly supported free trade during the entire century but in the 1890s over 60,000 people migrated from Victoria to New South Wales and work in the factories increased at the same low rate in both colonies. It could be considered that the existence of an important free trading neighbor was an additional obstacle for Victoria's protectionist policies, because it is hard to create jobs by raising the price of goods suitable to be imported when in a neighboring district those same products can be purchased at their original price.

[39] Perhaps the case of America is an interesting counterexample: the United States had gone forward towards industrialization having the necessary raw materials and a critical mass of craftmen; besides, in this country, the main commercial barriers were not tariffs but the War of Independence, which for a while provided Americans with infinite protection rates precisely against the main world power. For a discussion refer to Wright (1990) and Irwin (2003).

[40] McLean (1996).

and did so with unexpected success.[41] After the Federation was formed, in 1901, the Australian labor party was the first social-democratic party to access power in the world of western culture, and soon it turned into the leading political machinery of the new nation.

This asymmetry between a society about to go through one of the most fortunate of its times and the other, semi-stagnant, with the fresh memory of high wages nearly impossible to replace and strong demands of social protection, produced toward the turn of the century one of the most outstanding contrasts in the comparative history of both countries. While Australians gave themselves a battery of policies and agencies with the explicit goal of improving the workers' standard of living, in Argentina the attempts at social reform originated by the conservative wing failed systematically. The national Australian government being formally constituted, the first administration in power was a coalition between the labor party and the so-called "protectionist party", a clear expression of the interests of urban businessmen. The first laws did not attempt to conceal the redistributional and protectionist inclination: the incoming of Asian immigrants was severely restricted (the racist policy known as *White Australia)* and a uniform tariff for all colonies was levied. Also, Courts of Arbitration were extended nationally. These were local agencies that, since they started in South Australia in 1891, had served the purpose of ruling in disputes involving workers and employers.[42] Thanks to the rulings of these courts, a sophisticated social legislation was gradually implemented which incorporated general regulations regarding safety and hygiene, regulation of children's and women's labor, and the eight-hour work day, which was annually celebrated in each colony as "*Eight Hours Days*" with parades and sport events. In 1907 local Courts also imposed the concept of minimum wage which would serve as a precedent at a national level: there would be a basic salary determined by a criteria of social needs (the satisfaction of the requirements of a worker who was married and with three children) and a margin corresponding to the peculiar features of each kind of occupation. Naturally, this legislation came together with the *New Protection*, a new protectionist surge which benefited particularly those industries which improved their worker's income.[43]

While equalitarism, racism, and protectionism converged in the young Federation, in Argentina there was a patent delay in the building of new social institutions. Such a delay was easily explained by the circumstances: the unprecedented economic dynamic –prior and after the crisis of 1890- brought about a social mobility that muffled or doomed to failure the reformist voices. An archetypical case was the ambitious and frustrated National Labor Bill of 1904, many aspects of which were inspired on the vanguard measures already enforced in Australia;[44] another, the recurrent postponements of the approval of the eight hour work day bill, which would be passed only in 1929; and lastly, the persistence of the non-popular design of Argentine protectionism, which would only change by the strength of facts, inasmuch as the popular consumption basket was changed to be mainly composed of export goods, inasmuch as trading restrictions were enough to create work and increase salaries. Was there also short-sightedness in the delay? For sure, but the fact is that the Argentina of the beginning of the 20th century lacked a political force that would suffice to carry on social and economic changes. Only those very brilliant or very idiotic risk veering from the chosen route when, literally, the cattle is gaining weight.

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[41] MacArthy (1967) narrates accurately the social and political cirsumstances that determined the crisis of 1890 to give way to the triumphal political leap of the Labor Movement, while Withers (1987) concentrates on the economic motivations of the said transition.

[42] See Oxnam (1956), p.611. By the end of the first decade of the 20th century all governments had enforced them.

[43] For a description of this policy please refer to Reitsma (1960), pp.11-18.

[44] As Zimmerman (1994) explains, the failure of most of the reformist projects can be understood based on the combined –though not coordinated- opposition of some sectors from the labor world and that of certain groups in power. While socialism approved the initiative, anarchist groups as well as many unions interpreted it as a mechanism to mitigate protests and to control workers. This opposition would combine with that of the Argentine Industrial Union –its main argument was based on the disadvantageous positions national production was under as compared to most of their competitors after the enforcement of these measures – to form the antireform tools.

The Argentine social delay can also be interpreted from the perspective of political institutions. It is likely that Australian parliamentary democracy contributed to government actions reflecting collective preferences, while the Argentine conservative regime still did not need its leadership to be validated by the ballot box in the full exercise of the right to vote yet. At the same time, the Australian parliamentary system, with no predominant parties, would also force the building of consensus. The distributive policies would go beyond the mere circumstances to become permanent features of the economic landscape. Protectionism, minimum wage, courts of arbitration, migratory restriction and progressive labor legislation would gain strength as explicit rules of the game but also as internal rules of behavior of the social players. Australian workers as much as Australian businessmen would become used to solving their conflicts under the tutelage of the State and to consider –even in the turbulence of the last quarter of the 20th century- equalitarian distribution to be an Australian national feature. From the onset of the Federation and for a long time, that equalitarian "focal point" Moran (1970) highlighted would be perpetuated. On the other hand, in Argentina the common "focal point" would never be present, and when *a la fine* an equalitarian revolution occupied the political arena, it would not adopt the shape of incrementalist consensus but of a slap in the face to short-sightedness, an unexpected torrent imposed by a majority political party not very prone to negotiating.

Doubling Bets (1914 - 1929)

After the crisis of 1890, WWI was the second relevant historic accident. Similarities between the two countries played their role: due to strong dependency on international trade –in Argentina and Australia trade flows represented around 40% of GDP- commercial rationing generated by the war conflict meant hardship. But differences also played a role: the historic relationship with Great Britain and using to the limit its already declining mining activity allowed Australia to endure difficulties with less hardship. Thanks to the former, Australia obtained benefits Argentina did not have access to. The young country actively participated in the conflict at a cost of 60,000 casualties, but human sacrifice was compensated with trade treaties that –anticipating the Ottawa Agreement- guaranteed a generous quota of the English market for some Australian products, particularly bovine meat and wool.[45] On the other hand, thanks to the link between metal extracting activities, already before the war Australia was developing an incipient heavy industry that mitigated the external vulnerability. The war gave Australian metallurgical sector a double impulse by increasing the demand of arms and neutralizing this market from German competition, where many of the metal extracted from Australian soil ceased to be refined. In those years, a scope of industries which deepened productive diversification emerged, fed the demand of labor, and pressed for wage increases: iron and steel, elaborated by the famous company *Broken Hills Property*; building ships (among other things in order to be autonomous as regards sea transportation) and manufacturing engines and electric appliances. The comparison is suggesting that even for a year when this was beginning to happen –1913- the metallurgical and machinery sector accounted for 24% of the value added by Australian manufacturers as opposed to only 4% in Argentina.[46]

But more important for our comparison is what happened once the arms ceased firing. The signing of the polemic peace did not mean a spontaneous return to all economic certainties. The financial and commercial chaos around the world during the immediate post-war times cast a shadow of doubt over the continuity of the scheme of free trade and gold standard that had predominated *urbi et orbi* since the decade of the seventies in the 19th century. In the middle of uncertainly, each country -Argentina and Australia- sought refuge in its recent history to define future policies. Argentine policymakers had no reason to deny what had produced huge returns, and, as a consequence, the deep political changes that followed the electoral reform of 1912 were accompanied by barely superficial changes in economy. It is true that there were transitory

[45] In 1915, for example, the British bought all available existences of Australian bovine meat, while in 1916 they agreed to purchase wool at a price 55% higher than the one prevailing a the beginning of the war. See Greenwood (1975).
[46] Boehm (1971), p.127 and Díaz Alejandro (1985), p.511.

vacillations in Argentina under Radical Party (UCR) administrations, but as the dust settled down and international relationships seemed to be on their way towards a final harmony, it became evident that the bet on trade stayed firm, and even the inherited protectionism was losing strength something opposite to what was happening in other latitudes.[47] As regards Australia, it also doubled its own bet, the one of the protectionist-distributionist coalition. They could not get dividends in the field of economic growth not were they convinced that more would appear from there on. Generally speaking, Australians had lost their faith in the benefits of trade, therefore by merely evoking the threat of commercial rationing, the productive sectors born and raised during the war managed to efficiently channel their demands of protection towards the State apparatus. Thus the *Greene Tariff* of 1921 extended taxes on imports virtually to all products manufactured in Australia, including now new products of rural origin such as milk and fruits.[48] Additionally, the government created the *Tariff Board*, an official agency that the Argentine Minister of Economy failed to emulate and which coordinated the corporate demands for protection. As had happened with the mechanisms of arbitration in wage conflicts, Australian again gave a systematic and institutional treatment to a sensitive matter regarding economic policy. Repercussions consisted in a constant increase of tariff that, curiously, would only waver with the proximity of crisis.

