

## **Populism and Inequality in Argentina: A Brief Introduction**

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In this paper, I examine the relationship between economic inequality and populism in Argentina from the end of the 19<sup>th</sup> century through the latter part of the 20<sup>th</sup> century. Economic inequality has been a politically contentious and highly controversial subject of study, and the research interest in economic inequality across the world has only grown in the past century. The recent increased interest in economic inequality as a subject of research is probably linked to the fact that economic inequality has been on the rise across the developed world since the 1970s (Piketty, 2014). Piketty's more recent research has demonstrated the link between economic inequality and the rise of populism in the USA, UK, and France in the 21<sup>st</sup> century (Piketty, 2019). Argentina has experienced a more substantial increase in inequality than any other Latin American country (Acosta & Gasparini, 2007). The recent mass protests against economic and political inequality in Chile, a country that has lower levels of inequality than Argentina, further demonstrates the importance of this research and the political polarization caused by such high inequality.<sup>1</sup>

Capital concentration in Argentina has been widespread at least since the 1890s, when most of the important infrastructure was owned by foreign investors from the UK, France, Spain, or the USA (Rock, 1986). Economic inequality has been studied in detail by many economists and historians,<sup>2</sup> but there are many problems that arise in studying a

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<sup>1</sup> See OECD Economic Surveys (2017) for an overview of Argentina's high levels of inequality.

<sup>2</sup> These include Piketty, Saez, Rock, Atkinson, and others.

potential link between inequality and populist regimes/policies.<sup>3</sup> Drawing on recent analysis by Alvaredo et al. (2018) and the *Argentine Exceptionalism* special collection, I will seek to tie this economic inequality to the rise of populist policy in Argentina throughout the 20<sup>th</sup> century.

## I. A Brief History of Inequality in Argentina

Unequal capital ownership and economic inequality have generally been higher in Argentina than in more developed countries such as the United States, Great Britain, or France. Furthermore, foreigners have traditionally owned large share of Argentine capital: by 1914, half the capital stock was foreign-owned (Rock 1986). From 1933 to 1943, the economic situation remained favorable to the elite under the military regime and was upheld by the Roca–Runciman agreement. The agreement served to prop up the Argentine export in order to maintain one of the Argentine state’s greatest source of revenues, and it preserved the commercial interests of British businesses and investors in Argentina. The agreement’s effect on economic inequality is evidenced by the growing income concentration during the Infamous Decade: the share of income going to the top one percent of the population in Argentina increased from 17 percent in 1933 to 25 percent in 1943, representing a top share of income more than double that of advanced economies such as the United States (Alvaredo, 2010, p. 268). While the mass shocks to capital in Europe during World War II served to compress the level of economic inequality – through the mass destruction of capital followed by rapid economic development – the same never

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<sup>3</sup> Many of these issues are outlined by Alvaredo, Cruces, & Gasparini (2018). They include limitations in economic theory, the possibility of many simultaneously determined or omitted variables, and the lack of quality statistics. The statistics of income distribution are much more detailed in the USA, France, UK, or Germany, for example, than in any country in Latin America (See [Figure 1](#)).

happened in Argentina due to its lack of involvement in the war. The Argentine elite benefited from growing exports to Europe throughout the war and did not experience such capital shocks, and later did not receive such massive economic development. This trend towards increasing capital concentration and industrial concentration was accompanied by increased political polarization. Combined with trade policies favoring the elite exporters to secure the state's income sources, these factors led increasing economic inequality in Argentina and ultimately set the background for the election of Perón in 1946 (Alvaredo, Cruces, & Gasparini, 2018).

The period after 1930 was followed by a period of relative economic stability, during which inequality rose slowly, then fell during a period of hyperinflation (1936–37).<sup>4</sup> After the economy of Argentina continued growing during World War II, inequality rose again as the share of income going to the top 1 percent more than tripled to more than twice that of the bottom 50 percent. Along with the wealth of the top percentile came the fall of wages in the percentage share of GDP, with the decline in wages largest for the bottom 10% of the income distribution (Alvaredo, 2010, Figure 7). At the time (circa 1944-1947), this represented a large portion of the electorate to which Perón could tailor his policies and secure electoral support. With the end of the war came Perón's years of rule (1946–1955), which were accompanied by extreme shocks to the income share of the top percentile largely through Perón's social policies, higher marginal tax rates, and redistributive policies. However, throughout Perón's administration, the share of the income going to the top percentile remained markedly higher in Argentina than in the wealthy Anglophone countries, for example; it was not until the 1980s that the top

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<sup>4</sup> Generally, however, hyperinflation has a larger negative impact on low-income consumers, since the wealthy do not hold their wealth in Argentine pesos.

percentile in the United States received a higher fraction of income than that of Argentina ([Figure 1](#)). This relatively higher level of economic inequality may help to explain why populist policies have remained central to Argentine politics even since the first victory of the Radical Party in 1916.

