

Policy Pathways: A Theory of The Political Origins of IMF Dependency in Argentina

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Senior Honors Thesis in Political Science
University of Pennsylvania
Spring 2019

Acknowledgements

Thank you, Professor Doherty-Sil, for your insightful feedback and counsel, past and future

Thank you, Eli, for your love and support

And thank you, Haley. You are the reason this thesis journey finally concluded

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Abstract

This thesis seeks to explain Argentina's repeated currency crises, including the need to return time and again to the IMF for a stabilization package, using the domestic contestation of the populist left and military right. This thesis argues that Argentina's domestic politics have contributed to the recurrence of currency crisis, filling a gap in several distinct academic discussions by giving an exhaustive account of how each period of currency crisis in Argentina was rooted in and was exacerbated by the policy choices of domestic political actors. In particular, this thesis argues that the nature of Argentine politics has meant that there is no domestic champion for the kind of economic stabilization packages prescribed by the IMF, and, simultaneously, there is an enduring public pressure to enact leftist policies devoid of sustainable macroeconomic rationale. Unlike other countries such as Chile (where there has been political space for pro-stabilization parties to emerge), Argentina's political landscape is structured in a way that has consistently undercut the health of the peso. I offer a two-part theory of "unique political pathways". First, I argue that in Argentina the following four characteristics have combined to push the country toward currency-destabilizing policies: (a) the spectrum of popular parties; (b) party allegiance of the military; (c) the presence of powerful unions; and (d) the specific priority of the far right. Second, I map the manner (or "pathways") by which this unusual political landscape manifests in currency crisis, highlighting the domestic political roots of Argentina's IMF dependence.

Introduction

Argentina has received emergency liquidity from the International Monetary Fund on 22 occasions since 1958, including the largest lending package in the history of the Fund in September of 2018. Averaging a new loan more often than once every three years since joining the Fund, Argentina has suffered from chronic currency instability at a regularity and of a duration that resembles very few nations. The mere frequency of currency crisis in Argentina leads to an essential question—what explains Argentina’s repeated currency crises, including the need to return time and again to the IMF for a stabilization package?

This thesis argues that Argentina’s unusual domestic politics have contributed to the recurrence of currency crisis, filling a gap in several distinct academic discussions, endeavoring to give a case-by-case account of how each period of currency crisis was rooted in and was exacerbated by the policy choices of domestic political actors. In particular, thesis argues that the nature of Argentine politics has meant that there is no domestic champion for the kind of economic stabilization packages prescribed by the IMF, and, simultaneously, there is an enduring public pressure to enact leftist policies devoid of sustainable macroeconomic rationale. Unlike other countries such as Chile (where there has been political space for pro-stabilization parties to emerge), Argentina’s political landscape is structured in a way that has consistently undercut the health of the peso. I offer a theory of “unique political pathways” with two parts—

First, I isolate four characteristics of the political landscape in Argentina that have created unusual and dysfunctional policy contestation domestically. Specifically, I argue that in Argentina, that the following four characteristics combine to push the country toward currency-destabilizing policies: (a) the spectrum of popular parties; (b) party allegiance of the military; (c)

the presence of powerful unions; and (d) the specific priority of the far right. Second, I map the manner (or “pathways”) by which this unusual political landscape manifests in currency crisis, highlighting the domestic political roots of Argentina’s IMF dependence as shown in Figure 2. I then provide a chronological account of policy making in Argentina from 1916 – 2019 to demonstrate the contribution of domestic political actors in intensifying and/or prolonging currency crises. Finally, Chile is used as a shadow case to contrast effective reforms that prevent currency crises from the policy choices of the Argentine government.

The thesis proceeds in the following order: First, selection of Chile and Argentina as IMF funding outliers is defended in addition to Chile’s fit as a shadow case for Argentina’s involvement with the IMF. Second, a literature review is provided of eight distinct relevant academic discussions. Third, my theory of Argentina’s unusual political landscape the resultant “pathways” for policies is presented. I argue that this framework is consistent with existing academic literature and that the contribution of this study is to highlight the domestic political factors that help explain repeated currency crisis in Argentina over the last century and corresponding intervention from the IMF. Fourth, an overview of the research method is provided. Fifth, the 22 IMF loans to Argentina are sorted into five clusters and linked back to the theory of policy pathways given in the preceding section. Sixth and finally, Chile is reviewed as a shadow case. This thesis ends with a discussion of potential research extensions and the implications of political explanations for currency crises.

Case Selection

Of all nations that have had some period of regular engagement with the IMF, the most interesting subset for political science researchers are the cases of middle- to high-income nations. These cases represent governments that, in spite of an otherwise favorable set of factors for growth, have repeatedly made policy choices that undermine the nation's currency health, such as seigniorage or export taxes. The connection between policies like these and inflation is well documented.¹ Studying higher income nations with periods of IMF dependency allows researchers to partially disentangle the phenomena of currency crises versus economic downturns. Currency crises nearly always cause recessions, and poor growth environments often undermine the ability of a government to maintain the value of its currency. Higher-income and IMF-dependent nations represent the most differentiated cases. In these cases, currency crises are more frequent or more prolonged than GDP retractions, indicating that governments have made poor policy choices that encouraged currency instability in spite of an otherwise positive growth environment. In selecting cases for comparison, the goal is to select one nation that has ended its dependence for comparison with one nation that is actively dependent for an isolation of their differences. 126 countries have withdrawn loans from the IMF, but 13 can be said to be middle-to-high-income and have had at least one sustained period of dependency. The results are displayed below in Figure 1 and a full description of the criteria for selection is in the endnotes.²

Figure 1 – Middle- to High-Income Nations Currently or Previously Dependent on the IMF

Member	Date of Membership	Number of Engagements Drawn	Avg. Years Between Drawn Engagements
Argentina	1956	18	3.38
Bulgaria	1990	7	4.85
Chile	1945	15	3.73
Costa Rica	1946	10	5.5
Hungary	1982	7	3.71
Jordan	1952	7	10.28
Mexico	1945	9	8.11
Panama	1946	8	7.88
Romania	1972	10	2.6
South Korea	1955	8	9.13
Sri Lanka	1950	16	4.5
Turkey	1947	18	1.56
Uruguay	1946	15	4.73

Source: IMF

This initial screening yields a limited but still large set of nations. After reviewing the timelines of IMF engagements for each of the above 13 countries, however, they can be sorted into categories of dependency as active versus inactive as displayed in Figure 2. This view gives three potential candidates (Argentina, Sri Lanka, and Jordan) that are actively dependent to compare with two potential candidates that have been independent from the IMF for over 20 years (Costa Rica and Chile). The other 8 cases cannot be clearly categorized as either having established or not having established independence based on the recency of their last IMF engagement.

Figure 2 – Active vs Inactive Dependency Categorizations

Member	Date of Most Recent Loan	Months Since Last Loan (as of March 2019)	Category
Argentina	September 2018	7	Actively Dependent
Bulgaria	Feb 2002	206	Recently Dependent
Chile	Nov 1989	353	No Longer Dependent
Costa Rica	Apr 1991	336	No Longer Dependent
Hungary	Nov 2008	125	Unclear
Jordan	Aug 2016	32	Actively Dependent
Mexico	July 1999	237	Recently Dependent
Panama	Dec 1997	256	Unclear
Romania	Mar 2009	121	Recently Dependent
South Korea	Dec 1997	256	Unclear
Sri Lanka	Jun 2016	34	Actively Dependent
Turkey	May 2005	167	Recently Dependent
Uruguay	Jun 2005	166	Recently Dependent

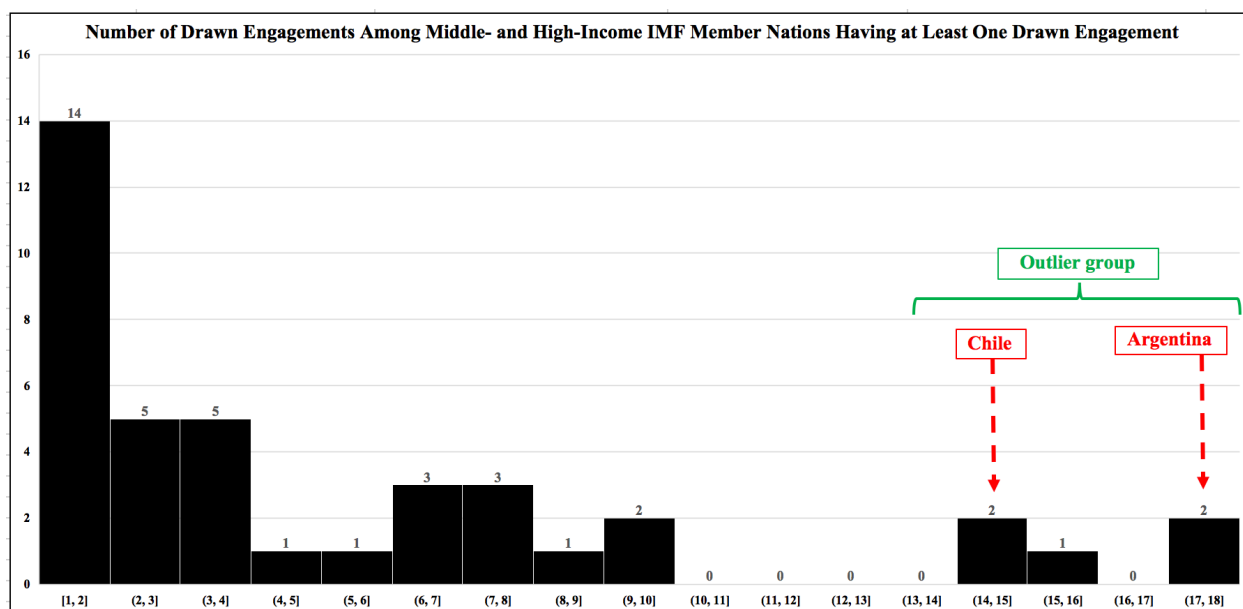
Source: IMF

Key

Actively Dependent	Under 5 years (0 , 5]
Recently Dependent	5-10 years (5 , 10]
Unclear	10 - 20 years (10 , 20]
No Longer Dependent	Over 20 (20 , inf)

Cross-checking this categorization with the distribution of overall number of IMF engagements in Figure 3, an outlier class begins to emerge. The only three nations that are outliers in Figure 3 for overall loan volume and are also in one of the two categories of interest (actively dependent or no longer dependent) in Figure 2 are Chile, Argentina, and Sri Lanka.

Figure 3 – Outlier Group



Source: IMF

Among these three nations, Chile and Argentina are the most comparable. Argentina and Chile were both founded as states dominated by narrow export economies with elite ruling classes and majority European immigrant populations. They experienced parallel populist movements in the early twentieth century and implemented Import Substitution Industrialization (ISI) policies around the same time. Both nations sought IMF aid starting in the 1950s to recover from the stagnation of ISI. Both nations were exposed to the same political trends in Latin America including Marxist mobilization after the Cuban Revolution and anti-communist campaigns lead by the US. In short, before their respective first engagements with the IMF, Chile and Argentina are the most similar cases for comparison among the 13 high income IMF dependency nations in Figure 3. Further, there are clearly identifiable contrasts in the political landscapes of the two countries that, as this thesis will demonstrate, have influenced the health of their respective currencies.

Literature Review

The subject matter of this thesis and its research approach interacts with a wide range of academic discussions with varying foci. For clarity, the literature review that follows is segmented into nine separate sections—eight literature strands (sections A through H) and a ninth section (section I) contextualizing this thesis in the existing bodies of literature.