Doubling the bets was more complex in the social arena. Argentine and Australian workers were punished by inflation and the production contraction along the way, though unemployment was worse for Argentine workers because they did not benefit from the tempering effect of being called to arms. In Buenos Aires, labor conflicts worsened and peaceful methods of negotiation failed, therefore protests were bloodily repressed in the summer of 1919. That was the turning point for the Radical Party (UCR) administration, fearful of the echoes of the Russian revolution and the possibility of agitation turning the capital city into an open battle zone. Then there were increases of nominal salaries promoted by the government itself but were they able to turn into real improvements when the protectionist public policy in fact was not there to back them up? Answering that question presupposes entering into the core of the Argentine conflict. It was no longer the same country it was during the debate between Avellaneda and Pellegrini. The family food basket was no longer imported but exported, and the only things exported were food, well almost exclusively food. Productive diversification and industrialization made progress but there was no Pellegrini to modify the path. However it was changed by circumstances that had very little to do with government decision: the war's commercial rationing, the *de facto* protectionism that, like manna falling from heaven, provided international inflation, made healthier the internal market. The Argentina of the twenties exported the food of its popular classes, and it increasingly occupied popular classes in activities that did not generate exports -neither then nor in the future. Real wages improved due to the increase of the labor demand that accompanied productive diversification and by the paradox that it would be hard to avoid during decades: with the worldwide deflationary adjustment of 1920-1921 Argentina faced the bad news of the drop of the prices of raw material but its workers faced the good news that those raw materials were the food on their tables.

Thus, distributive protectionism had made its first test in Argentina guided not by strategies but by market swings. There was however a policy in the repeated attempts to obtain parliamentary approval of the social legislation inspired, again, at least partially, on the Australian experience. But those attempts failed once again. It is not easy to determine what created the defeat, but the fact is that the site reserved for social legislation remained vacant for another two decades. In turn, Australia revolved in the epicenter of its own conflict: scarce growth and a new equalitarian jump. The foreseeable distributive ingredients were added to the *Greene Tariff* and to the *Tariff Board*: at the beginning of the century minimum wage seemed to be an insufficient tool at times of inflation and it was complemented by a three-month period adjustment of its value from 1921, an unprecedented measure in that international scenario in which the value of solidarity was ceasing to be an oddity. The thick battery of social institutions with a long history, plus the novel mechanism of defense of popular income may have preserved social peace in Australia after the war of the nations. And in

[47] See Gerchunoff & Aguirre (2004).

[48] Forster (1953) narrates the conditions due to which World War I gave way to imposing the new customs tariffs in Australia.

any case, did Australia have an alternative to its own version of distributive protectionism? Even though it had been a valuable lifesaver during the armed conflict, mining wealth seemed to be exhausting in those years, to the point that at the end of the twenties is represented less than 2% of GDP; the country was shrinking more than ever since 1851 to its tight rural manifestation, and that promoted the industrializing project. Much later Alan Taylor and Ian McLean would write with indulgence or with resignation that the sacrifices of the Australian growing process could have had as a counterpart not only a greater equality but also a productive diversification that would have tempered macroeconomic volatility. It is risky to state that there were "growth sacrifices", but it is a fact that growth was truly low. Then, it can be understood that at the onset of the Great Depression, while in Argentine the voice of a minority fought the imbalance of the agrarian-exporting structure, in Australia there were people who pointed to the gaps of the protectionist and distributionist regime. It is significant that the very *Tariff board* expressed its concern in the annual report of 1927 for "a tendency to abuse the policy of protection and, by forcing the pace, to endanger its efficiency".[49] It is also so that John Maynard Keynes in his General Theory found room to express his disagreement as regards Australian wage indexation.[50] It seems that Argentina and Australia traveled in at different paces. However, soon, the world crisis would bring together with no ambiguities the approaches of economic policy of both countries, though it would not necessarily bring their destinies closer.

Uneven Weapons to Face the Crisis (1929 - 1945)

The depression that would devastate the world had come by surprise. For nearly twenty years the distributive conflict that was the main thrust of our argumentation would remain latent. There is no conflict if there is no world trade; the opportunity cost in turning to the domestic market is none; the exports of wage goods would not be able to complete with their domestic consumption. The end of the Argentine convergence had arrived together with the crisis, because economic geography and political geography will determine that the collapse would have a different impact on our countries. And it is paradoxical that this would happen when they most resemble each other. Around 1920, 96 % of Argentine exports corresponded to agricultural products; this figure climbed up to 86% in Australia. The main Argentine export products were wheat, corn, linseed, and meat, which together accounted for 81% of the total exported amount; in Australia the ranking was still lead by wool, followed by wheat and meat, which combined accounted for 70% of the total.[51] By the end of the twenties, GNP was similarly composed: rural sectors accounted for 25% in Argentina and 20% in Australia, services were somehow more important in Australia (50% versus 45%) and, notoriously, in both cases manufactured products represented 17% of the GNP.[52] It is clear that there were significant internal differences within this last item. Australian industry was more developed and diversified and it included activities that implied a higher degree of transformation of original raw materials. In 1929, foods, beverages, textiles and paper comprised 55% of the Argentine manufacturing sector while metallurgic and machinery comprised only 7%. In Australia the first three sectors accounted for 46% but metallurgic and machinery, as well as food, accounted for 23%. We have already learned that these contrasts resulted from different resource endowment, the early Australian protectionism and the impulse of the war.

To the structural resemblance we must add that of economic policies once the crisis broke out. There was not much to argue in a world devastated from the commercial and financial viewpoint, in the antipodes of that turned into a natural phenomena in many minds. The fall of the international demand and the protectionist upswing that took place in Europe and the United States seemed to add a deterministic shade to the decision making: in Argentina as well as in Australia it was necessary to promote manufacturing, to stimulate the expansion of the domestic market and to obtain as much profit as was possible –however little it might be in the present- from

[49] Department of Overseas Trade (1930).
[50] Keynes (1933), pp. 225-227.
[51] Kelly (1969), pp.52-53.
[52] Fogarty (1979), p.27.

the battered export activities. Both countries, forced towards an unexpected harmony by circumstances, restricted imports, devaluated their currencies and adopted salvatage operations in order to alleviate producers in debt. For Australians, some of these policies had a familiar air; for Argentines it was mainly a novelty (at least since the crisis of 1890); for the one and the other after a certain time it turned into something unavoidable.

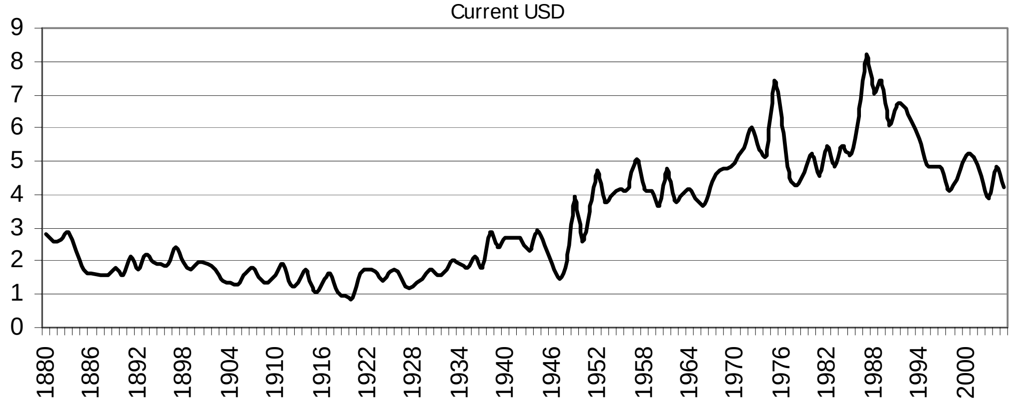
If productive structures were alike and public policies were nearly identical, why did Argentina start to fall behind? There are several possible explanations to answer that question. For instance, two Australian economic historians have believed the cause is related to domestic factors: the better performance of Australia in the period is due to the diversification and sophistication of its industry, to the large size of its service sector –which at the same time indicates a greater average wealth- and the existence of an educated population with high income able to efficiently use their resources and of consolidating a market appealing to foreign investors.[53] There is a tautological aspect in this analysis: Australia does better because it had done better before. But then, why was there fifty years of Argentine convergence? Even though it is true that the Australian past nursed economic creatures that would acquire full value and purpose in a stage of development fully weighted towards the domestic market, we have just verified that differences between the two countries were not that relevant. An indicator of *performance* can be useful to illustrate this fact: at the end of the twenties, Argentina lacked industrial exports but Australia's only reached 7% of exports. Is that enough for a satisfactory answer?