The rapid decline in economic inequality immediately following Perón's election was not an unexpected development; the working class comprised an indispensable part of his electoral base, for which he introduced many new labor laws, social programs, and redistributive economic policies. His electoral success, just as that of Yrigoyen before him, was largely from the growing popular disapproval the working class had for the ruling elite, which earned and maintained its wealth through high levels of capital concentration. The rapid expansion of capital concentration dates to the 1890s when structural barriers in the Argentine economy made monopolistic practice the only way for a company to survive. These monopolies – in the shoe industry, the paper industry, the meatpacking industry, etc. – inevitably led to increased concentration of capital and consolidation of small businesses. To make legal this level of market power, the elite created trusts to protect their wealth from creditors (Rocchi, 2006, p. 109). Available evidence suggests that this practice of creating trusts was probably inspired by American companies. Furthermore, the 1920s, a period of great prosperity and growing wages in Argentina fueled largely by the Great War in Europe, was also marked by growing mergers and industry consolidation towards the end of the decade (circa 1926-1929).

Other than a disproportionately large political voice for the elite, capital concentration serves to harm consumers in other ways. For example, extreme concentration of industries is accompanied by higher markup pricing, which serves like a regressive tax on those with higher marginal propensities to consume. Recent research by Loecker and

Eeckhout (2017) has shown that, while higher markups do not necessarily imply higher firm profits, firms with higher markups indeed have higher dividend margins – and therefore higher profits for firms and higher costs to consumers (De Loecker & Eeckhout, 2017). There is a significant correlation between high industrial concentration and slow economic growth; from 1918 to 1930, as industrial concentration was falling in Argentina (though not continuously), GDP grew at 3 percent annually and salaries increased by 7.5 percent annually (Rocchi, 2006, p. 117). As the growth in wages exceeded the growth of the economy and the rate of return on capital, economic inequality likely compressed in this period, although lack of quality data prevents the formation of any adequate empirical conclusions. As increasing labor costs made Argentina’s growing industrial sector less competitive, however, foreign corporations came in to gain access to the strong domestic market. This influx of foreign capital exacerbated the already negative view of foreign capitalists in Argentina. A disproportionately large share of foreign capital in the income share is characteristic of Argentina from 1890 until the present day. Even today, assets stored in tax havens is nearly 40 percent of GDP in Argentina; Russia is one of the only countries with a higher asset/GDP ratio (Alvaredo, Chancel, Piketty, Saez, & Zucman, 2018).

Other research has highlighted the differences between the United States, Canada, and Argentina at the beginning of the 19<sup>th</sup> century. For example, the agricultural sector in Argentina was much more unequal, relying heavily on large estates throughout the 19<sup>th</sup> and into the 20<sup>th</sup> centuries. In the United States or Canada, land ownership was much more egalitarian compared to Argentina.<sup>5</sup>

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<sup>5</sup> See (Sokoloff & Engerman, 2000) and (Solberg, 1987).

## II. How is Inequality Linked to Populist Policy?

While the evolution of economic inequality in Argentina needs to be better documented – there are large gaps in the income tax data and very little data on wealth or capital distribution in Argentina at all, and practically no central data prior to the 1930s – even less research is available on the link between economic inequality in Argentina and the rise and success of populist policies in Argentina. Some promising research comes from Glaeser, Di Tella, Alvaredo, Galiani, and others in the *Argentine Exceptionalism* special collection.<sup>6</sup> Populist policies in Argentina trace back to the beginning of the 20<sup>th</sup> century, particularly with the rise of the Radical Party (UCR) and the election of Yrigoyen in 1916. There is growing evidence to suggest that two primary factors fueled this rise in populist policies: (i) the foreign ownership of capital and (ii) economic inequality more generally. The Radical Party used the growing frustration of the middle class with wealthy and foreign elitists/oligarchs; so, the increase in economic inequality through growing capital concentration (increasingly in the hands of foreigners) helped to cement the Radical Party’s electoral victory in 1916.<sup>7</sup> Populist parties have remained an integral part of Argentine politics ever since the initial rise of the UCR and became increasingly important with the democratic election of Perón in 1946.

Di Tella and Dubra (2018) describe two “peculiarities of populist beliefs (in Argentina)”: populist beliefs are often wrong, and they often reveal a distrust of free market outcomes. In doing so, they add to the well-known Diaz-Alejandro hypothesis which holds populist/interventionist policy as the primary reason for Argentina’s fall

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<sup>6</sup> Available at <https://www.springeropen.com/collections/ae>

<sup>7</sup> See *The Role of Economic Inequality and Capital Concentration in the Rise of the Radical Party*, Hayes (2019), available at <https://masonrhayes.com/publication/radical-party/radical-party.pdf>

from exceptionalism, entrenching itself in a cycle of “bad policies<sup>8</sup> and political instability” (Di Tella & Dubra, 2018, p. 2). An important development in the literature is that worker unions, exporters, or other special interest groups often support populist policies because they do not understand the macroeconomic consequences of these policies. Many of these policies have led to and have been the products of political instability, which has resulting in lower levels of private investment in the Argentine economy. This may help to explain Argentina’s lackluster economic growth over 1950 to the present. There is also evidence that protectionist policy raises the price of imported capital goods, which may explain why capital investment in Argentina lagged as soon as tariffs and other protectionist policies associated with import-substitution industrialization were introduced.