A. Bureaucratic Authoritarianism

The theory presented in this thesis nuances Guillermo O'Donnell's seminal theory of the "bureaucratic authoritarian" state. Broadly, O'Donnell constructed his model to apply to Argentina and Brazil's regimes in the 1960s, referring to President Onganía in Argentina. O'Donnell argues that the "bureaucratic authoritarian" state concerns itself with both public "order" and economic "normalization."³ In the entire post-Perón era in Argentina until Macri, however, Onganía was the only effective economic reformer. The norm for military and military-backed leaders in Argentina was to prioritize order over economic stabilization. Onganía ruled in a unique era in Argentine history when both goals could be readily accomplished, and had Onganía needed to choose, it is likely he would have prioritized order. In other words, an implication of the theory in this thesis is that an essential component of the "bureaucratic authoritarian" state theory outlined in O'Donnell's discipline-changing text from 1973 is not a stable description of Argentina over time because, as General Videla's junta demonstrated, the elite-military alliance in Argentina was comfortable not liberalizing the economy so long as the riches of the export sector went to the elites and order was imposed on the general public.

B. Economic Technicalism

The majority of literature on currency crises is technical in nature and comes from academic economics circles. Overall, the causes for currency crises have come to be well understood after rounds of crises in Latin and American and Asia in the 1990s provided ample empirical data. Many authors attribute to currency crises to exogenous factors. Reisen (2009), for example, argues that international financiers can cause currency crises by promoting unsustainable capital inflows away from export-sectors in recipient countries by promoting artificial real exchange rate appreciation that can promote an asset bubble. Eichengreen et al. (1996) find that currency crises often originate in speculative capital outflows spurred by downturns in neighboring or similarly situated nations—a contagion effect. Fratzscher (1999) links this same contagion explanation to the hyperinflation crises throughout Latin America in the early and mid-1990s.

Another fleet of authors identify the exogenous origins of currency crises. Paul Krugman (1979), for example, owns one of the seminal balance of payments models that predicts, among other outcomes, that economies lacking sound fundamental macroeconomic planning and management will tend to drain foreign exchange reserves and suffer speculation shocks that, in turn, will lead to currency devaluation. In other words, nations with poor macroeconomic fundamentals are more likely to suffer currency catastrophes. It is also well-known that medium or “intermediate” exchange rate control regimes like Argentina had in periods of its history are very crisis prone.⁴ Kaminsky and Reinhart (1999) identify the link between currency crises and banking crises, noting that instability for banks and inflation operate in a feedback cycle wherein deterioration of the tools available for central banks to regulate currency health (such as bank runs or foreign exchange reserve surplus depletion) can be caused by inflation and the weakening

of the central bank also intensifies inflation. Aghion et al. (2001) find that if the nominal prices of goods are unable to adjust to market equilibrium, then a chain of resulting outcomes can lead to a decrease in demand for a nation's currency and, accordingly, inflation. Herz and Tong (2003) find a sustained and statistically significant correlation between budget deficits and large public debt and currency instability. Dreher et al. (2006) argue that debt crises driven by sustained budget deficits and currency crises promote one another. Each of these arguments focuses on exogenous effects, and Krueger et al. (1998) weighs exogenous effects against endogenous effects. They identify three distinct types of causes for currency crises (endogenous "fundamentals, the aforementioned contagion effect, and speculative behavior of international investors). Among the three categories, the first, endogenous macroeconomic fundamentals, constitutes "the only variables that can be consistently linked to currency crises [from 1977-1993 across 19 sample countries]."⁵

The IMF itself has produced a rich catalog of papers analyzing currency crises. These papers tend to ignore the role of domestic level political factors and the oddity of repeated returns to the fund, however. If literature about the IMF or from the IMF discusses political and social factors at all, they are almost always outcomes and not explanatory variables. In other words, the IMF acknowledges that there is an obvious connection between their loan packages and domestic outcomes like elections, but they systematically fail to consider the idea that social or political variables may be at the root of their need to lend in the first place.⁶ In the only IMF *Working Paper* to consider the idea of loan dependency, for example, the authors write that "Tanzania's dependency on foreign assistance has increased, which has led to a deterioration of the current account of the balance of payments. This development has given rise to an increasingly heated debate about whether real adjustment is taking place in Tanzania or whether

foreign aid is postponing rather than supporting adjustment.” Somehow, rather than considering if domestic political factors are at play as part of the lack of “real adjustment,” the main cause of continued aid dependence is deemed to be low investment productivity.⁷

C. Domestic Governance Undercutting Currency Health

Other authors investigate some of the ways in which domestic leaders can, intentionally or unintentionally, undercut currency health. For an overview, Shimpalee and Breuer (2006) focus broadly on the relationship between domestic institutions and currency crises. They aggregate currency data from 30 countries from 1984-2002 to study the relationship between domestic institutions and currency crises and conclude that “corruption, a de facto fixed exchange rate regime, weak government stability, and weak law and order increase the probability of a currency crisis.”⁸ The existence of a democratic style of government can intensify the incentives to avoid prudent currency reform policies. Some authors find that currency devaluation increases the odds that presidents, prime ministers, and finance ministers lose their jobs through democratic or non-democratic means.⁹ Walter (2009) finds that governments often postpone or entirely ignore prudent exchange rate policies because of the public pressure of elections. Once recession has set in, officials are more willing to sacrifice growth for currency stability.¹⁰

In Latin America in particular, Berkovich (2014) finds that the general public have consistently blamed outside actors for domestic economic woes. Alcañiz and Hellwig (2011) argue that this reality has allowed for consistently bad policy making to continue without its proponents questioning their responsibility for crises. In addition, leftist or command economies pose a unique challenge for the IMF. Some authors find that the IMF has historically failed to prevent currency crises in countries with state-controlled financial sectors.¹¹ Crises are also more

likely when investors question a regime's willingness to sacrifice popular policy goals (e.g. health care) in exchange for maintaining exchange rate stability.¹²

D. Impact on Domestic Policymaking of Engagement with the IMF

Another fleet of authors consider the interaction between foreign loans and quality of governance. The original paper that suggested that the nature of IMF lending may create long-term democratic deficits in borrowing countries was Devesh Kapur and Moisés Naím's "The IMF and Democratic Governance" (2005). Their paper stresses the anti-democratic nature of loan conditionalities. In short, they restrict decision-making abilities of domestic politicians, and this counteracts the faith that citizens in developing countries have in their democratic institutions.¹³ This article also notes that the IMF typically loans to the most desperate nations that have less bargaining power due to their inability to attract reasonable loan offers from other sources, and these loans are the product of a West-dominant "black box" of IMF decision-making.¹⁴ As a result, programs have unrealistically high expectations for success and/or short timelines for completion, and domestic governments often have to make radical changes in order to accommodate the explicit terms of the financing or to meet expectations.¹⁵ Consistent with these findings, Moss et. al, (2008) and Booth (2011) find that politicians are responsive to the needs and demands of parties providing funding, so substantial foreign liquidity can shift the incentives of politicians from the populous to international lenders. Djankov et. al (2008) and Busse and Gröning (2009) agree, finding that foreign credit weakens domestic institutions in recipient countries in the long-term by, among other harms, making them less responsive to the needs of the populous.

Dreher and Walter (2010) discuss a group of indirect and positive influences called "scapegoat" effects in which domestic leaders can blame the fund for the pain of helpful and

prudent policies like cutting pensions. This work is consistent with Vreeland (1999). One of the most common policies of this variety is currency devaluation to reach exchange rate market equilibrium. In fact, the authors find that IMF involvement with a country significantly increases odds of short-term currency devaluation. This process lessens the odds of future crisis because it allows for politicians to evade the principal-agent problem of appeasing the population with short-term economic windfalls in order to win elections in place of wise policy choices for long term economic growth (e.g. liberalizing the current account such that domestic industries may suffer and force the domestic economy to focus on areas of comparative advantage). Formal engagement between flailing governments and the IMF can be essential to allowing the government to enact policies with short-run negative consequences like currency value free fall after switching from a pegged to floating currency as happened in Egypt in 2016.

Interestingly, Dreher and Walter (2010) find that the benefits of IMF programs are attributable to the policy advice and scapegoat attributes rather than the actual money or conditionalities of loans. One partial explanation for this phenomenon is low compliance with IMF conditionalities. Another author estimates that 61.3% of IMF loans from 1970-1999 suffered from noncompliance.¹⁶ The IMF reports that only 57% of conditionalities between 1987-1999 were met.¹⁷

Another set of authors discuss the opposing trend that foreign aid reduces corruption by increasing oversight and potential consequences of graft.¹⁸ One scholar has demonstrated that foreign aid can encourage authoritarian regimes to make some of the initial steps towards democracy.¹⁹ Jones and Tarp (2016) find that foreign aid does not have a positive influence on governance a priori. Instead, aid shifts the calculi of domestic actors in a fashion that is sometimes beneficial and sometimes detrimental.²⁰ On average and in the long-run, foreign

assistance is associated with improvements in governance. Further, assistance is only effective in promoting sustained institutional improvements if it is stable. Other aid, including sporadic crisis aid, is not, on average, correlated with institutional improvements over 1983-2010.²¹

The most important literature on the effect on domestic policymaking of IMF engagement in the family of moral hazard literature. Dreher and Walter (2010) discuss indirect and negative influences of IMF aid packages (negative as in making future crises more likely). This category is essentially the moral hazards of IMF funding availability. Some leaders come to view the fund as a kind of insurance against recession that incentivizes poor policy making. The assurance of current or future IMF aid may encourage leaders to intentionally and/or unintentionally enact policies that sabotage the countries stability for another goal (graft, redistribution, etc.). Vaubel (1983) reaches a similar conclusion as Dreher and Walter (2010), noting that governments with repeated engagement with the IMF exercise more liberty to pursue their often-destabilizing agendas.

E. Impact of IMF Engagement on the Probability of Future Currency Crises

Another set of authors views the IMF as at least partially responsible in creating the very type of crises the Fund aims to avoid. In general, the short-run impacts of IMF engagement decrease the likelihood of future crises. One author, for example, finds that IMF engagement in developing countries is positively correlated with increased foreign reserves to stave off currency crises.²² Arndt (2015), Arndt et. al (2010), Juselius et. al (2014), Brückner (2013), Clemens et. al, (2012), and Minoiu and Reddy (2010) find that there is a generic and statistically significant positive long-run improvement to economic growth from foreign capital influxes like those from the IMF.