The focus must rather be placed not on the internal factors but on export dynamics, and on this point we would amplify the side of the demand. When international trade decreases, participation in world trade is a good measure of comparison of the exporting performance. Due to international deflation, the total amount exported by Argentina and Australia went down systematically for nearly all products but in some cases this took place parallel to the increase in the given country's participation in the world trade of those goods. This was because markets were contracting faster than the value of exports. During the 30s, Australian participation improved more or worsened less than Argentina's for all relevant products. The share of wheat increased for Australia as well as for Argentina, but throughout the decade it increased more for Australia. Without being one of its main exports, Argentina reduced its share in the wool market and values dropped to levels under those of the mid twenties, while Australia's quota in the world market surpassed the maximum value of the preceding decade. The same can be said about meat, a case in which Argentina's position worsened and Australia's improved. Australia also surpassed the level of its percentage in the international leather market it had obtained in the previous decade while Argentina never went beyond half its previous maximum level. In order to approach the question with an aggregate measure, let us say that in 1920 the value of the Australian exports in terms of dollars was similar to that of Argentina and Australia exported 1.6 dollars per capita for each dollar per capita exported by Argentina. But by 1939, the value of Australian exports had become 30% greater than Argentine ones and, as can be seen in Graphic 3, the relationship of exports per inhabitant had climbed to 2.4 to 1. Thus the decade of the 1930's is the starting point of a rise in the coefficient of relative exports per capita of Australia as opposed to Argentina.

[53] Meredith & Dyster (1999), p.137.

Graphic 3: Exports per capita Australia/Argentina, 1880 - 2005

Current USD



Exports: Australia: up to 1900: Butlin (1962), table 247. 1900-1944: Jones & Obstfeld. 1945-1948: Butlin (1962), table 274. 1949-1959: Foster (1996). 1960-2005: RBA (2005), tables H01 and H03. Exchange Rate: RBA (2005), table F11. Argentina: 1880-2003: Gerchunoff & Llach (2003). 2004-2005: Indec. Population: Argentina and Australia: 1880-2002: Maddison (2002). Argentina: 2003-2005: Indec. Australia: 2003-2005: the growth rate corresponding to 2003 was used.

What variables explain this dynamic? The demand of the main Australian exportable item, wool, increased at a steady pace during the first years of the 1930s thanks to the growth of the Japanese textile industry; as regards the main Argentine exportable good –wheat- both countries benefited from the drop in American production but, unfortunately, world demand dropped due to the fact that the new European protectionism expanded production in countries that had traditionally imported it. Thus, the world demand of the main Australian export product increased at the time that that of the main Argentine export product decreased. Why did Australia suffer less in the wheat market? It is true that Argentina was affected by weather calamities –cereal exports were temporarily banned in 1937- but more important that that (and less circumstantial) was the fact that Australia benefited from British imperial preferences. Something similar happened in the meat market: Australian exports to the United Kingdom increased thanks to its being part of the *Commonwealth* "in great part at the expense of Argentina".[54] Argentina was the victim of the benefits granted by the Ottawa Agreement to the members of the British community, and even though it responded with the desperate and inevitable signature of the Roca-Runciman Agreement in 1933, it did so under such adverse negotiating conditions that it could only partially compensate for the advantages obtained by its competitor. The country in the Pacific could at the same time increase its deteriorating production of metals and minerals –a market in which Argentina did not participate- due to an external factor of a different nature: after the British decision to abandon the gold standard in 1931, the pound devaluated, the value of gold increased, and the exploitation of numerous mines was resumed. In 1938, exports of gold –and other minerals- climbed to 16% of the total amount of exports while in Argentina the mining sector would surpass 1% of the GNP only towards the end of the 1950s, and with insignificant exports.

In the previous paragraph we introduced into the equation a country that was destined to play a significant role in Australian history: Japan. Even though the Australian relationship with the Asiatic country was far from being idyllic –at the beginning of the 1930s it oscillated between the attraction based on commercial reason and a political aversion fed by Australian historic anti-Asiatic racism as well as by Japanese expansionist pretenses– metal exports also were stimulated by the Japanese militarist hunger. However, in spite of Japan having been one of the most dynamic markets, Australia reaffirmed its being part of the British world with the policy of trade diversification in 1936, according to which the import of Japanese textiles and North American vehicles were specifically reduced with the purpose of expanding British imports and local production. Naturally, behind this decision there were pressures from London. The United States

[54] Duncan (1963).

reacted with patience, awaiting for their turn, but Japan began a trade war that became deeper when, in 1938, Australia limited its iron exports driven by the suspicion that with them they were contributing to a potential aggressor manufacturing arms. The suspicion would be confirmed on February 19, 1942 when the Japanese Air Force bombed Darwin and other points along Australia's northern coast line. That was an important day. For Australia –as well as for Argentina- war meant a new closing down of trade that promoted import substitution. But for Australia it represented something else. As a participant in the conflict, it had to restructure and expand its economy. They started producing food, clothing, arms, and transportation for their 460,000 troops. At the same time they provided soldiers of the British Commonwealth located east of the Suez Canal with articles Australia already knew how to manufacture, but also with ships and planes they were learning to manufacture. The new industrializing wave Australia would experience during post-war times was very much due –once again- to the requirements of the battlefields.

Another date in the war calendar also ended up being important for economy: October 1942. When the risk of the Philippines being occupied by the Japanese was perceived, the American government decided to defend Australia and General Douglas Mac Arthur established his main base of operations in Sydney. By the end of that year, the Japanese threat had vanished but the alliance with the United States would continue. Political geography and economic geography would coordinate in unsuspected ways to play a crucial role. Australia would become Washington's policing partner during the long cold war and a commercial supplier of Asian nations –starting with Japan- during the long road of regional development. Australia was in the appropriate place during critical times. As far away as the shape of the globe permits, the United States would work for the good fortune of its new friend. Meanwhile, Argentina was the counterpart: the South Atlantic was marginal for American geopolitical interests, so much so that not even those countries that had joined in the allied effort with arms and supplies –Brazil for instance- could curry their favor. As regards economic geography, it was cursed. The greater share of Argentine exports continue being destined to Great Britain, who was interested in Argentina not getting involved in the war so as to continue receiving food without German submarines trying to sink them. In only this sense, German interest surprisingly converged with the British: Berlin also maintained strong economic connections with Argentina and did not wish to abandon them.[55] Thus, political preferences of Argentine government officials could undergo a critical scrutiny (how close to the axis were they?) but neutrality would be hard to argue.

Geographic fortune, political fortune and accelerated equalitarianism (1945 - 1975)

Between the end of WWII and the oil shocks of the mid 1970s, the Western world underwent the most impressive experience of growth and social inclusion ever in history. Even though the main actor of this experience was rebuilt Europe, only few countries were left out of this bonanza that, as usual, was only fully comprehended when it ended. Argentina and Australia accompanied that growth with favorable number, especially considering that since 1930 the pattern of international trade did not favor countries like *Argentalia,* and it would not favor them in the coming years – except during the time of the Korean war. The time of intra-industrial trade had started, the terms of trade of nations producing raw materials were falling and the participation of those raw materials in world exports would go from 50% at the beginning of the 1950s down to 30% in the mid 1970s. The initial main feature of the period both for Argentina and Australia was the combination of distributive protectionism and *stop and go.* We have already referred to that when we described *Argentalia.* Inasmuch as the export dynamics were insufficient to purchase the supplies and capital goods associated with a certain level of activity, from the government's point of view sooner or later it seemed unavoidable to devalue the currency. For semi-industrialized economies such as the ones under comparison, that had a contractive effect. More than promoting the production of export goods –the textbook reaction to currency devaluation- devaluation provoked a decrease of domestic consumption because as the prices of international marketable goods increased –food among them- real wages that had been promoted by the increase of distributive protectionism

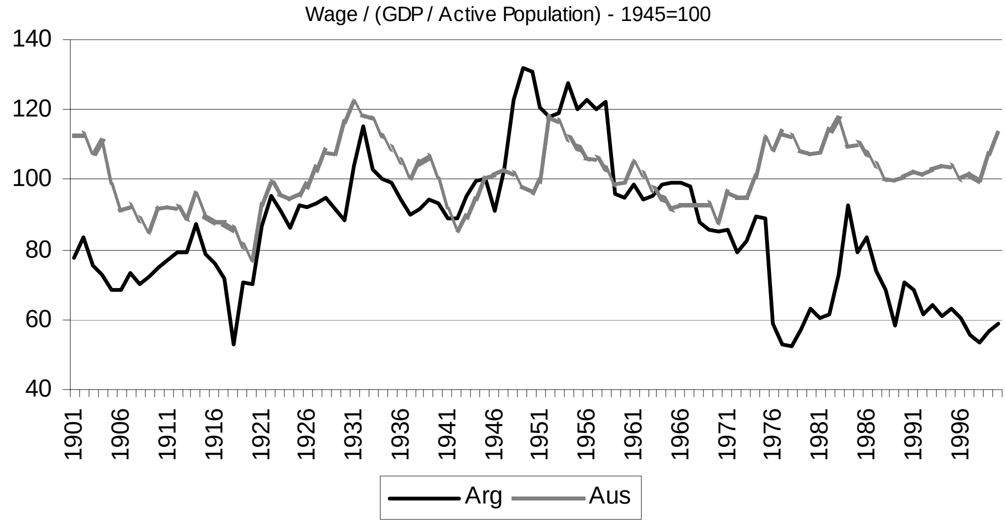
[55] See Bandeira (2004), pp.179-180.

dropped. To a certain degree the consumption of basic primary need articles decreased, so that even with a static rural production there was an increase of exportable figures; but the demand of protected industrial products which could not be placed in international markets decreased more, thus bringing about recession. This "stop" contributed to contain the demand of imports and revert the external deficit. Only when salaries reacted –dragging along costs and industrial prices- consumption, production and imports were reactivated. But, unless something changed along the way, the seeds of the new fall resided in that very same recovery.