Why, then, do populist policies continue to receive support when they often fail to achieve their own goals? One proposed hypothesis is that a “severe distributional conflict lies at the core” of these populist protectionist policies (Galvani & Somaini, 2018). While populist policies led towards the support of import substitution strategy, ISI failed to promote industrialization in Argentina, a country that wanted to industrialize at the same time that it was best suited to produce agricultural products (Brambilla, Galvani, & Porto, 2018). This, combined with “political turmoil, institutional instability, macroeconomic volatility, income stagnation, and high inflation” helps to explain why Argentina failed to grow into the latter half the 20<sup>th</sup> century (Alvaredo, Cruces, et al., 2018). Moreover, this failure to grow has contributed to the rising economic inequality in Argentina since the

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<sup>8</sup> A “bad” or “wrong” policy that received widespread populist support is the printing of more money. Argentina has struggled with hyperinflation for decades, and it has likely contributed to the growing political unrest in the country and increased levels of economic inequality (because the wealthiest individuals in Argentina generally hold their wealth in dollars, euros, or pounds).

1970s. As Thomas Piketty has famously demonstrated, when the difference  $r - g$ , economic inequality continues to grow indefinitely.<sup>9</sup> Since the rate of growth has been so low and the rate of return on capital has been more or less the same in Argentina as in other developed countries, economic inequality will grow more quickly in Argentina than in other countries with higher  $g$ .

### **III. Conclusion**

Economic inequality has risen more quickly in Argentina than elsewhere in Latin America. In this paper, I have given a very brief overview of the evolution of economic inequality in Argentina, as well as a short introduction to its association with the rise and success of populist and protectionist policies throughout the 20<sup>th</sup> century. In the 21<sup>st</sup> century, inequality in Argentina has continued to grow primarily due to bad trade policies, stagnant wages, low economic growth, capital concentration, tax evasion,<sup>10</sup> and other political and institutional failures.

If Piketty's recent research on the association between populism and inequality is at all applicable in Latin America, then it is unlikely that populist policies will be less prevalent in twenty-first century Argentina than they have been throughout its history. With the recent Chilean protests political and economic inequality, the study of economic inequality in Latin America and its association with political unrest, mass protests, and populist policies is more important than ever, and researchers, academics, politicians, and governments across the world had better pay attention.

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<sup>9</sup> Where  $r$  = the rate of return on capital and  $g$  = the growth rate of the economy. See *Capital in the Twenty-First Century* by Thomas Piketty (2014).

<sup>10</sup> Due to length constraints I have neglected proper discussion of tax evasion, tax havens, and their respective contributions to economic inequality in Argentina.



## Appendix

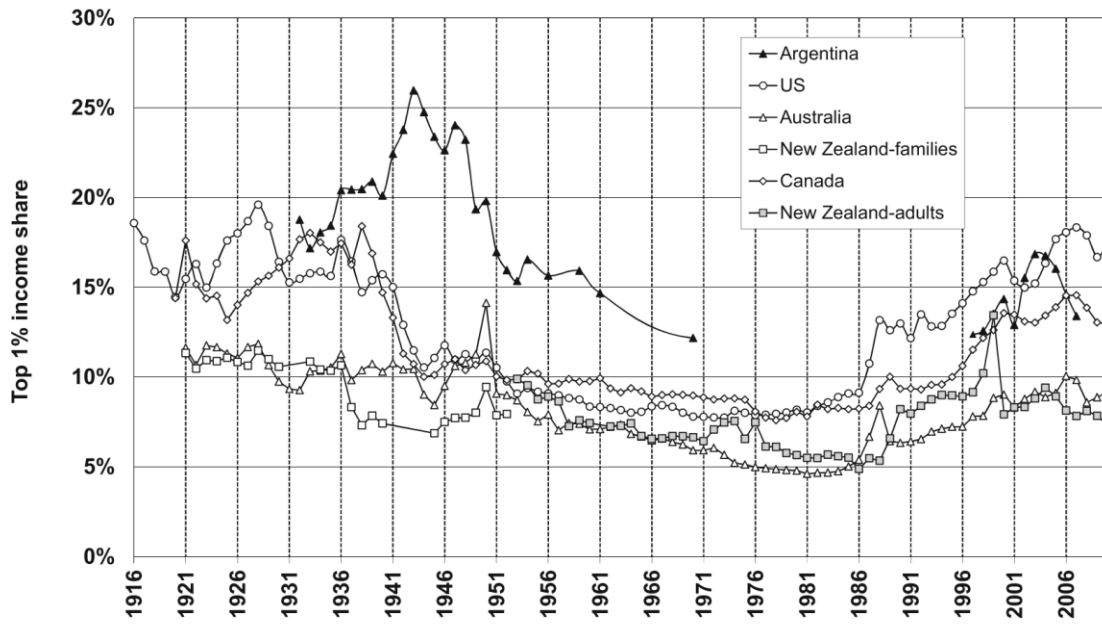


Figure 1: Share of Income Going to the Top Percentile of the Population (Graph directly from Alvaredo et al. (2018)/the World Top Incomes Database)

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