The overall impact of IMF engagement on the likelihood of future crises is multi-faceted. Dreher and Walter (2010) find that there is a mix of factors that make future crises more or less likely after IMF involvement, meaning the impact of an IMF loan on the future likelihood of a currency crisis is “theoretically ambiguous.”²³ They argue that the IMF can influence domestic policy choices in four main ways—direct pressure of loan conditionalities, expectations of policy changes in order to become eligible for aid, policy advice, and the actual money loaned. They find that IMF involvement decreases the likelihood of a future currency crisis by increasing the odds that the recipient government’s policy priority is stability and not populist spending or some other goal. In addition, lump sums (typically to replenish foreign exchange reserves) make future crises less likely, and policy advice is generally prudent and reduces odds of future crisis.²⁴ Overall, Dreher and Walter (2010) find that the impact of IMF engagement is a decrease in the chance of future currency crises because positive effects outweigh negative effects²⁵ The authors find that the net effect of IMF programs is a 20% reduction in the probability of a currency crisis within 5 years.²⁶

Another group of scholars view the IMF as an organization that has, on occasion, made recessions or currency crises more likely. This anti-IMF response argues that the conditionalities of IMF aid guarantee future crises. Blustein (2005) argues that the IMF is responsible for inflating the Argentinian debt bubble preceding 2001 and was notably absent in the ensuing crisis. His essential argument is that the IMF continues credit lines far past the threshold where debts are plausibly repayable and then refuses credit lines during the early and most severe parts of recessions. He writes, that “the complicity of global markets and the IMF in pumping up the Argentine bubble would be less deplorable if the bubble had been gently deflated, that is if the international community had effectively assisted Argentina in minimizing the impact once its

economy fell on hard times and market psychology turned negative.”²⁷ Stiglitz (2017) argues that some facets of IMF policy guidance were catastrophically misguided, such as premature capital account liberalization.²⁸ Ernesto Tenenbaum, like Stiglitz, argues that the IMF discouraged Argentina from deficit spending as a stimulus measure to kickstart demand and production while lending channels, for obvious reasons, were unavailable. Essentially, Argentina was handcuffed from recovering and the suffering endured for longer than it would have if more aggressive macroeconomic tools had been at Argentina’s disposal.²⁹

F. Institutional Instability in Argentina

It is widely acknowledged that Argentina has suffered turbulent domestic politics, but the effects of this institutional instability are still debated. Spiller and Tommasi (2003) argue that the instability of Argentine governance has limited the time horizons for policies policymakers to prefer policies with immediate or near-term effects. Dornbusch and de Pablo (1989) argue that obviously unwise policy choices arose from 1975-1985 in Argentina as a result of fighting between domestic political groups and constraints imposed by external debt. Levitsky and Murillo (2005) argue that political actors in Argentina have consistently flouted democratic institutions, seeing them as a barriers to the speedy implementation of their policies.³⁰ Villaroya and de la Escosura (2004) find that Argentina was in a comparable position to Canada and Australia around 1900 as a natural resource exporter with a large supply of undeveloped land colonized by a European power and yet Argentina’s economic growth rate has lagged behind that of the other two countries for almost a century. Using a multi-faceted growth model, the authors demonstrate that institutional instability in Argentina accounts for its economic retardation.³¹ Early growth in underdeveloped countries is typically driven by increasing productivity via

investments in capital like infrastructure or machinery. This investment, however, is contingent on a stable set of institutional arrangements that encourage investor confidence in the security of their investments (e.g. property rights or courts for contract enforcement). In order to model the impact of investor uncertainty due to institutional instability in Argentina, including but not limited to recurrent coups and regime changes, the authors use the ratio of deposits to total money supply as a proxy of confidence in domestic institutions. This proxy is effective because investors will prefer non-cash alternatives with high yields to cash when they are confident in the security of their investments. Cash, alternatively, is a more appealing option when other assets have high risk. “The result of this counterfactual exercise indicates that, ceteris paribus, a higher value of [institutional stability] would have led to a higher rate of investment which, in turn, would have increased Argentina’s rate of growth...from 1.4 to 4.6 percent per year [from 1944-1971].”³²

Gibson (1996) contends that the Argentine state is fundamentally imbalanced because it has lacked electorally viable conservative parties. Gibson gives the most complete account of center-right and far right political parties in the Argentina. He notes the complete lack of electoral success 1916-1996, and his strongest claim for implications of a landscape dominated by the left is a concerning lack of “stability of democracy.”³³ He is in the immense category of political scientists and historians who have studied Argentina’s highly unusual political landscape and made few extensions of their findings other than broad claims that lack connection to a particular outcome of interest like currency crises.

G. Resource Curse

This thesis also interacts with the body of “resource curse” literature that seeks to understand the counterintuitive underdevelopment of nations with generous natural resource

endowments. The idea of the “resource curse” emerged from Auty (1993), who that Bolivia, Nigeria, and Venezuela, despite being rich in natural minerals, were dramatically underdeveloped because of a lack of strong institutions to translate that rich natural resource wealth into sustained growth.³⁴ Notably absent from this analysis, despite an early export driven economy very similar in nature to Bolivia, Nigeria, and Venezuela, is Chile. Chile, because of strong institutions, escaped the trap. This thesis characterizes the political factors in Chile that inclined it to achieve this unusual success. Dozens of later authors have nuanced and expanded the idea of a natural resource curse, including Venables (2016) and Ross (2015) but the underlying idea remains the same. In a negative feedback loop, poor institutional development disallows countries with precious metal, gem, or mineral riches to consistently develop thriving and diversified economies, and the riches of this primary export sector minimize the incentive to develop robust institutions. This canon of literature interacts with the theory of this thesis insofar as Chile’s existence as a counterexample indicates that there was something different about the political landscape in Chile from a very early point in its history.

H. Chile: Growth and Stability Since 1990

The key point of contrast in the histories of currency health in Argentina and Chile is Chile’s eventual departure from IMF dependency in 1990 after receiving 15 loan from the IMF from 1956-1990. Chile’s renewed economic strength and currency health is a well-studied phenomenon. Taylor’s (2006) argues that neoliberalism emerged in Chile as an elite-led strategy for institutional transformation and crisis resolution and became popular only after its demonstrated success. This argument treats Pinochet as the true liberalist in Chile while neglecting the reforms of prior heads of state, but it is also consistent with the idea that Chile’s

military prioritized liberal reform over the mere preservation of order and this fundamentally reshaped the prospects for long-run economic health. Chile is widely applauded for its macroeconomic patience, and some authors find that the real policy debate in Chile is not about whether or not to alter the fundamentals of the neo-liberal reality but instead about the ideal set of social spending packages that can accompany it.³⁵

Many scholars argue that Pinochet's economy gets too much credit because Chile enjoyed an exceptionally positive trade environment starting as early as 1989.³⁶ This idea is consistent with the idea that sustained center-right economics were important to launch Chile into sustained economic comfort. Gwynne and Kay (1997) argue that growth in agricultural exports has been key to Chile's post 1990 growth, and this growth is attributable to the Frei government and not Pinochet.³⁷ Hojman (1995) argues that the Chilean economy is a "tiger rather than a cat," meaning that Chile cemented a growth recipe under the Frei government that will last indefinitely.³⁸ This argument relies on the elected right normalizing liberal policies to make them socially and politically sustainable. Oppenheim also argues that over-continuity from the junta to the democracy that followed should not be overstated because there was a tremendous grassroots outpouring against the atrocities of the junta and revived energy for democracy.³⁹ *Concertación* made only cosmetic and no fundamental changes to the Chilean economy.⁴⁰

Some authors argue that the Chilean junta maintained "authoritarian pockets" that influenced policy.⁴¹ The Chilean military was primarily concerned with institutional stability and insisted on preservation of Pinochet's project. Roberto Garretón (2003) argues that the 1980 Pinochet constitution reshaping created a landscape in which only rightist economic regimes are possible.⁴² Article 19 Section 21 establishes that citizens are entitled to economies free of state

intervention but are limited to only activity that “does not contravene the prevailing moral and public order.”⁴³ Numerous successful legal challenges have struck down government policies in Chile under Article 19 Section 21 since 1990.⁴⁴ Article 19 Section 21 also makes the state acquisition of private property essentially impossible.⁴⁵

Montecinos (1998) argues that Chile has an unusually academic and professional set of political parties, social organizations, and civil society generally that extends and supports this unusual level of technocracy in Latin America.⁴⁶ The origins of economic technocracy culture roots in post WWII growth initiatives that relied on civil engineers who became increasingly integrated into the cabinets of presidents paying for public works projects.⁴⁷ Junta solidified the technocracy with imported academics (the Chicago Boys) having unrestricted policy influence.⁴⁸

Some scholars say that the truly remarkable policy experimentation in Chile occurred under the *Concertación* because all four presidents had to retain popularity while maintaining a rightist model that was generally not welfarist compared to neighboring nations.⁴⁹ This compatible with the idea that the right in Chile is electorally successful by suggesting that this a deliberate process to soften rightist models for public appeal. Other scholars argue that the true miracle of Chile is in the patience of *Concertación* to allow market forces to demonstrate their power to bring prosperity.⁵⁰ Dante Contreras and Kirsten Sehnbruch (2014) note that the *Concertación* has been unwilling to incur any budget deficit for the sake of social programs, in part limiting their effectiveness.⁵¹ This is consistent with the observation of this thesis that despite having self-assigned titles like “socialist,” all presidents under the *Concertación* in Chile have been obediently right of center. The *Concertación* presidents have given unions few protections instead leaving worker welfare to the market.⁵²

Chile is highly unusual among Latin American democracies in that the military has regained popular trust, evidenced by the openly cozy relationship between heads of state and the commanders of the armed forces.⁵³ This is a product of the economic health focus of the military in Chile. The general public late in Pinochet's junta, although they detest the crimes of state terrorism, were generally positive about the direction of the country. The *Concertación* was shaped by its main opposition, the rightist Alianza. The 2009 presidential victory by Sebastián Piñera was the culmination of a process that began after the end of the junta where right of center-right economic policies gained a popular appeal for their stability when combined with some social justice initiatives.⁵⁴ This is highly consistent with the ideas that rightist parties have a legitimate electoral claim in Chile. After four presidents of center-right rule following a neo-liberal president, Chile elected an ultra-conservative in Piñera.

I. This Thesis in Context

Critically, the economic rationale in this thesis is consistent with established knowledge in academic economics. There aren't any novel economic mechanisms proposed in this thesis. Instead, the primary contribution of this thesis is to introduce a domestic politics framework that explains the repeated resurfacing of factors that are already known to destabilize currency health. In particular, this thesis is consistent with the findings in the economists in section B of the preceding literature review. This thesis interrupts the apolitical focus of the IMF to inject the broad discussion about currency crisis with a nuanced case study of a single nation's domestic politics. The theory proposed in this thesis is consistent with and offers an extension to the domestic political mechanisms and election pressures identified in section C. The expectations of

the populist left, as will be discussed in the ensuing sections, consistently drew policy concessions from ruling parties and thwarted reform efforts.

Insofar as the leftist regimes in Argentina consistently enacted populist left spending policies and the military right struggled to comply with or entirely ignored the IMF, an implication of the findings in this thesis is that Argentina operates as counterexample to democratic deficit literature such as Moss et al. (2008), Booth (2011), Djankov et. al (2008), and Busse and Gröning (2009) discussed in section D. Much to its own peril in the long-run, the general public in Argentina maintained a chokehold on policy makers more consistently than other nations considered in IMF democratic deficit literature. To the extent that the “scapegoat effect” from Vreeland (1999) was ever used by the ruling party, it was short-lived and insufficient to precipitate lasting stabilization reforms, exemplified by the Carlos Menem administration. Instead, policymaking in Argentina in relation to the IMF resembles the moral hazard literature that includes Vaubel (1983) and Dreher and Walter (2010).

The section E category of literature on the impact of IMF engagement on the probability of future currency crises reaches two broad conclusions. The first is that the expected impact of IMF engagement averaged over all cases of lending is a modest but positive nudge towards currency stability. This body of literature points to the necessity of the kind of research conducted in this thesis. Alternative explanations for recurring currency crises explain the apparent dissonance between the idea that the IMF, on average, stabilizes the currencies of recipient nations and the reality that some of the IMF’s loan recipients have been mired in inflation for decades. The second conclusion of the authors in the section E category of literature is that the IMF has made some currency crises more likely—in particular the debt bubble collapse and bank run of the early 2000s in Argentina. Insofar as these authors (Blustein, 2005;

Stiglitz, 2017; Tenenbaum, 2004) are not making the claim that domestic political actors are innocent of causing currency crises, their work is compatible with this thesis. Indeed, a fascinating narrative emerges from the combination of their work and this thesis—both the IMF and recipient governments have evident roles in causing currency crises, so currency crisis prevention strategies will likely fail if they do not address the roles of both institutions.

Next, this thesis complements and extends the work of other researchers who have discussed Argentine governmental institutional instability in section F. The work of some of these scholars (e.g. Spiller and Tommasi, 2003; Dornbusch and de Pablo, 1989; Levitsky and Murillo, 2005) informed the early stages of research involved in this thesis with their arguments about a range of immediate consequences of left-right conflict in Argentina. This thesis finds, however, that the work of the other section F authors (Villaroya and de la Escosura, 2004 and Gibson, 1996) fails to connect the observed power asymmetries and conflict in Argentine politics to the nation's currency crisis. In other words, previous scholars of institutional instability in Argentina have either been focused on more granular topics or missed the connection to repeated currency crisis. In this light, this thesis fills a clear gap in the body of existing literature about institutional instability in Argentina.