Did this combination of distributive protectionism and *stop and go* exhibit similar features in Argentina and in Australia? Did it operate with equal intensity at every moment? We will find the answers in politics and in fortune. Let's start by politics. History narrates that "the glorious thirty years" of international economic expansion were ushered by Robert Menzies in Australia. He was the liberal conservative leader who, having arrived to power in 1949, stayed in office until 1966 when he voluntarily retired leaving his party to extend their stay in office until 1972. Australia offers us that comfortable explanation. The Menzies "age" lasted twenty-three out of the thirty years we are trying to explain without major perturbations. What did Menzies and his immediate successors do of interest for our argument? Not much and nothing very dramatic. First of all, in keeping with the climate of the times and extending the thrust from the war, they promoted industrial development in order to reduce external dependency on imported goods and capital goods; second, they subsidized immigration to provide a market for those industries; thirdly, they moderated the historic salary indexation in order to break inertial inflation; lastly, they systematically watered the flower garden of relationships with the United States. Perhaps more important that anything else is what they did not do. Independently of minor changes, Australia remained anchored to redistributive protectionism inaugurated so long before, with no relevant innovations regarding this funding project of the federation. What does Argentine history tell us in the meantime? Unlike Menzies, Peron will mean the ruling of politics over economy. If Menzies slid along the side of the hill looking for easy clues and taking advantage of the leftovers of international growth, Peron veered in the direction Australia had turned to long before. In Argentine where there had been spontaneous protection during the twenties and forced protection during the thirties, Peron consciously chose to deepen protection after the war in order to facilitate one of the most outstanding distributive experiments in the century of distribution. In spite of the fact that protectionism and a moderate distributionism had progressed for twenty five years, it had been a slow climb deprived of political actors. But Perón occupied the scene with his political rallies, with his voice, and turned into a line dividing the political waters what up to that moment had barely been an economic and social process. For that purpose, he provoked acceleration: in three years he did what Australians did over fifty and turned into a revolution what in Australia had been part of their political and institutional routine. Real salaries increased over 60% between 1946 and 1948 and for a short while income distribution became more equalitarian than in the kingdom of equalitarianism which, 20,000 kilometers away, was for the moment being opaqued (see Graphic 4).[56]

[56] Due to the lack of long term figures of personal income distribution we use a measurement of functional distribution. There will not always be a correspondence between the movements of this variable and those of an index of the personal income distribution. Particularly, during periods of economic depression this variable overestimates equality for it does not contemplate unemployment. The same would happen if the inequality among workers increases.

Graphic 4: Funtional distribution of Argentina and Australia, 1901-2000



Sources: Australia: Product and population: Maddison (2002). PEA: 1901-1973: Butlin (1977). 1974-1977: Foster (1996). 1978-2000: RBA (2005), table G07. Argentina: Gerchunoff & Llach (2004).

Could this victory of politics be perpetuated in Argentina? Perón believed that the Third World War, with European fields barren again, would provide that opportunity, that the terms of trade would be maintained –as they were at the beginning of his administration- at the highest level of the century, that abundance of cash was there, as a nuisance, and that his wit should be used to figure out how to spend it. Peron bet all his chips on that number, but the invisible *croupier* of history did not call it. The same year that Menzies took office, the material with which the general architect had built his unforgettable edifice started showing visible cracks. The terms of trade dropped and the nuisance was the lack of cash and not its abundance. Peace and the gradual normalization of international economic relationships had betrayed him. Only a blow of fortune could keep the building standing: otherwise Peronist salaries and income distribution would have to give in sooner or later.

But fortune leaned on Australia's side. Beyond the frugal modernizing policy of the liberal administration, what created the era of progress the country would experience (between 1946 and 1976 there were only two years of negative or non growth) was a combination of circumstances more related to economic and political geography than to economic policies. Few things were stronger than the happy coincidence between factors of supply and demand in the market of primary goods Australia was facing. Though Hiroshima and Nagasaki were not enough for Australian public opinion to drop their anti-oriental prejudice (for a long time the typical caricature was one of a small wild monkey with prominent teeth), its post war expansion turned Japan into too attractive a trade partner to wallow in racial hatred. The torturous relationship with Asia's emerging star was definitely overruled in favor of economic complementariety with the agreement of 1957 through to which year after year Japan would purchase most of Australian's supply of wheat and corn. As from that moment, the relationship between both countries would strengthen without pause, and very soon the dance of regional trade would profit from the participation of other countries. Between 1940 and 1980 Japan increased its participation in Australian exports from 3% to 28%; the combined figure for China, Korea, Singapore, Taiwan, Malaysia, Indonesia, Hong Kong, and Thailand went from 3% to 18%. In both cases, shares increased at the expense of the United Kingdom.

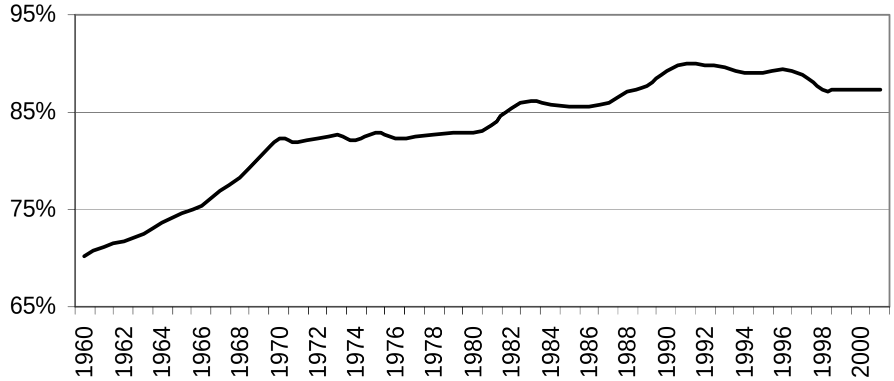
For Australia to carry out its Asiatic destiny of that time it was not enough that its neighbors grew. It was also necessary that in their drive towards industrialization those neighbors required what Australia could offer them. Precisely, many economic historians have identified the years after WWII as the second boom of natural resources in Australia. Western Australia and Queensland –

whose territories were regarded in the best of cases as barely apt for sheep to graze- were the unexpected geographic location of new mining findings. To zinc, copper and gold –whose yields had declined- nickel, manganese and titanium were added and, above all coal, iron, and oil. The hydrocarbons deposits along the coast of Victoria complemented the radical transformation of the productive structure and turned Australia into a net exporter of oil well into the seventies. The strangling of the balance of payments was definitely a thing of the past behind; the complementation with Asian nations –mainly with Japan- was now indisputable; and considering that all the new elements the land was offering were raw materials (not food) the conflict between growth and income distribution ended up being practically erased from the agenda.

It is worth giving a voice of alert here: post war Australia geographic fortune acquires full size only confronting it with the mirror of its own history or, in any case, before the eyes of Argentine observers such as the ones writing this essay. For Australian historians, the sustained productive rebirth of their country stands out after decades of mediocre performance interrupted every now and then by some event that, like wars, deviated the course of events momentarily. For Argentine observers, Australian rebirth generates a surprised envy. It is true that there was also an important economic recovery in Argentina during the sixties. What would later be the five main crops of the humid Pampa region – soy, sorghum, and sunflower besides the classic wheat and corn- acquired dynamism at the rhythm of the mechanical revolution and biological and agronomic improvement; the manufacturing industry timidly started exporting; new clients –less vigorous than Australia's- emerged in Latin America and among socialist countries (see Graphic 5[57]). But if all this allowed an increase in exports –which up to 1969 could not surpass the level they had reached in 1927-, to mitigate the recurrent cash shortage, to open the road to export diversification, to allay the distributive conflict, and to grow during eleven consecutive years for the first time since the beginning of the century, this beneficial phenomena never had the proportions of the Australian one. In the bilateral comparison, Australia was the fortunate one. However, is bilateral comparison the only possibility? A look into the forest puts us into perspective. During the thirty years that followed the ending of the war conflict Australia enjoyed its geographic fortune in the middle of that tremendous world expansion that minimized its own performance. We have already verified its retrocession in the world game board even during the best of moments; now we can see what appears as a backdrop: its monotonous loss of participation in the flows of international trade (see Table 3).

[57] As an example of Australian geographic fortune as compared to Argentina as regards the factors of demand during the second half of the 20th century, we can note the evolution of the *relative market potential.* The graphic represents the ratio of that coefficient between Australia and Argentina: a growing trend indicates that countries close to Australia are growing at a greater speed than countries close to Argentina. Such a tendency can be seen during the 1960s and it would repeat at the beginning of the 1980s until the Asiatic crisis of the 1990s.

Graphic 5: Relative Market Potential Australia/Argentina, 1960-2001



We define the market potential of a given country as the sum of the product of the other world countries weighted by the inverse of their distance to that country. Source: Goods: World Bank (2003). Distances: Gallup, Mellinger & Sachs (we took the norm of geographic coordinates as an approximation of distance).

Table 3: Participation in world exports

Figures expressed in current US dollars.
In between brackets: share growth as compared to the previous period

	1870	1913	1929	1950	1973	1990	1998
Australia	2.20%	2.25% (+2%)	2.04% (-9.5%)	3.20% (+57%)	1.88% (-41%)	1.32% (-30%)	1.18% (-10%)
Argentina	0.65%	3.03% (+365%)	3.12% (+3%)	2.26% (-28%)	0.64% (-71.5%)	0.41% (-36%)	0.53% (+30%)
US, Canada, Australia, and New Zealand	12.82%	19.40% (+51%)	24.58% (+27)	29.72% (+21%)	21.66% (-27%)	18.94% (-13%)	20.44% (+8%)
Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela	4.90%	7.28% (+49%)	8.00% (+10%)	9.34% (+17%)	3.92% (-58%)	3.55% (-9%)	5.11% (+44%)

Based on Maddison (2002)

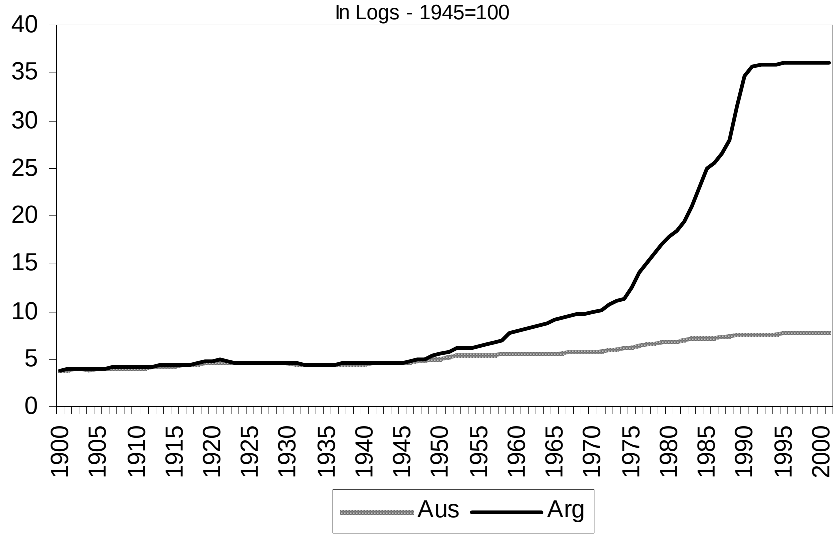
If the benefits of economic geography depend on the point of view of the observer, the same does not happen in the case of political geography. During the war, Australia paid with blood having been –irremediably- at the right point. During the cold war no blood was shed but the alignment remained untouched. The tacit protectorate of the United States deepened at the time that the bond with Great Britain lost protagonism until becoming an invisible thread of mutual sympathy and nostalgia. After the combats, hard data illustrated the change: less than half of the new immigrants were coming from the United Kingdom; they were mostly Italian, Greek, Eastern Europeans, and, against what anybody would have foreseen a few years before, Asiatic. In spite of the not very convincing protests of laborism, Robert Menzies' calculated anticommunism contributed to opening a pro-American burrow. In 1951 –during the middle of the Korean war- the United States and Australia consolidated their brand-new political pact by signing, together with New Zealand, an agreement of three-way military assistance. Very soon the first world power became a regular destination of some of Australian's primary goods –mainly meat- and Australia became a relevant destination of American investments.[58] As for the rest, with time Wall Street formed its own vision

[58] An aspect illustrating the change of direction in Australian foreign policy as regards the United States was the change adopted in its currency nomination. Since 1910, when the Commonwealth emerged as the only authority capable of issuing currency, the Australian pound had respected an intricate system similar to that of the sterling pound (1 pound=20 shillings=240 pennies). But in 1966 the system was replaced by the decimal system, and the new name for the old Australian pound was not proposed by Menzies –who was nostalgically inclined to call the new currency "royal" –but they rather chose to call it "Australian dollar". Likewise, the image of Queen Elizabeth was kept on all coins and in the 5 Australian dollar bill (see Giblin, 1951 and Schedvin, 1992). In any case, as Tim Duncan made clear to us, other less symbolic facts reflect the will of Australian policy to align with the United States. In this sense, we can point out the participation in armed

of this state of relationships. Australia had become a member of a select club, the main supplier of raw materials of Asiatic emerging nations and a favorite of the United States. As a consequence, Australia would not fall –at least not while the cold war lasted- into the turbulence of a financial crisis. And if bad events would not take place, you could take out loans without any anxieties.

Graphic 6: Price Index of Argentina and Australia, 1900-2001

In Logs - 1945=100



Sources: Australia: Australian Bureau of Statistics. Argentina: Indec

Thus, as the years went by you could see that Menzies' building was stronger than the one Perón has left as a legacy. Menzies' had been touched by the wand of fortune: more dynamic exports that allowed to import supplies and capital goods, a temperate distributive conflict, a political alliance with the United States that also guaranteed financing. The building Perón had constructed –it would be learned soon after –was going in the opposite direction from the world trade rebirth that would come, but once erected it was very hard to go back.[59] The fifties were dominated by the *stop and go*, and when exports started resurging, Argentina had become the arena of a distributive struggle, sometimes contained, sometimes exasperated. Salaries emerging from Peronist redistributive protectionism could not be sustained. Each attempt to reduce them was answered by a more or less successful reply from worker's unions. The result was a high real volatility and mainly a high inflation (see Graphic 6), temporarily reduced, every now and then, by laborious stability plans. How was it possible for Argentina to surprise everybody by growing at the same pace as Australia in the average of those thirty years? The answer is complex and the authors of this work can barely venture a hypothesis. Maybe, as opposed to an Australia more mature in its industrial conformation, Argentina still had the opportunity of deepening import substitution (see Graphic 7). But import substitution is not a tree that can grow up to the sky. Sooner or later, establishing new protected industries does not improve the external accounts. That is the end of the story. In this context, any domestic or external adversity can ignite the wick. And the wick was ignited in Argentina in 1975.

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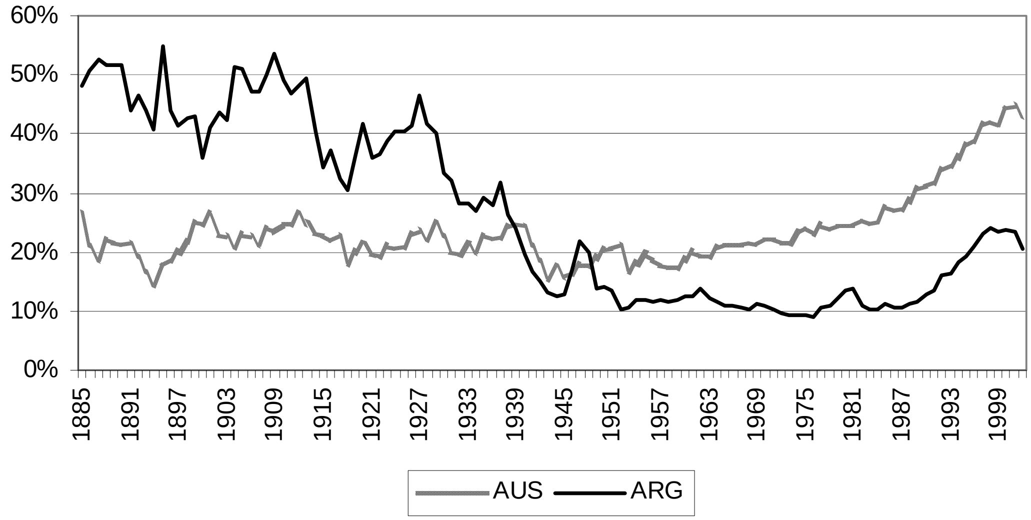
conflict of the second half of the 20th century -Korea, Vietnam, Timor, Afghanistan and Iraq- as well as the systematic Australian reticence to confirm the Kyoto Protocol.

[59] This suggests a basic question: how much of the drop of Argentine participation in world trade can be explained by problems of supply generated by domestic policies tinted with an anti-exporting slant, and how much by the drop of the international demand of Argentine products? Llach (2005) explores this matter; in spite of attributing a significant quota of the drop to external events he concludes that those factors do not provide a complete explanation.

Graphic 7: Trade Opennes of Argentina and Australia, 1885-2002

Constant values



Sources: Australia: GNP: 1885-1900: Butlin (1962), Table 269; 1900/01-58/59: Butlin (1977); 1959/60-2002/03: RBA (2004) table G10HIST. Exports and imports: 1885-1900: Exports and imports at current prices: Butlin (1962), table 247; prices of exports and imports: Butlin (1964), fig. 30; 1900/01-49/50: Butlin (1977); Exports 1949/50-1974/75 and imports 1949/50-1985/86: Foster (1996), table 1.10; Exports 1974/75-2002/03 and Imports 1985/86-2002/03: RBA (2004), table H03. Argentina: Gerchunoff & Llach (2004).