Finally, the literature in section H indicates that this thesis makes no new argument about the Chilean departure from the IMF other than to contrast it with the ongoing IMF dependency in Argentina via a comparison of the political landscapes of the two nations that will be discussed in the ensuing section. In short, I find it odd that previous scholars have so clearly attributed Chile's currency health after 1990 to relative political stability and institutional strength and not made the inverse argument for Argentina. Accordingly, this thesis connects to the body of well-established literature on Chilean currency health by offering Argentina as version of a

counterfactual—what would it look like if Chile’s exceptional political qualities were all their opposite? In a sense, the theory I present in this thesis explores a version of that question.

Argentina's Political Landscape and the Theory of Policy Pathways

In the direction of establishing a theory of the political origins of IMF dependency in Argentina, I offer the following theory of political landscape and policy pathways. I argue that Figure 4 displays the four characteristics in the political landscapes of Chile versus Argentina that allowed the former to escape IMF dependency and keep the latter in a state of IMF dependency.

Figure 4 - Political Landscape Idiosyncrasies

Characteristic	Argentina	Chile
(1) Spectrum of popular parties	Left and Center-Left only	Left, Center, Right
(2) Party allegiance of military	Right only	Impartial
(3) Presence of powerful unions	Yes	No
(4) Priority of the far right	Public order	Macroeconomic health

Figure 4 can be summarized as follows: the political right in Argentina was never electorally competitive and used the military as a tool to periodically intervene in the affairs of the state. From 1916 – 2015, no individual or group of rightist or center-right candidates attracted more than 20% of the popular vote in a single legislative or presidential election. The right only influenced policy making through the military and had an ideological orientation towards the preservation of hierarchal societal peace over all other policy goals, as opposed to an orientation towards macroeconomic balance or neo-liberal reforms. As a product, the right in Argentina did not pursue a reduction in the size or power of the state as rightists of the liberal variety idealize. The intervention and power of the Argentine state did not wane but merely refocused under rightist leaders in Argentina throughout the 20th century. Together, these characteristics constitute the political entity that will hereafter be referred to as the “military right” (represented by characteristics 1, 2 and 4 in Figure 4). The political left in Argentina has

dominated elections in Argentina and has a union structure of nearly unparalleled strength, in addition to a monopoly on public popularity and an incessant governing mandate. This has allowed leftist economic policies to be enacted without noteworthy pushback from centrists or rightists in several periods of Argentine history while leftist leaders were in power. The left has been backed by a combative union structure that can, essentially, force policy changes with nation-shaking strikes. Altogether, the qualities of the political left displayed in Figure 4 by characteristics 1 and 3 in figure constitute what is hereafter referred to as the “populist left.”

Argentina’s political landscape is exceptional because of its asymmetries. The military right has maintained a monopoly on the legitimate use of violence in a Weberian conception of the state while the populist left has dominated elections and popular support. Argentina’s populist left has long been accustomed to incorporation into and kickbacks from the state, exceedingly generous workers protections, and heavy spending won with a combative and hierarchical political party/union hybrid. The military right sees itself as the protectorate of the state, transcending institutions or consequences. This thesis seeks to demonstrate that this idiosyncratic left-right institutionalization in Argentina is responsible for the nation’s recurrent currency crises, and, by extension, the nation’s IMF dependency.

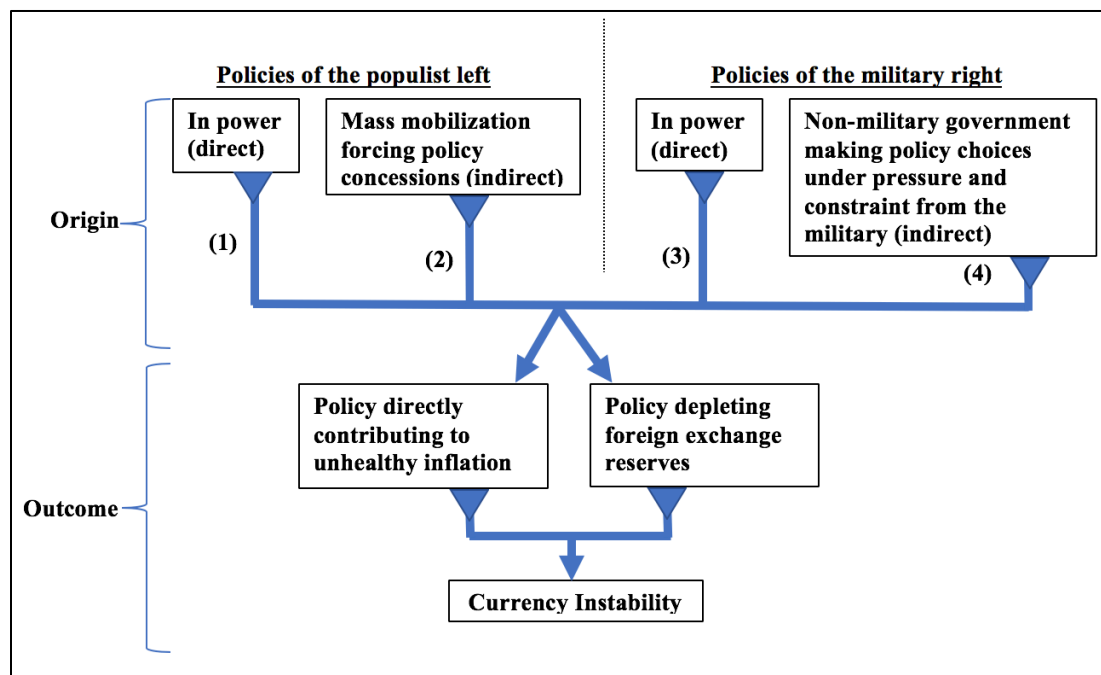
In contrast, Chile’s center-right and right were electorally competitive throughout the twentieth century along with the left and center-left. In fact, the left in Chile has never enjoyed support from more than a slim plurality of Chileans. Salvador Allende, Chile’s world-famous elected communist president, was disfavored by a majority of Chileans at the time of his election. If ever in office, the Chilean left met resistance in the legislature and courts to the implementation of their policies that was almost entirely absent in Argentina. In addition, the left in Chile was not backed by a combative union structure that could, essentially, force policy

changes with rebellious strikes like existed in Argentina. The right in Chile, in contrast to Argentina, was both elite-lead and electorally viable allowing for a broader spectrum of political party competition that yielded a far more stable economic policy making environment and overall better macroeconomic stability (characteristic 1 in Figure 4). In the rare exception that a non-democratic government was directing policy making in Chile under General Pinochet, the core value of the government was economic health and not a mere preservation of an older hierarchal societal peace as happened under the General Videla's junta in Argentina. Contrast characteristic 4 between Chile and Argentina in Figure 4. The right in Chile was oriented towards macroeconomic balance and neo-liberalism. The military in Argentina endowed itself with a tutelary role and staged six coups in the twentieth century. Chile, in contrast, had democratic transitions in power from 1933 – 1973 and from 1990 – present with only a single coup to interrupt the otherwise stable nation. As discussed in the Chile shadow case, the 1973 coup in Chile was the product of American anti-communism and not an interruption to the neutrality listed as characteristic 2 in Figure 4. In total, these characteristics of the left and right in Chile as summarized in Figure 4 allowed Chile to recover from its early economic struggles from before the creation of the IMF and eventually establish independence from the Fund by 1990.

For the purposes of this thesis, a currency crisis can be said to have political origins if it is traceable to the policies of a government rather than external economic factors beyond the control of a government. In order for the populist left or the military right to have caused currency instability in Argentina, there must be a demonstrable pathway that translated the ideologies of either the populist left or the military right into policies that undermined the

macroeconomic stability of the nation. Thus, the theory of currency instability policy pathways in Argentina is presented in Figure 5.

Figure 5 - Policy Pathways to Currency Crises in Argentina



This theory of policy pathways has four distinct pathways (enumerated 1-4 in Figure 5) by which policy preferences proceed from the level of political origin to enacted policy. Pathway 1 is the direct implementation of policies via a populist leftist government in power. Pathway 2 is the implementation of policies by non-leftist-populists as a response to public pressure from leftist populists. Pathway 3 is the direct implementation of policies by a military government. And Pathway 4 is the implementation of policies by non-military government under pressure from the military. Pathways 1 and 2 originate in the policy interests of the populist left, and Pathways 3 and 4 originate in the policy preferences of the military right. Both the populist left and military right have direct (Pathways 1 and 3) and indirect (Pathways 2 and 4) means for

enforcing their policy goals. This arrangement of policy pathways in Argentina is derived from the idiosyncrasies of the political landscape overviewed in Figure 4. The characterization of Argentina's idiosyncratic political landscape qualities informs the shape of its policy pathways. The contention in this thesis is not that all policies in Argentina followed one of the above pathways, but, instead, that each currency crisis in Argentina was partially caused, intensified and/or prolonged by domestic political actors via Pathways 1-4. This theory of idiosyncratic policy pathways introduces the idea that scholars may be able to predict policy outcomes based on unique features of countries political landscape by identifying the common channels, or "pathways" by which ideologies are translated into policies.

Overview of Evidence

Argentina is unique, in part, because of its exceptionally strong labor-lead leftist coalition that has been able to bend public policy to its will consistently from 1916 – 2016 with only a conservative faction represented by the military to intervene via coups every 5-12 years. Very strong party formation and unionization on the left with no counterbalancing party or parties in the center or on the right in a democracy is highly unusual from both a modern perspective across all nations today and in a historical comparative perspective compared to nations that had political and economic standings similar to Argentina in 1900. Without electoral contestation, populist leftists in Argentina have consistently adhered to five policy ideals throughout the 20th century that precipitated currency instability:

- The government is obligated to ensure full employment without interruption
- The international economy is a threat to the strength and stability of the Argentine domestic market, so all possible measures to insulate the Argentina economy from international economic shocks are necessary
- Argentina should be a welfare state
- Budget balance is not a necessary ingredient for long-term stability
- Dramatic wealth redistribution is necessary for class harmony

There has been a consistently combative or incorporated representative structure that has recurrently materialized the above preferences into policy choices devoid of considerations of their macroeconomic sustainability. This illogic produced a number of paradoxes in the policy preferences of the citizens who supported of the populist left. For example, taxpayers are expected to pay far less in taxes than they receive in pensions, medical care, free education, and other benefits, giving the government a chronic deficit that is often mistakenly met with inflationary raises in money supply. This recurrent policy quagmire is not a product of unforeseeable economic consequences repeatedly upending the utopian dreams of Perón and his imitators. Instead, it reflects the danger of an absent center-right or rightist electoral party to contest far-left policy making within the legitimate arena of the legislatures.

Lacking this contestation, the populist left undermined currency stability in the following three ways. First, the governments representing the populist left were heavy welfare program spenders, and the resultant social program spending increased the purchasing power of program recipients and, thereby, promoted demand-pull inflation. Second, increased government spending was never counteracted with adequate revenue generating policies, so government deficits under leftist populists ballooned and had to be covered by seigniorage or borrowing. The former rapidly decreased the value of the Peso, and the latter further drained government liquidity because interest payments became an increasing share of government expenditure in addition to creating a debt bubble that could pop when international lenders lost confidence in the ability of the government to repay debts. The collapse of a debt bubble undermines public faith in the government to maintain the value of deposited money, spurring bank runs (i.e. extreme drops in demand for a currency) as happened in the early 2000s. Once inflation sets in, the government's ability to collect tax revenue is counteracted by in a process called the "Tanzi effect," that occurs

because of the 1-2 month lag in the collection of most taxes. In a highly inflationary environment, this delay means the government loses significant revenue value even if tax rates are high.⁵⁵ Third, leftist populists consistently overlooked the importance of a trade surplus and, instead enacted protectionist/nationalist policies that, long-run, depleted foreign exchange reserves, dropped international demand for the Peso, and increased production inefficiency as companies became sheltered from the pressure of international competition. The above three inflationary effects of leftist policies in Argentina described above occurred both via Policy Pathways 1 and 2, but primarily via Policy Pathway 1.