The End of History (1975 - 2002)

It is the seventies. Readers please imagine a country in which in nearly two decades a popular movement returns to power with the main goal of recovering the policies related to social justice which formed its very identity in the past. They increase the public expenditure and salaries and the currency appreciates. However, it will be soon proven that the economic tools which had been successful in the past are counterproductive or simply impossibly to use. The international context has changed: price increases since the end of the seventies, Bretton Woods' abandonment of the monetary system in 1971, the oil crisis of 1973, *stagflation* –the expression had just been coined– in 1974-1975. The terms of trade start falling and interest rates begin to rise. Redistribution policies can't hold up but the political conditions necessary to abandon them also do not exist. This leads to a crisis and –in the middle of inflationary acceleration- the government ends up being overthrown from power by methods that have little or nothing to do with institutional routines. Reading these lines, Australian readers will think about labourist Gough Whitlam, who after twenty three years put an end to the Menzies era in 1972 to end up being in 1975 a victim of the most serious collapse of the Australian parliamentary system in all its history.[60] Argentine readers will think about the dramatic Peronist experience between 1973 and 1976, predecessor to a bloody military dictatorship.

[60] According to the Australian constitution, a senate hostile to the executive power had the possibility of avoiding any bill to be passed, and even of hindering government operation by refusing to pass expenses and goods and services, literally by leaving them with no funds. Until 1975 the Australian federation operated under the tacit agreement that the senate would not use such a power, but that year the disagreement regarding Labor Party proposals led the opposition to resort to that power arguing there had been acts of corruption at government level. Due to the fact that laborism refused to call for elections, the *governor-general* – representative of Great Britain before the Commonwealth elected by the queen- with the support of the American ambassador exercised the unusual power of dissolving the government and calling for elections. It was the only time such measurement was taken, and from there on it would be one of the issues subject to more debate in Australian political history. See McIntire (2003).

In Australia as well as in Argentina, the episodes we have just referred to were the onset of the end of distributive protectionism. But the analogy cannot be taken too far, mainly for a matter of proportions. In the case of Australia, when Whitlam took power, protectionism was already weakening. The boom of raw materials had turned the balance of payments crisis into history, and new employment was being created in unprotected activities, therefore some traditional arguments favoring the imports substitution were gradually losing weight. On the other hand, inflation was already a much feared enemy that eroded real salaries and that from a labor standpoint must be fought. Then, we should not be surprised that Whitlam himself appealed to reducing tariffs -by 25% in 1973- as a complementary tool to appreciate the currency in his struggle against price escalation. Three quarters of century had gone by since the coalition of workers and industrialists had established their political predominance when the Federation was just starting. Now industrialists would be the ones most affected by Whitlam's policies and, as a consequence, his fiercest opponents. When finally the Labourist leader fell down, the nationalist-liberal alliance that took over the administration devalued the Australian dollar, tempered the policy of trade openness and concentrated their efforts on stabilizing the economy, this time at the expense of workers. The failure was complete: government claims before the Courts to de-index salaries were not heard and public expenditure did not go down as much as planned. Towards 1983, because of new oil shocks, inflation regained strength and unemployment reached 10%, the highest level of the post-war period. Then a new version of laborism, more attuned to the airs of reform that were traveling around the globe came and stayed in power for thirteen years. It took care of progressing towards trade liberalization within a novel context of a floating exchange rate.[61] Why was it able to do so without a new inflationary blow and without an increase of unemployment? Partially because external misfortunes decreased. But also because, going back to the sources, laborism discarded the road of confrontation and chose consensus with businessmen and worker's unions. The *Prices and Incomes Accord* was signed. This accord was renewed year after year with the corresponding adjustments up to 1990. Businessmen limited price increases at the time that they benefited from a real exchange rate persistently higher; unions accepted a moderation in indexing practices in exchange for graduating the commercial rhythm in order to defend the level of employment. Based on its generous natural resources, a more open Australian economy was being born, and this openness extended to all sectors since, in a new round of political alternance, liberals stepped back into power in 1996.

A matter of proportions. The inflationary outburst in 1975 in Argentina was something more than the domestic reflection of a worldwide party ending. It represented the bare expression of a distributive struggle that no longer possessed government nor political mediations. While Australian inflation never reached 20% during the seventies –in any case it maintained an average of five percent point over that of OECD countries [62]- Argentina multiplied it twenty times in 1976 and only in one year between 1975 and 1990 was it under 100%. These figures are the testimony of a failure: combining economic reforms and stabilization programs is always hard, but enforcing –the way the military dictatorship did- commercial and financial openness at the same time we use the exchange rate as a nominal anchor in the attempt of fighting a high inflation equals signing one's own sentence and sentencing those coming after us. Simple, in Argentine economic history there has been no worse fifteen years than those going from the collapse of Peronism's dispersion and hyperinflation: standstill, real volatility, huge price increases, indebtedness. When democracy was restored in 1983, the first government had to face this gloomy scenario in an international context that offered nothing but calamities: there was enormous foreign obligations with no possibility of having access to new loans; the terms of trade dropped to the lowest level of the century; the real interest rate the country was paying had only been higher at the beginning of the crisis of the 1930s; and all the while the collective demand was for social reparation. When the 1980's ended, the distance that separated Argentina from Australia could not be measured in kilometers and any comparison seemed capricious. The southern country in the Atlantic could no longer evade its Latin American fate. In terms of performance, one of the worse cases of Latin America.

[61] Argy (1992).
[62] Greenville (1993).

When you face the same problem, there is a possibility you might stumble over the same rock. In a sense that is what happened at the beginning of the 1990s. To fight hyperinflation, the second government of the democratic era resorted –after failing with other instruments- to the same formula used by the military dictatorship: economic reforms and a stabilization plan based on a fixed exchange rate, this time, a Convertibility Plan resembling the gold standard in style. However, results were different. A greater macroeconomic consistency and an international context more benevolent for this new attempt at trade and financial openness allowed them to stabilize prices, increase exports, and obtain initially inexpensive financing to expand the economy. In fact, 80% of the Argentine loss as compared to Australia in the coefficient of relative GDP per inhabitant during the *strong divergence* is explained by what happened during the first fifteen years. As from 1990 the divergence is moderated. Would there have been a rebirth of convergence if Argentina had abandoned the regime of Convertibility earlier than January 2002? The question has no answer, but the truth is that convertibility showed a cursed face, known but perhaps forgotten, which every now and then had the classic gold standard imprinted. When economy operated with a flexible exchange rate, the phases of drop of the aggregate demand (whether they are of internal or external origin), are allayed by currency depreciation, which promotes exports and redirects expenditure in imports towards local production; and the opposite happens at times of increase in the aggregate demand. This tempering force did not exist in Argentina. Exchange rate delay was one of the crucial elements to explain what were to come: deflationary pressures, a depression, financial crisis, increasing unemployment and, after the unavoidable devaluation, generalized breach of contracts.[63]

Could exchange rate delay have been a tool to compensate distributive costs of trade liberalization, and therefore attractive to those in government? At some point in time we have explored this hypothesis, now important in our comparison.[64] In Argentina, those distributive costs must have been higher than in Australia. In order to develop this issue, we will once again put the determinants of the conflict into perspective in *Argentalia*-type countries. Trade openness implies a fall in the relative price of the import-competing industrial sector and an increase in the relative price of export goods which, given the factor endowment, are mainly raw materials extracted from the territory. The first are more labor-intensive and, therefore, trade openness implies –at least in the short term- an increase of unemployment and a drop in salaries. Now, establishing a difference between the two countries, the negative impact is necessarily higher in Argentina because the proportion of protected employment in the amount of total employment is higher: Argentina not only lacked the exports boom Australia enjoyed due to factors of supply and demand already explained; it also happened that its economy, poorer, was less prone to the production of labor intensive services. Besides these direct consequences of trade exposure over employment and salaries there are others channeled towards consumption and which also establish a difference among the two countries. Argentine popular classes assign a greater part of their income to food consumption, and those foods are the main core of the goods exported, so their prices increase with liberalization; higher income social classes consume less food and more industrial goods, which are the ones whose prices go down with liberalization. Thus, popular sectors are not benefited, higher income sectors are. Meanwhile, what happened in Australia? Popular classes have an average income that duplicates that of Argentine popular classes, thus they consume less food and more industrial goods and services. On the other hand, the raw materials exported is a basket in which minerals weigh more than food. Combining all factors, trade openness is more unpopular in Argentina than in Australia and exchange rate delay can then become a tempting anesthetic for those who do not wish to pay the political cost of a merciless openness.

[63] Perry & Servén (2002). The authors estimate that the real Argentine exchange rate was overvalued compared with the equilibrium from 1997. See also Heymann, Galiani and Tommasi (2002).
[64] Gerchunoff and Torre (1996).

History restarts: Convergence again? (2002- ¿?)