For the above reasons, the populist left never achieved long-run macroeconomic equilibrium, and crises of many forms (food shortages, bank runs, SOEs collapse, consistent negative GDP growth rates) have often followed implementation of their policies. Figure 8 demonstrates that Argentina has suffered a nearly unending budget deficit stemming from populist leftist spending that has applied constant inflationary pressure on the Peso because the government has often not achieved the creditworthiness to sustainably borrow or issue bonds to cover its debt.

Figure 8 - Percentage of Annual Government Budgets with a Surplus

Time Period	Argentina	Chile
1928 to 1990	4.7% (of 62 years)	81% (of 62 years)
Post-ISI to 1990	0% (of 44 years)	86% (of 38 years)
Under Junta	0% (of 8 years)	78% (of 18 years)

Source: CNTS Archive, 2018

Note: ISI era ended in Chile under Ibañez in 1952 and in Argentina under Perón in 1946

From the year the data became publicly available in 1928 through 1990, Argentina has run an annual government budget surplus only three times in 62 years. In the same time period Chile's government achieved a surplus 81% of years. This is consistent with the measure of one economist who puts the average deficit in the Argentine government budget after Perón at

approximately 10% per year.⁵⁶ This overarching deficit is relevant to the 5 distinct IMF aid clusters in Figure 7 because it means that policies that created deficits in one era almost always influenced in policies the following era because the deficit was carried across the categorizations of the aid clusters in Figure 7. More importantly, however, Figure 8 provides some overarching evidence for the idea that leftist populist spending via Pathway 1 has been a consistently destabilizing force for the Peso. Every leftist populist government in Argentina has been chased out of office, in part, because of high inflation.

After the onset of the riots and strife that typically accompanied inflation, the military, viewing itself as the tutelary of the homeland, only representative of rightist economic policy, and dutiful guardian to quell the unrest, deposed every elected head of state from the populist left from 1916 – 1976. The military often arrived in office and immediately made reactionary and ill-advised economic policy choices of their own, however. If the military experimented with reforms, it typically selected policy measures that were harmful in the long-run (e.g. raising an export tax on Argentina's lucrative agricultural exports that effectively squeezed the only consistently profitable industry in the history of the Argentine economy). More often, however, the military would depose populist leftists in times of crisis and proceed to ignore impactful economic reforms in favor of establishing martial law, domestic terror campaigns, or other repressive strategies to choke off popular protests.

In total, the military right fostered currency crises in the following three ways. First, the military right repeatedly overthrew democratically-elected governments and targeted businesses perceived to be harboring leftist ideology. Both actions consistently undermined the confidence of international creditors/investors who could have brought capital into the country or helped offset the government deficit, increase and modernize industry. Coups undermined the faith the

general public had in their own institutions like the Central Bank, producing low savings rate among other outcomes. Second, the military right repeatedly failed to make policy changes to offset the macroeconomic imbalances generated by the populist left. Instead, military governments often disregarded reformist policy options and borrowed money from international creditors to cover the deficit. The military right, for example, consistently resisted any policy that would raise unemployment because the hegemonic union/radical left mobilization apparatus would respond fervently, often crippling key factories. Or in the 1970s, for example, radical members of the populist left assassinated members of elite families.

Policies requiring some short-run unemployment are a necessary intermediary to transition from protected, inefficient economies to open market economies. For example, opening the Argentine economy would have required killing off many of the massively unprofitable SOEs that employed substantial numbers of Argentines. Long-run, economic liberals argue that this transitional unemployment will be more than offset by GDP growth, but the military right in Argentina was hostile to the suggestion of short-run instability stemming from mass layoffs. This resistance is consistent with characteristic 4 of Figure 4 as one of the damning characteristics of Argentina's political landscape. The military right did not have the optimal ideological orientation to make the necessary macroeconomic adjustments (via Pathway 3) to correct for policies that originated in Pathways 1, 2, 3, and 4.

Military officials consistently underperformed in rescuing the economy. As a result, facing public pressure, the military held and lost elections after each coup. Most often, the leftist populists or the military right held office in Argentina. In the rare instances when nominally reformist governments came to power to bridge the left-right divide, the military consistently leveraged these administrations with the threat of violence to corral the policy choices of the

reformists (Pathway 4). Reformist governments, for example, were discouraged (read “coerced”) from offsetting the government deficit with substantial cuts to military spending or enacting policies that risked backlash from the left (Pathway 2).

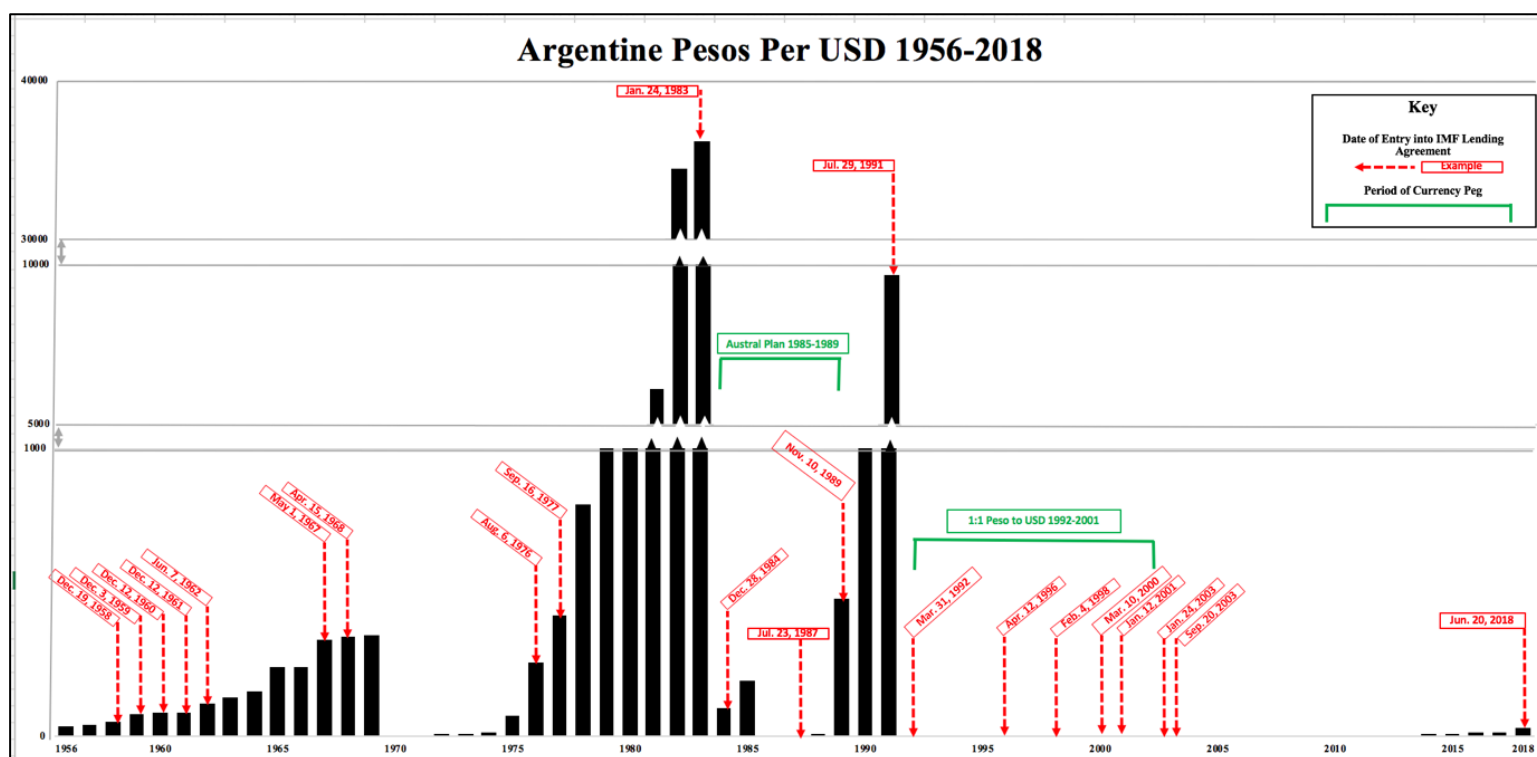
Research Method

The overarching strategy used in this research project for demonstrating the political origins of currency instability in Argentina is to track four types of statistical measures (foreign exchange reserves, inflation, government spending, and credit worthiness) alongside political developments consistent with the landscape idiosyncrasies formulated in Figure 4. I intentionally limit consideration of political developments to only those that are consistent with the landscape idiosyncrasies formulated in Figure 4 to determine if they, in isolation, have demonstrable impact on the four above statistical measures. In other words, the method in this thesis is to attempt to develop a chronological narrative of currency health using only events consistent with the leftist populist versus military right contestation model provided in the preceding section. Accordingly, this model can be deemed as explanatorily *successful* if its limited scope of considered political inputs provide a compelling explanation for the monetary output of interest—currency crisis. In contrast, this model can be deemed explanatorily *unsuccessful* if the limited set of political inputs considered does not provide a compelling explanation for the currency crisis output. The ultimate goal is to frame all 22 of the IMF lending arrangements in Argentina since 1958 as being triggered, intensified, and/or prolonged by the policy pathways from Figure 5.

Figure 6 displays the history of inflation in Argentina from 1956 – 2018 overlaid with the 22 dates of all 22 IMF loans from 1958-2018. The loans clearly coincide with periods of high and/or increasing inflation, noting that two periods of currency pegs hid but did not remove underlying inflationary pressure on the Peso. The 22 IMF loans in Figure 6 initially appear to follow no pattern outside responding to inflation with two gaps from 1970-1974 and 2005-2015. However, as the ensuing analysis will demonstrate, the continuum of IMF loans in Argentina has

divisions into 5 clusters of loans as follows in Figure 7. The ensuing analysis is divided by loan cluster as a way of simplifying and repeatedly summarizing the connections between currency crises in Argentina and the theory presented in Figure 5.

Figure 6 – Inflation as a Crisis Indicator



Source: IMF

Figure 7 – IMF Clusters

	Total Loans	Dates
Cluster 1 (1958-1968)	7	1958, 1959, 1960, 1961, 1962, 1967, 1968
Cluster 2 (1976-1987)	5	1976, 1977, 1983, 1984, 1987
Cluster 3 (1989-2001)	7	1989, 1991, 1992, 1996, 1998, 2000, 2001
Cluster 4 (2003)	2	2003, 2003
Cluster 5 (2018-?)	1	2018, ...

There are five other supplementary strategies deliberately used in this thesis that are worth noting. First, inflation is presented in Figure 6 as relative to an external indicator (the

value of the USD) rather than an isolated measure like the Consumer Price Index or money supply as a share of GDP in order to disaggregate healthy from unhealthy inflation. Isolated measures of inflation conflate healthy and unhealthy inflation. Healthy inflation is a natural byproduct of a growing economy. Expanding demand and limited supply have a constant upward pressure on prices and, correspondingly, a deflating pressure on the value of a nation's currency. Unhealthy inflation represents changes in currency value from worrisome sources like seigniorage or net foreign exchange outflows. A relative inflation measure like the Peso to USD ratio in Figure 6 is an approximation of unhealthy inflation isolated from healthy inflation under the assumption that consistent GDP growth and tight inflation control measures in the US are a representation of approximately healthy inflation. This assumption is imperfect but yields the best possible representation of healthy inflation. Figure 6 demonstrates that IMF interventions have responded to spikes in unhealthy inflation in Argentina. It is essential to overlay periods of currency pegs into Figure 6 because the peg hides the inflationary pressures on the currency (capital outflow, declining foreign exchange rate, domestic consumption levels, etc.) In most cases, currency pegs in Argentina were implemented for the central purpose of hiding inflation.

Second, policies enacted by ruling parties often have a delayed effect on the health of a currency, and, accordingly, currency crisis indicators do not always immediately reflect policy choices that undercut macroeconomic structural balance. In spite of this complexity, the delayed effect of some policy choices on currency health is actually a boon to researchers because the effects of destabilizing policy choices can be traceable across, in some cases, decades of inflation turbulence and IMF intervention. Delays between policies that promote inflation and the onset of inflation, for example, can be hidden by years of favorable trade conditions that raise tax revenues and bolster foreign exchange reserves even though the domestic macroeconomic

environment is not structured in such a manner as to be resilient in any inferior trade conditions. There are a number of examples like this in the history of Argentina, most notably the era of Carlos Menem who borrowed exorbitant sums of money from international lenders and falsified official government statistics on employment, inflation, and other measures to hide the underlying structural problems with Argentine monetary, fiscal, and trade policy. Strong agricultural exports offset some of those otherwise alarming trends, but when commodity prices and lender confidence dropped in 1998, Argentina was plunged into the worst economic crash in its history. Only five years later, the married couple of Néstor and Cristina Kirchner served as consecutive presidents and overlooked unsustainable budget deficits, declining creditworthiness, and glaring domestic production inefficiencies from 2003-2015 while agricultural exports remained strong.

Third, IMF loans tend to cluster in times of extreme currency distress rather than address separate instances of crisis. Accordingly, researchers need not isolate the policy origins of IMF loans independently, but, instead, identify the roots of eras of currency crises that contain numerous IMF interventions. Typically, the Fund will lend successively as governments make corrective measures to facilitate broader restructuring to accompany the capital influx from the loan(s). For this reason, it is likely that Argentina receives more loans from the IMF in the first couple of years after 2018, meaning the 2018 loan signals the start of a new cluster of loans.

Fourth, this thesis intentionally makes a monolith of the political left in Argentina by forming the unified concept of the “populist left.” This decision does not disregard the lengthy and complex history of leftist political party and union adaptations and competition for influence. Instead this theory recognizes the consistent influence and stable policy preferences of the left regardless of a particular leadership. In other words, even though it is necessary to categorize all

leftist mobilization under the tag of “leftist populism” for the theory of policy pathways, there are many periods of notable competition within the “populist left.” However, it is methodologically acceptable to abstract away much of this complexity out of the discussion of currency crises because the aggregation of leftist political parties and unions does not distort their interaction with the public policy process. The history of organized labor in Argentina is a dizzying affair of union mergers, abolitions, and reconfigurations. These developments were the product of ideological struggles among leftist leaders in Argentina’s elaborate party and union structure born from President Yrigoyen’s political party, the UCR. Union leadership even came into conflict with the idol of the Argentine leftists (Juan Perón) when the upstart union boss Augusto Vandor famously tried to hijack the allegiance of the unions away from Perón. Critically, when this internal competition significantly influenced the mobilization of the left, it has been noted in the history that follows.

Despite this internal turbulence, there are overarching characteristics of the unions, political parties, and grassroots movements that constitute the left in Argentina. Foremost, they are electorally consistent. Union voters, despite conflict between their leadership, consistently voted in a relatively unified fashion after the primary stage of legislative and presidential elections. They also agreed that the common Argentine deserved a larger slice of the nation’s wealth and were consistent in protesting economic conditions and leaders that they viewed as antithetical to that objective. In total, this allows researchers to omit a seemingly turbulent history of infighting to discuss the “populist left” as a single interest group. If anything, competition among leftist organizations for popular support intensified their demonstrations and hardened their policy preferences while expanding popular appeal. Unions consistently fought for policies that the overwhelming majority of voters in Argentina supported. Demonstrations of

common Argentines often accompanied strikes, and political party leadership was often a hybrid of politicians and unions bosses.

In addition to internal competition, unions and political parties in Argentina were incessantly renaming themselves, changing leadership, and reorganizing as a response to constant persecution under anti-Perónist auspices from the military right. These changes were so common that lengthy volumes have been written just to track these changes.⁵⁷ Overall, union membership had a consistently positive growth in membership and wealth. From the 1920s through the 1970s, the unions were the wealthiest and most powerful non-governmental organizations in Argentina. Conceiving of the left in Argentina as a monolith for the purposes of a case study is consistent with the findings that strikes are the primary mechanism for political expression in Argentina in the twentieth century with many non-union workers or non-workers joining and supporting strikes.⁵⁸ Carerra (2008) finds that strikes were the primary mechanism for political expression in Argentina in the twentieth century with many non-union workers or non-workers joining and supporting strikes, and Argentinian unions have persisted in their explosive expression in spite of favorable or unfavorable political conditions.

Fifth and finally, this thesis also intentionally makes a monolith of the political right in Argentina. In other words, this thesis disregards much of the lengthy history of factionalization between elites and groups in the military because, like the populist left, the allegiance of elite conservative families and the military in Argentina has expressed relatively stable policy preferences and had a relatively consistent influence on the public policy process. The balance of power in the Argentine military has, at times, been in flux between fascist and elite-favoring groups of soldiers who saw themselves as tutelaries of the state and less interventionist/more centrist groups. The military has experienced divisions as stark as Perónists versus Anti-

Perónists. Members of the armed forces sometimes fought amongst one another like in the latter stages of the Perón presidency in a massive internal struggle for power between the *los azules* and *los colorados*. Nonetheless, the military (as a singular entity) toppled every populist government up until General Videla's junta that ended in 1983 and incessantly exerted pressure on reformist governments like President Frondizi's administration. Consistent with characteristic 4 of Figure 4, the more fascist, elite-favoring groups tended to be influential enough to enforce their policy preferences. The most likely outcome of this extremist versus moderate power struggle in the military was the prompt end to each junta before Videla in 1976. Where necessary, factionalization in the Argentine military is noted in the history that follows.

Argentina

Origins of leftist populism and the military right

The ensuing section emphasizes at least six relevant developments in Argentine history prior to the rise of Juan Perón in 1946. First, the alliance of elite Argentine families and military leaders began as early as the founding of the Argentine state. This relationship is central to the military right political front that repeatedly resisted the rule of populist leftist in the twentieth century. Second, Argentina developed unprecedently powerful labor unions early in the twentieth century, and the unions generally grew in size and influence throughout the twentieth century. This hegemonic labor union structure formed the backbone of the populist left. Third, Argentina was unique in Latin American for its rapid union formation, and the causes of this rapid unionization are explored. Fourth, the populist left emerged as a dominant political force in the historic presidential election of 1916. This development helps explain the re-emergence of populism in the Cluster 1 section after the military suppressed the populist left for three consecutive presidencies. Fifth, the military began focusing on anti-union suppression early in the twentieth century, and this trend foreshadows the coups to come. Sixth and finally, this section explains the *Concordancia* era presidents from 1932-1943 as the military right's first major attempt to suppress and exclude the populist left from policymaking in the hope of preserving an older societal hierarchy that favors established elite families.

Before 1900, Argentina was in the *Unicato* era of oligarchic conservative rulers who enjoyed growing agricultural export profits and a gradual centralization of the Argentine state around the colonial capital Buenos Aires with assistance from the armed forces. The dissolution of the Spanish Viceroyalty of the Río de la Plata around 1815 left regional elites to battle among themselves for power and territory. The elites of Buenos Aires forged a large state around their

city as the eventual modern capital of Argentina. The Argentine military was originally a patchwork of mercenaries with alliances to elite families but became a unified body working at the direction of a wealthy land-owning class by the middle of the nineteenth century. With this sizable military at their disposal, the oligarchs were able to quell uprisings in rebellious provinces and unify large swathes of territory around Buenos Aires. Both Argentina's independence movement to topple the Viceroyalty and consolidation of the state's territory and formation of institutions was an elite-lead process with the military as a tool of the oligarchs.

Immigration from Europe spiked in the middle to late 1800s. From 1881-1930, nearly 4 million European immigrants came to Argentina.⁵⁹ Chile, Brazil, and Argentina attracted the majority of all European immigrants in this era because of their booming natural resource export industries and comparatively higher wages than anywhere else in North or South America.⁶⁰ Historian Luis Alberto Romero estimates that by 1890, approximately half of all residents in Argentina were first generation European emigrants, and, in 1895, two thirds of residents in Buenos Aires was foreign born.⁶¹ A primitive social contract emerged wherein European immigrants and their children were willing to cede all political power to the oligarchs and their formidable armed forces so long as menial labor earned wages that could afford a comfortable living. Fortunately, Argentina's economy was booming. From 1857 to 1884, the nation enjoyed 400% GDP growth.⁶² With a growing population and an increasingly lucrative trade relationship with Britain, Argentina soared.

Argentine unions are born

In the shadow of the oligarchic and monopolistic agro-export state, populism began brewing in the 1880s with the formation of anarchist societies based on radical ideas imported from Europe. These societies were founded by exiles like Pietro Gori, Adrián Troitiño, and

Antonio Paraire who were expelled from their homelands for revolutionary ideas. Scholars widely acknowledge that these anarcho-syndicalist societies were the precursor to the Argentine labor unions that emerged a few decades later.⁶³ These societies were able to popularize the ideas of collective action and wealth redistribution and convince railroad workers to initially unionize, inciting Argentina's first strike in late 1887.⁶⁴ By May 25, 1901 the formation of *Federación Obrera Argentina* (FOA) signified the unification of the thirty largest unions in Argentina. The leadership of the FOA represented hundreds of thousands of members and had leadership ideologically oriented towards Anarcho-syndicalism.⁶⁵ While still nascent, the FOA was disruptive enough to compel the military to declare martial law to break up strikes as early as 1902. The labor movement grew precipitously. As early as 1904, the rail workers union alone was powerful enough to halt transit nationwide and draw immediate policy concessions from the railway owners. By 1911, strikes in Argentina included up to 300,000 workers.⁶⁶ In 1910, union organization was more sophisticated than anywhere else in the world having numerous widely read newspapers and affiliates in every major Argentine city and in every major labor sector.⁶⁷

European immigrants with radical ideas went to many countries besides Argentina in this era and yet unionization was more rapid and sophisticated in Argentina than anywhere else on Earth. The effect of this intense union and populist organization in Argentina is widely understood by historians to be the product of the nation's initial wealth compared to other cases.⁶⁸ Argentina's economy was almost exclusively oriented towards agricultural exports, and this encouraged unparalleled unionization for three reasons.

First, agricultural exports are prone to price crashes because demand varies widely with the conditions of importers. Wars, protests, or even harsh winters can vary the quantity demanded and quantity supplied. This instability encourages unionization because, as basic

microeconomic theory says, monopolistic employers will pass the price changes on to their laborers. Argentine exports had little price setting power in markets abroad but complete control over markets at home and their workers. As agricultural prices varied wildly in the late 1800s and early 1900s, farm workers in Argentina became victims of changing wages and hours to compensate. Unionization was a primary reaction from workers to insulate themselves from this variation in working conditions by demanding, for example, wage stability or hour restrictions.