Now, after a long historic ride, let us go back to our two initial questions: why didn't Argentina match Australia's economic performance when at least until 1930 it promised to do so?; why is it that now that it does not promise anything it has the opportunity of doing so? We have tried to answer the first questions starting by building an ideal third country, which we named *Argentalia*, a country that summarized the stylized features common to both countries. *Argentalia* is a country with plenty of territory and scarce population, producing raw materials. It is located south of the Equator, is removed from the centers of world power, it was a close partner of one of those powers until the crisis of 1929, a victim of the fall of the trading of raw materials since then. Economic and social conflict nest at the *core* of its productive structure: it is convenient for *Argentalia* to take advantage of the benefits of expanding world trade in order to strengthen its growth; protectionism is convenient for its workers because its industrial diversification increases employment and improves salaries. For *Argentalia* the best scenario would be one in which exports expand even if there is protectionism, because in that case salaries are higher but sustainable; the worst-case scenario is one in which exports are weak because then the high salaries emerging from protectionism are incompatible with the equilibrium of the external sector and the distributive conflict with its inflationary sequel (or with the sequel of indebtedness) unravels. Throughout our work, we wanted to show that Argentina and Australia are two different versions of *Argentalia.* Stylized, differences depend on time lag and geographic fortune.

The great Australian expansion started before that of Argentina, and so did the crisis. Riding on an essentially rural productive structure, gold findings in the mid 19th century and the peculiar production conditions promoted the beginning of unions and the demands of social protection in a colonial mosaic which, at the time, formed the richest region on earth. Those demands turned into urgent claims with the decline of the productive frontier and the prolonged impact of the 1890 crisis. Thus, for the turn of the century, the newly born Australian Federation was already putting in practice protectionist and distributive measures even at times of good years in term of international trade. With its coming and goings, WWI and the collapse in 1930 reinforced the trend, which only started to slowly be dismantled after the fall of the economic order of Bretton Woods and its internal repercussions. In Argentina, the accelerated dynamic of progress started at the same time as Australia exhibited the first fractures and technological innovations facilitated trade and migration. In the Atlantic nations well-articulated protectionist voices were heard as early as 1875 and some measure in that sense contributed to modeling the economic policy but there were two factors that opened a gap as compared to the Australian experience: first, towards the end of the 1920s the engine propelling growth continued to be exports, and if there was industrialization and productive diversification it was more due to market size than to protectionism; second, until the mid 1940s protectionism did not have a distributive component. Protectionism only became the great active principle of economic policy and the standard of growth with the Great Depression of international trade, and it only turned into distributive protectionism with the arrival of Peronism to power, unfortunately at the gates of trade's rebirth. As from that moment, having explained well the period of convergence and leaving its traces in the different historic moments in which redistributive protectionism occurs, time lag dilutes.

Now it is the time for political geography and economic geography. The sequence is cruel to Argentine eyes. Between the great crisis and WWII, British preference and the first signs of a transitory and vigorous Japanese demand in pre-war times determined that Australia did better during the storm. After the Japanese attack, during the war and the cold war, the United States adopted Australia as their favorite country in the Asian Pacific, its ally against the communist threat. Australia became a member of a select club and, therefore, immune to eventual crisis that could weaken it. Shortly after the war was over, it was also proven that Australia started traveling a path completely exceptional for raw material producing nations. Even though it would share with many others the long deterioration of their terms of trade, *quantities* came to the rescue. In its territory they would unexpectedly find new minerals and hydrocarbons that constituted what Japan –and then a long list of Asian countries- needed as supplies for its industrial development. Neighbors were buying what Australia was offering and, generally speaking, it was not food, which tempered the distributive conflict. Meanwhile, Argentina could not keep pace. It was in a place which during the war and the cold war was not very relevant for the first world power. There were no important findings on Argentine territory; it did not have –except for Brazil during a short time- neighbors so expansive. A smaller development of the heavy industry as compared to Australia also determined the need of importing supplies for the protected industries to complicate even more the external situation. Thus, the *stop and go* and the distributive conflict were more intense in Argentina: its restrictions in the external sector prevented it from sustaining the salaries emerging from distributive protectionism but workers were in position to fend for themselves. That ended in an inflationary regime that made foreign trade liberalization difficult and turned it into a cross when both countries -almost at the same time- decided to adopt it.

This is the core of the argument: time lag, economic geography, political geography; they are all determinants of a distributive conflict more tuned down in Australia, more acute in Argentina. Did institutional factors have an influence on our history? Certainly yes. And they contributed to deepening the differences between the two countries. For instance, the spatial dimension of the distributive conflict in Argentina has been frequently mentioned: federalism rooted on a substrate of regional income inequities that those who lose look once and again to revert.[65] We have not referred to this issue in this essay but it is worth underlining now that Australian federalism is founded on a more equalitarian or at least a less conflictive material basis. In Argentina, the difference between the income per capita of the richest and the poorest province (there are a total of twenty-four) is eight times; in Australia, the difference between the richest and the poorest state (there are a total of eight) is 80%.[66] Another institutional hypothesis rather often published to which we have not devoted ourselves states that a very concentrated initial distribution of the land would have generated in Argentina political institutions less democratic than its Australian counterparts.[67] The premise of this perspective is somehow in keeping with our approach: as a means of contra factual speculation we can wonder whether Peronism would have put into practice a redistributive policy based on relative anti-agrarian prices should a rural middle class as strong as Australia have consolidated historically. A last institutional argument that has been used in the comparison between these two countries and which has neither been approached throughout our work refers to the poor incentives that there was historically for the exploitation of natural resources in Argentina. The argument holds that Australian mineral abundance and Argentine scarceness have been exaggerated because Australian findings had not resulted solely from fortune but they had followed a legislative body that fostered exploration and exploitation.[68] However, the opposite cause can also be examined: Australian institutions were partially a reply to the notion established –as from the gold findings- that Australian territory was rich in minerals.[69] Finally, we have mentioned a matter referred to the political system. Australian parliamentarism facilitated consensus and favored the early and gradual materialization of popular preferences into economic policy. Hardly, an extreme equalitarian bet like that of Peronism could have been carried out in a

[65] Gerchunoff and Llach (2004), Llach (2004).

[66] In Australia (year 2001) the gap is between the product per inhabitant corresponding to the Federal Territory and Tasmania, and in Argentina (year 2000), between the City of Buenos Aires and the province of Santiago del Estero. Data provided by Cerisola (2004) and CEPAL.

[67] For a discussion of works on Argentina which share this approach please see Míguez (2005). Bértola & Porcile (2002) use the argument of initial land distribution to emphasize the different incentives to technological innovation in Argentina and Australia.

[68] See Mitchell (2005).

[69] In 1849, after the news of the findings in California, Earl Grey refused to authorize a mineral survey of the Australian territory because it considered it was too expensive. The first findings were made by adventurers with good intuition, some of whom had participated in the findings on American territory. After the mass immigration to New South Wales the government of Victoria offered a 200 pound reward to anybody who found gold within two hundred miles of Melbourne, and as a caricature of the effect of incentives in a lucky country, the gold was found the day after. The story that followed was one in which the conscience about the richness of their own soil –and the activities carried out around the inevitable findings- generated institutions that favor mineral exploitation. Shaw (1965).

parliamentary system; but the brutal counterface that was to come later would have been equally hard.[70]

Table 4: Decomposing the strong divergence: Argentina and Australia, 1990-2005

Average annual growth rates were calculated on a series of triennial averages

Period	Product			Population			GDP per inhabitant		
	Arg	Aus	Dif.	Arg	Aus	Dif.	Arg	Aus	Dif.
1975-1990	0.22%	3.12%	-2.81%	1.58%	1.43%	0.16%	-1.34%	1.67%	-2.96%
1990-2002	2.47%	3.55%	-1.05%	1.25%	1.16%	0.09%	1.21%	2.37%	-1.13%
1990-2005	2.97%	3.39%	-0.40%	1.18%	1.09%	0.09%	1.77%	2.28%	-0.49%

Until 2002, calculated based on Maddison. Product: Since 2003 ABS and INDEC growth rates were used. Population: Argentina: Indec. Australia: we applied the same rate for 2001-2002.

Our second question: why now that it does not promise anything does Argentine have the chance of doing it? In the previous section we have risked that perhaps a new stage of convergence started at the beginning of the nineties, aborted –or postponed? by the deepest crisis in history. We will resume this line of thought. We know that all periodizations are arbitrary and that each new data can be an incentive to review the past and outline alternative periodizations. For instance, lets ask ourselves what happened with the relative per capita GDP between 1990 and 2005, the fifty years after the gloomy fifteen years starting in 1975. Our suspicions are confirmed: Argentina has barely grown half a percent point per year less than Australia (see Table 4). The speed of divergence has slowed down. And not only that, Argentine exports per capita have also extended at a greater speed, while total exports have acquired, already since the end of the 1980s, a dynamism comparable to the export growth that sustained the first convergence. It is clear that we should not exaggerate about the benefits of these conclusions. A light of alert turns on again. We are comparing Argentina with an Australia which has successively suffered from the crises of Southeast Asia, Russia, and Hong Kong. Should the comparison be made with a wide sample of countries, the development of the relative per capita GDP of Argentina would have no room for such promising perceptions. Neither would the doors for optimism be open by realizing that Argentina is a particle in the universe of a globalization stronger than that of one hundred years ago, less than half of 1% of the world trade and with great difficulties to improve that share.