Second, because agriculture was the most lucrative industry in Argentina, it attracted the most robust unionization. It is easier to convince workers to organize to demand greater profit sharing if the profits are larger and more noticeable. This is consistent with the work of many economic historians who argue that even though unions operate under information asymmetries about the size of profits compared to employers,⁶⁹ highly lucrative industries tend to attract unionization.⁷⁰ The agriculture sector in Argentina was the richest around, because as late as the 1930s, over 90% of Argentina's exports were still just two products—beef and wheat.⁷¹

Third, even though modern agriculture is a highly mechanized production that involves shockingly little labor relative to output, farm production before the rapid mechanization that followed World War Two was very labor intensive. The majority of all countries' laborers worked on farms—a reality still true in dramatically underdeveloped regions. Early labor statistics by sector are not available for this early period in Argentina, but the trend is generally the same as in the United States. In 1840, approximately 70% of all workers in the entire economy were farm workers.⁷² By 1900, farms still employed 40% of all workers.⁷³ It's not until after World War II that the share of the labor force involved in agriculture approached the modern norm in developed countries—about 2%.⁷⁴ Early on, however, farm workers had tremendous leverage because, if they acted in a coordinated fashion, they represented too large of

a share of the labor force to replace if they staged a strike. This was not true in all industries, Meat packers in Buenos Aires, for example, were easily replaced after strikes because they were an infinitesimal share of the immigrant labor force.⁷⁵

Working in tandem, the above three factors caused the union structure in Argentina to be the most sophisticated in the world at that point in history. Argentina's labor unions, for example, far outpaced the unions in the US that didn't see membership jump to respectable levels until the 1930s—about two decades after Argentina's. The military and ruling elites were not receptive to unionization however. Union bosses were pursued and captured by the military at the direction of business owners and often exiled to Patagonia or killed. From 1890 to 1910, hundreds of top union bosses and anarchist intellectuals in Argentina were deported, killed, or exiled, including 54 in one day in 1910.⁷⁶ The ensuing riots in 1910, in response to persecution of labor leadership, remain some of the largest in Argentine history. Despite a powerful backing from the public, union leadership operated in secret periodically before the 1916 election in fear of military persecution.

Rise of the UCR and populist left

Around the same time, political competition in Argentina emerged for the first time with the formation of a political party called *Unión Cívica Radical* (UCR) to challenge the oligarchs in 1890. This party was the first populist party in Argentine history and eventually ended oligarchic rule in 1916. The basic social contract between oligarchs and immigrant laborers was beginning to fail as early as 1907 and 1913 when recessions in the economies of Argentina's major trade partners reduced export profits. Argentina, with an emergingly hegemonic union structure and nascent populist political party, was primed for a populist awakening.

By 1912, protests from UCR were formidable enough to force the oligarchs to implement a universal adult male suffrage law that opened the elections beyond the land-owning elites. This watershed law change was a capitulation to the immigrant masses to avoid riots that threatened to plunge the nation into chaos. With voting liberalized, Yrigoyen won the nation's first semi-open democratic election and ushered in a tradition of leftist populism that dominated public favor for the next century. 1916 was also an important precedent for the political right. Conservatives held 100% of legislative seats before 1912, 77% after electoral reform of 1912, and only 19% by 1930.⁷⁷ Electorally viable rightist political parties disappeared after Yrigoyen's election and did not re-emerge until 2015. The intermediate 100 years left public opinion to be dominated by the populist left. In Yrigoyen, the general public had finally won a legitimate representative for their economic interests against the elites. This legitimacy was key. Union bosses and UCR leadership had been organizing for reform for three decades, but the elites were able to deploy the military to counteract protesters and tag these efforts as illegal and destabilizing. Alexander (2003) argues that Yrigoyen's victory signaled that political organization was the populist left's best tool for reshaping the Argentine state to their interests.⁷⁸ Together with news of the Bolshevik revolution in 1917, the political developments of the early UCR rule in Argentina emblazoned the labor movement with a popular appeal that locked in voters for decades to come.

In 1916, Yrigoyen inherited an economy still growing but slowing dramatically compared to previous generations. Argentina lacked the investment and infrastructure to transition smoothly from a resource exporter to industrial power. Annual GDP growth from 1916 to 1930 was 4.6%, far better than the industrializing US at 2.9% over the same period but far lower than the explosive growth of 1880 – 1910.⁷⁹ Yrigoyen mobilized the state to overcome some of these

bottlenecks with a jump in state investment in domestic companies, the formation of SOEs, and the expansion of subsidies. The economy grew rapidly and developed the industrial capacity that made many believe self-sufficiency was a legitimate possibility by 1923. From 1918 – 1923 there was a 31% increase in the number of factories and a corresponding 65% jump in factory output.⁸⁰ To accompany this growth, Yrigoyen expanded the capacity of the state to intervene and centrally plan the affairs of the economy. For example, Yrigoyen formed the *Yacimientos Petrolíferos Fiscales*, a state-owned oil monopoly, in 1922 to provide a low-cost energy supply to jumpstart domestic industrial production with other SOEs. These policies amounted to an early form of the Import Substitution Industrialization that failed to produce lasting growth in every Latin American nation that tried it in the twentieth century. It is critical to note this early shift in economic policymaking because Juan Perón's eventual emergence in 1946 was a response to the early failures of ISI in Argentina. Some nations, like Chile, responded to the failures of ISI with rationalization and liberal reforms. Argentina under Perón, however, doubled down on the same policies that had already brought sluggishness. And this stubborn intensification of demonstrably poor economic policymaking had a dramatic and negative effect on the health of the Peso.

The military fights back

Even though Yrigoyen was a radically populist leader for the standards of his era, labor unions mobilized in force after his election to ensure the implementation of their policy demands. Widespread strikes broke out starting in 1917 led by a group of labor groups including the *Federación Obrera Marítima* and the *Federación Obrera Ferrocarrilera*. The military met the strikers with violent suppression. In 1919, the military began an anti-union campaign that lasted one week and included the arrest of 50,000 individual union members in

one day and shootings of thousands more as they attended funerals and processions for fallen comrades.⁸¹ However, violence against the unions was largely counterproductive because of their size and strength. Shootings of strikers in 1917 drew condemnation of the military from the general public who still viewed the armed forces as agents of the oligarchs. Union activity persisted, and union leaders began negotiating directly with President Alvear, Yrigoyen's ally and successor, to enact substantial policy wins like the expansion of national holidays and guaranteed retirement plans as early as 1922. During the UCR era of 1916-1930, unions in Argentina became larger and more powerful than many businesses in the country and were able to win the majority of their wages and working condition demands despite constant persecution from the armed forces. This trend continued in future eras and is central to the power of Pathway 2 as a recurrent destabilizing force on the health of the Peso.

The military did not operate under the direction of the UCR and took direct orders from the government only insofar as the UCR had awarded some generals with cabinet positions to appease the armed forces, such as General Agustín Justo being appointed as Minister of War. Alvear allowed for the establishment of a special bureau to build military airplanes (*Fábrica Militar de Aviones*) in 1927 and a general, Enrique Mosconi, was appointed to lead the state-owned oil company *Yacimientos Petrolíferos Fiscales* in 1922. The UCR did not, however, have control over the military. When the Great Depression struck in the US and eliminated most of the American FDI in Argentina, the ensuing downturn in Argentina incited riots. The landowning elites were able to convince the military to intervene in 1930 as the economy continued to struggle. This coup was an important precedent for the military. It established a doctrine that the military was justified in toppling democratically-elected leaders if they had the backing of the elites and believed that there was a threat to the stability of the Argentine state. This precedent

was followed with horrifying frequency from 1930 to 1976, and the UCR's 14 years of uninterrupted rule proved to be of the longest stretches of modern Argentinian history lacking a military intervention in politics.

The military right attempts a political blockade on the populist left

General José Félix Uriburu seized the helm of the state in September 1930 determined to correct the last 15 years of, in the eyes of the elite, populist madness. He oversaw de facto martial law to restore public peace and wished to follow Mussolini and Italy down the path of fascism to return policy making to a protected elite, enshrine military power in the constitution, and emphasize the teachings of the Catholic church. The junta began espousing anti-communist and anti-Semitic messages like fascist regimes of Europe and shrank the size of the federal bureaucracy. It was universally believed in conservative/military circles that the majority of government employees were parasites leftover from Yrigoyen's tenure. The junta was widely unpopular, however, and riots and strikes were commonplace in Buenos Aires after 1930. Facing the threat of outright economic collapse from strikes, Uriburu reluctantly held elections in 1931. A return to populist politics, however, would be unacceptable. The elections of 1931 were highly fraudulent and essentially just transferred power to a more moderate faction in the military that was moderately more palatable for the general public. The acting Minister of War and current general, Agustín Justo, won the election as the head of the newly-founded and widely unpopular party called *Concordancia*. *Concordancia* did not merely enjoy military support; *Concordancia* was an extension of the military adapted to rule over the riotous Argentine public in a quasi-authoritarian state propped up by fraudulent elections.

Union mobilization reached unprecedented levels to protest the end of populist politics. By 1932, there 1.4 million lost work days to strikes with a maximum strike size of over 165,000

workers, and this figure rose to over 2.6 million lost days by 1935.⁸² Alexander argues that even though the labor movement began as a patchwork of migrant workers in the late 1800s and early 1900s, a key membership change happened when the unions shifted from majority migrant to majority native-born group.⁸³ This new group, mostly the sons of migrants, had better a claim to the Argentine identity previously awarded to only the elites. The union resurgence brewing under Uriburu, with its native Argentinians, eventually culminated in the creation of an authoritarian welfare state with Argentina's most famous populist leftist—Juan Perón.

Concordancia's second president, Roberto Ortiz, won a fresh set of fraudulent elections in 1938 to replace Justo. Even though Uriburu and Justo had been able to rule without making a significant number of concessions to unions, the left began to win policy concessions under Justo, including a severance pay program in 1938 as strikes intensified. Ortiz was moving towards democratization until his death in 1940 that brought vice president and Nazi-sympathizer Ramón Castillo to power. Castillo was an associate of General Uriburu's and lamented Ortiz's capitulations to the left and naïve plans to allow for populists to seize control in legitimate elections. Castillo spent lavishly on palaces and facilities for the armed forces. He sought council on policy choices almost exclusively from fellow military men rather than economists and increasingly blended the line between the federal bureaucracy and the administration of the military. The lavish spending and disdain for economic reform under Castillo resembles the irresponsible governance that would follow under the infamous junta of 1976-1983 that intensified hyperinflation.

Remarkably, Castillo's government was too moderate for many of his fellow military leaders who viewed Castillo as a leader as distracted by the imminence of a possible entrance into World War II and too lenient on the left. Castillo's dissenters formed a secret society called

the *Grupo de Oficiales Unidos* (GOU) that eventually overthrew Castillo in June of 1943 and installed General Pedro Pablo Ramírez to suppress mobilization on the left. Ramírez's government consisted almost entirely of military officers as administrators. He moved quickly to impose martial law and outlaw communism.

The Concordancia crumbles

In 1944, an earthquake devastated the provincial capital of San Juan in central Argentina, killing thousands. The little-known Labor Minister and army man Juan Perón spearheaded the response from the national government, and many members of the general public gained an affection for Perón. The military government jailed Perón as a political enemy, and mass protests ensued, forcing the military to install Perón as the nation's president in 1945. Perón won popular elections in 1946 and held power until his overthrow by the military in 1955. Argentines on the eve of Perón were jaded with democracy and wished for nothing less than a benevolent dictatorship. Even though Perón rose from within the military ranks, he ceased to be a military leader after the mass protests that handed him the presidency. Perón was an ideological outcast in the military, and he ascended to lead the populist left to political glory. Perón's approach to governing was an incredibly effective conflict prevention strategy. Perón enacted nearly every policy demand of the labor unions while simultaneously undercutting the organization of the unions. Perón was rechanneling the fervor backing the left in Argentina into support for the state by eliminating any distinction between the state and outside interest groups whatsoever. Under Perón, there could be no negotiation between union leaders and politicians because the unions, like every other interest group, were incorporated into the fabric of the state. Simultaneously, Perón appeased the conservative minority by enforcing religious instruction in schools.