Are we facing the beginning of a new convergence cycle? It would be adventurous to affirm, but there might be indications in that direction. Emerging Asia, especially China, is an important variable. The more it grows, the weaker the Australian monopoly of geographic fortune. Looking at it from an Argentine perspective, this is the first time since England at the end of the 19th century and beginning of the 20th, that the strongest demands of world capitalism are for raw materials Argentina produces. In that sense, one of current Argentine main exports, soy –which due to weather conditions and quality of soil is not part of the basket of Australian exports- is a historical curiosity. It is a critical supply to feed the chickens and the pigs the new Chinese workers eat, but it is not central in the popular basket of consumption of Argentines. Therefore one of the ingredients of the distributive conflict loses force. And so does the *stop and go*. Demand pushes towards an increase in the price of what Argentina is selling but, besides, supply pushes towards price reduction of many industrial goods Argentina purchases –from shoes to computers-, because they are manufactured with cheap labor. With this trade configuration, has the time of deterioration in the terms of trade, the world of Prebisch, ended?

[70] An idea in agreement with this argument has been recently explored by Adam Przeborski. Refuting Engerman & Sokoloff, who see democratic institutions as a condition prior to growth, Przeborski states that the relative delay of Latin American countries as compared to the United States does not lie on "oligarchic" political institutions *per se* (on the contrary: as those institutions managed to efficiently guarantee the property rights, they became a force behind development), but it was rather the inequity they had generated and perpetuated. This inequity gave room to popular sectors who were constantly neglected get organized and, eventually, already in the 20th century there existed conditions of political turbulence and redistributive impacts negative for growth (see Przeborski & Curvale, 2005).

Table 5: Participation of the main export items of Argentina (1975 and 2004) and Australia (2002) in the export basket

Argentina 1975		Argentina 2004		Australia 2002	
Grains	36%	Fuel	17%	Fuel	21%
Nuclear reactors and mechanical artifacts	6%	Food waste	11%	Minerals	7%
Meat	6%	Greases and oils	9%	Pearls and precious stones	5%
Vehicles	5%	Grains	8%	Meat and edible offal	5%
Food Waste	5%	Vehicles	6%	Grains	5%
Edible fruits	4%	Seeds and oilseed products	5%	Nuclear reactors and mechanical artifacts	4%
Prepared foods	4%	Meat	3%	Aluminum and manufactured products	4%
Sugars	4%	Plastic	3%	Vehicles	4%
Wool	4%	Furs	2%	Inorganic Chemicals	4%
Grease and oils	3%	Fish	2%	Wool	3%
Furs and leather	2%	Nuclear reactors and mechanical artifacts	2%	Milk and milk products	2%
Cast iron, iron, and steel	2%	Minerals (copper)	2%	Machinery and electrical supplies	2%
Cotton	1%	Milk and milk products	2%	Drinks and alcoholic liquids	2%
Organic chemicals	1%	Iron and steel manufactured products	2%	Pharmaceutical products	2%
Flour mill products	1%	Edible fruits	2%	Photography instruments	2%
		Cast iron, iron and steel	2%	Air or space navigation	1%
		Organic chemicals	1%	Nickel and manufactured products	1%
		Vegetables and legumes	1%	Fish	1%
		Chemical products	1%	Copper and manufactured products	1%
		Aluminum and manufactured products	1%	Cotton	1%
		Pharmaceutical products	1%	Seeds and oilseed products	1%
				Furs	1%
				Wood and coal of vegetable origin	1%
				Live animals	1%
				Paper and carton	1%
				Cast iron, iron, and steel	1%
				Zinc and manufactured products	1%
				Plastics and manufactured products	1%

Sources: Indec and Australian Bureau of Statistics. In each cases, items account for 85% of exports.

Two additional factors strengthen the perspectives for a change of path. One of them is that the export basket and the popular consumption basket have started to become gradually and steadily different during the last quarter of a century, in the middle of the crisis. We have just shown that soy –to which we must add its transformation into soy oil- is an example, but it is not the only one. The Argentine export basket is turning –so to speak- more *Australian*-like. Table 5 illustrates the point: the export conversion of industries which, such as metal works, aluminum or petrochemical, had been thought of at the beginning of the seventies as spearheading import substitution; hydrocarbons; copper mining; experimental nuclear technology (which is sold precisely to Australia); the boom of tourism, as a vanguard of service exports, so relevant in Australia.[71] If the

[71] The exports of service represent over 20% of Australian exports (as compared to 12% in the case of Argentina). Half of those exports are represented by education and tourism, whose main destinations are Indonesia, Malaysia, China, and Hong Kong. Source: Australian Department of Foreign Affairs and Trade (2004) and Indec.

profits made during this new stage are systematically invested in labor skills –which is the other likely Argentine advantage, besides natural resources- export diversification will continue, hand in hand with a greater sophistication.

The other factor is mounted on social tragedy. Independently from the deep and prolonged recession Argentina experienced between 1998 and 2002 and whose effects are slowly being reverted, what would leave a lasting mark is the end of the distributive protectionism, which definitely inaugurates a new age. With trade openness what Halperin Donghi referred to as *the long agony of Peronist Argentina* has painfully ended. Then, it is possible that in Argentina the distributive conflict no longer adopts the exasperated shape it had during the immediate post-war. Does this open up a promising opportunity to rise up away from among the rubble, the ruins of import substituting industrialization? The answer is not all that clear: the manufacturing industry, once upon a time refuge of the popular classes, has been replaced by services as the main provider of employment; the hardships of distributive regression which, in greater or smaller intensity, covers the Western world have also started to be noticed. An immense industrial army defines the low level of wages of non-skilled workers on an international level; growing productivity determines higher and higher salaries for skilled workers.[72] The gap widens and in Argentina we start hearing the echoes of new equalitarian demands. Thus, the outline of a productive pattern with an allayed distributive conflict may have been born, but it will remain incomplete until a new institutional network –as in other countries, as in Australia itself- channels those demands. The authors of this work can only mumble about that issue. But in any case, they known that while that network does not appear we can hardly talk about convergence.

[72] Acosta & Gasparini (2004), Gasparini (2004) and Galiani & Sanguinetti (2004), among others, show the increase of inequality in Argentina due to technological changes oriented towards skilled labor, which accompany trade liberalization.

Annex: Distributive implications of protectionism

In a simple model, we show the determinants of the redistributive impact of protectionism. Suppose there are two sectors, rural-exports (X) and competition with industrial-imports (M) that use labor (L) and sector-specific capital (K).

$$Q_X = L_X^{\alpha} K_X^{1-\alpha}$$
$$Q_M = L_M^{\beta} K_M^{1-\beta}$$

Suppose $\alpha < \beta$, therefore the industrial sector use of labor is relatively higher than that of the rural sector. There are two kinds of consumers, who differ as regards to preferences and the factor of production they own. Type L consumers own the labor and type K consumers own the specific capital of both sectors. Their utility functions are:

$$U_L = C_{LX}^{\delta} C_{LM}^{1-\delta}$$
$$U_K = C_{KX}^{\gamma} C_{KM}^{1-\gamma}$$

Suppose $\delta > \gamma$, which means that workers devote a relatively higher part of their income to consuming exportable goods than capital owners.

In this context we observed the consequences of the increase of the relative price of the sector that competes with imports, $\hat{P}_M > 0$ (the hyphen over the variable indicates percentage change). The said shock can very well be interpreted as the imposition of protectionist measures, because such measures increase the relative price of importable goods. That change of relative prices implies a change in the relative cost of the factors through producers' zero profit conditions and aggregate consistency in the factors markets. The elasticity of salaries to the price of imported goods is:

$$\frac{\hat{W}}{\hat{P}_M} = \frac{(1-\alpha)\lambda_{ML}}{(1-\alpha)\lambda_{ML} + (1-\beta)\lambda_{XL}} = \left[1 + \frac{(1-\beta)}{(1-\alpha)}\frac{L_X}{L_M}\right]^{-1} > 0$$

Where λ_{ML} and λ_{XL} represent the proportion of total labor used in the M and X sector respectively. This condition says that after an increase in the price of import goods, salaries will increase. This happens because the sector whose price improves is labor intensive (Stolper-Samuelson, with the M sector being L intensive). As can be seen, such wage increase will be greater when the number of workers employed in the M industrial sector increases (when L_M/L_X is bigger) and when that sector is relatively more labor intensive (when α/β is greater).

In order to see the consequences on worker's well being, we must note that they obtain all their income from wages. As a result, an increase in wages determines a positive income effect that is reflected in an improvement of well-being. However, workers also consume goods whose relative price has increased, an effect that should also be taken into consideration. These factors are reflected in the elasticity of the indirect utility to relative prices:

$$\frac{\hat{U}_L}{\hat{P}_M} = \frac{\hat{W}_L}{\hat{P}_M} - (1-\delta)$$

That is to say that the change in equilibrium utility when there is an increase in the relative price of import goods equals the change of real salaries adjusted according to the proportion of income consumers devote to the goods exported. Provided the said proportion be fairly large, the change in utility will be positive. Then, the change in indirect utility will be greater the greater the change in real wages and the greater the proportion of total income workers devote to export goods.

Summing up, protectionism is more redistributive (in the sense that it improves the equilibrium utility of labor) the greater the *proportion of total workers actually employed in the industrial sector,* the greater the *relative intensity in the use of labor of the industrial sector,* and the greater the *proportion of wealth workers devote to consuming exportable goods.*

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