Perón victoriously ascended to the presidency with a broad mandate to govern and hysterical public support not seen since Yrigoyen. Perón enjoyed a plebiscite that enshrined him with the power to consolidate a dictatorship so long as he enacted welfarist policies to reward the workers for their perceived indispensability in the formation of modern Argentina. Perón infused the populist message of the left with a nationalism learned in the military, and nationalism in Argentina ceased to be an elite phenomenon. Perón transcended any norm or institution that dared to limit his authority. He established a strict power hierarchy throughout society with complete subordination of each level the state to the level above. In a sense, he brought a military structure to an Argentine society that had been in upheaval for close to half a century. In 1947, Perón abolished the supreme court, and the legislatures did little more than rubber stamp policies written in the presidential palace. All independent newspapers were closed, including Argentina's famous *La Prensa* and *La Nueva Provincia* that had broadcasted leftist thought for decades. The arrival of Perón signaled the first leftist-populist era of policymaking that would have a direct impact on Argentina's need for IMF funding.

Cluster 1: IMF loans from 1958-1968

The first IMF loan to Argentina occurred in 1958, but the immediately relevant monetary policymaking that precipitated the currency crisis in Argentina during the 1950s and 1960s began in 1946 under President Perón. The ensuing section claims that the following four political pathways from Figure 5 precipitated the seven IMF loans between 1958 and 1958. First, President Perón demolished the foreign exchange reserves, budget balance, and creditworthiness of the Argentine government. This began an inflationary trend that would not end until 1970 and is representative of Pathway 1. Second, President Frondizi failed to make corrective reforms that could have saved the Peso from hyper-inflation due to pressure from leftist groups including the

unions. This is representative of Pathway 2. Third, General Aramburu lead a junta government and undercut reform efforts by rotating cabinet members often. This inaction allowed inflation to intensify consistent with Pathway 4. Fourth, President Illia enacted short-lived and contradictory reforms that further undermined investor confidence and failed to slow the rapid rise of inflation. This is consistent with Pathways 2 and 4.

With the ISI model waning in popularity, an unprecedented political structure supplanted the *Concordancia*. Perón handed the lower classes wealth beyond their wildest dreams, but it wasn't re-allocated from wealthy to poor Argentines. Instead, it was created largely through seigniorage. His trade policies of stiff protectionism and nationalization were highly illiberal. Perón's government represented a true "third way" between the experiments of the US and USSR, and it demolished the macroeconomic stability of the government so severely that Argentina suffered years of inflation (as Figure 6 indicates).

Perón's Imbalance

Ever since the economic struggles under Yrigoyen, Argentina had long been in a futile battle to recapture a nationalistic and powerful image. ISI and some minor social welfare policies existed under the *Concordancia* before Perón, but he dramatically expanded both protectionary and welfarist policies to create an independent and utopic Argentina that would recapture its glorious status. Perón was in power 1946-1955, leaving three years before the first agreement between the Argentine government and the IMF in 1958. Perón's successors would seek and receive IMF loans five times from 1958-1962 to escape the inflation trend begun under Perón's leftist populism. This initial cluster of loans was a direct response to the remarkable fiscal imbalance that resulted from the combination of Perón's ISI and welfarist policies. Many authors have studied the rise of Perón closely. The idea that Perón permanently altered the political and

economic landscape in Argentina such that every leader since him has struggled to confront his legacy is shared across numerous works.^{84,85} Tanzi (2018) argues that massive budgetary shakeups like Perón's are remarkably challenging to recover from and, along with international shocks, take generations to recover from.⁸⁶

Argentina amassed a foreign exchange reserve surplus during World War II because it was the only major grain, beef, and corn exporter in the world not engaged in the conflict. This foreign exchange surplus operated as a buffer that allowed Perón to aggressively pursue policies that promoted a trade imbalance without immediately putting the Peso under inflationary pressure. He initiated a nationalistic welfare state project intended to simultaneously liberate Argentina from dependence on all other nations and catapult the poor and working class into lives of material comfort to encourage class harmony. Under Perón, wages and social program spending skyrocketed. The average real wage, for example, was 400% higher in 1951 than 1942.⁸⁷ Perón established paid vacations, a pension system, and free health care. He initiated rent controls, minimum wages, housing projects, and public school investments. His wife, Eva Perón, became a symbol of the welfare state—Argentina's motherly caretaker. Argentina, under Perón, became the world's first welfare state. At the same time, Perón established a National Postwar Council to centrally plan the expansion of social programs and maintain full employment. The obscure Argentine company SIAM-Di Tella, for example, morphed from a metalworking manufacturer producing no more than 5 types of industrial machines to producing a wide array of commercial products like dishwashers and refrigerators instead of allowing foreign imports into the country. Perón responded to the initial ISI of Yrigoyen and the *Concordancia* by doubling down. Perón substantially intensified Argentina's ISI in a manner that compounded its

negative effects while simultaneously creating a welfare state that relied on a dramatic budgetary imbalance.

In theory, new spending can be offset if revenues also grow. The issue under Perón, however, was that a gap emerged between the level of benefits the general public expected from the state and their willingness to pay. As a result, most Argentinians thrived off wealth that was artificial in the sense that it was not fiscally sustainable or derived from industry.⁸⁸ It was printed and distributed with no care for the imminent inflationary consequences. In this light, the redistribution policy demands of the populist left, manifested by Perón, had a lasting inflationary pressure on the Peso and necessitated IMF intervention once Perón was forced out of office.

Early on, Perón's economy thrived. Expanded state investment produced an initial jump in output. Perón, for example, built 37 hydroelectric power plants, employing thousands of people and providing an initial surge in the supply of cheap domestic energy.⁸⁹ In total, manufacturing output expanded by 64% from 1939 – 1948.⁹⁰ This trend in initial GDP growth, along with the inherited foreign reserve surplus, temporarily hid the perils of Perón's project.

The Illusion Crumbles

As World War Two concluded, US agricultural production surged, flooding reconstructing European countries with subsidized grain and other farm products. At the same time, domestic production in Argentina was becoming inefficient from prolonged protectionary policies. The share of GDP originating in industrial production declined for seven consecutive years starting in 1947.⁹¹ Plus, demand from newly wealthy beneficiaries of the welfare state was skyrocketing. Argentine agricultural exports, the engine of wealth and supply of foreign currencies for the central bank, plummeted. In 1949, exports per capita shrank by 37.5% and shrank by another 42.5% in 1952.⁹² Domestic demand for basic goods far outstripped the ability

of the centrally planned ISI economy to supply them, igniting demand-pull inflation that precipitously devalued the Peso. Bank runs began as early as 1952, spurring Perón to issue a “Five Year Plan” that attempted to control inflation by limiting domestic purchases and rationing meat consumption. Consumption restrictions, despite their effectiveness in temporarily preventing the type of hyperinflation that would strike later in 1983, undercut the revenues streams that allowed for private companies to pay the outlandishly high wages enforced by law. The private firms still in Argentina by 1952 suffered a chain of bankruptcies. This lowered tax revenues and raised unemployment. Perón tried to attract FDI as his economy stagnated with some capital control restrictions, and this measure provided temporary relief. However, this spike in FDI was inadequate to fix the inefficiencies throughout the economy left over from protectionism or replace the massive SOEs that were draining government coffers. Contraction ensued, inflation soared, and the deficit rose to its highest levels at that point in history. The Peso lost 2/3 of its value compared to the dollar in 1950 alone,⁹³ and the Consumer Price Index quadrupled from 1947 – 1951 and nearly tripled again 1950 – 1952.⁹⁴ Depleted foreign exchange reserves rendered the government incapable of easily buying the intermediate goods and advanced goods that allowed the SOEs to thrive off only labor and raw material inputs. With basic goods becoming unaffordable and productivity across all industries tanking, famine and power outages ensued. With military intervention imminent, Perón called for elections in 1954. General Eduardo Lonardi, seeking to avert the election of another populist leftist, staged a coup to topple Perón in September 1955.

Within months, General Pedro Eugenio Aramburu replaced Lonardi as head of state. Aramburu’s new regime faced the daunting task of modernizing and opening Argentina—a crossroads. The government could open the economy rapidly (shock treatment) and liberalize or

selectively allow in foreign capital and maintain some control. Many business leaders feared collapse from rapid competition. SOEs under Perón had grown into massively inefficient enterprises. In a sense, these SOEs were welfare policies as much as they were companies. The guaranteed wage and title as an employee gave every Argentinian a role in Perón nationalistic vision. Aramburu's government began slowly reversing many of Perón's generous workers programs and wage protections, but the unions immediately pushed back, unwilling to return to the level of protection and welfarism enjoyed during the *Concordancia*. Although Perón had demolished the organizational structure of the unions, he had only emblazoned the rank and file members. Labor union membership jumped 500% under Perón, giving Argentina, once again, the largest and most powerful unions on Earth with over 3 million active dues-paying members in 1945.⁹⁵ In attempt to break the union resistance, Aramburu imposed military leaders as union bosses and banned Perónism. The use of Perón's name became illegal, and the Perónist party was proscribed. The navy backed Aramburu but faction in the army still remained loyal to Perón. A small army group attempted a coup in 1956 but failed, spurring a violent backlash from the military majority. Perón loyalists were purged and arrested. The UCR split into two rival parties (*UCR Intransigente* and *UCR del Pueblo*) that represented the schism between members of the public willing and unwilling to reconcile with Perónism. Aramburu, governing over one of the most tumultuous periods at that point in history, made very few policy changes except joining the IMF in September 1956.

Fronidzi's failed reform

Arturo Frondizi won the 1958 election after securing a fraction of Perón's voters by promising to lift proscription. With the deficit still high and inflation increasing, successive economic crashes ensued in 1952, 1956, 1959, 1962, 1966, and the Frondizi government agreed

to loans with the IMF in 1958, 1959, 1960, 1961, and 1962. On top of IMF liquidity, Frondizi lead a modernizing economic plan centered around attracting foreign investment and increasing exports. With a shaky position between doubtful but desperate Perónists and even more doubtful military leaders, Frondizi acted with haste. He appeased the Perónists with a 60% increase in wages and granted an immediate lift of the proscription of the Perónist Party. Simultaneously, he enacted a profit remittance and repatriation program for foreign companies in 1958 in attempt to partially re-privatize key industries and attract FDI. There was an approximate 1200% increase in FDI from 1957 to 1959 and an additional 20% rise from 1959 – 1961.⁹⁶ This capital control liberalization only seemed dramatic compared to Perón's stiff protectionism however. Only 7% of FDI to Latin America under Frondizi went to Argentina, less than 1/3 of the level enjoyed by Chile over the same time period.⁹⁷ This liberalization was inadequate to correct for Perón's imbalances, so the prolonged currency crisis continued. There was approximate 1400% growth in CPI 1958 – 1967 despite Frondizi's reforms.⁹⁸

With inflation continuing to erode the revenue base of the government via the Tanzi effect, Frondizi began complying with IMF conditionalities such as wage reductions and currency devaluation after appointing Alvaro Alsogaray to Minister of Economy in 1959. Austerity policies like these, while mild, were unprecedented in Argentina and caused mass protests to contend the resultant dropping wages and rising unemployment. It was this decision, Frondizi acquiescing to IMF conditionalities, that marked the end of the precarious coalition he had built with the Perónists. Under IMF directive in 1958, the government cut real wages by 20%.⁹⁹ Compliance with minor conditionalities that challenged the beloved welfare policies of the general public and their representative unions was unacceptable for the populist left. In clear capitulation to public pressure, Frondizi removed the Minister of the Economy, Alsogaray, in

1962, and abandoned his moderate reformist economic plan, including gradual liberalization with help from the IMF. The sudden gap in IMF lending after 1962 displayed in Figure 7 is consistent with this trend. This cessation of an initially positive liberalization plan in 1962 left the majority of Argentina's trade and budgetary imbalances intact. Inflation persisted, and Policy Pathway 2 had choked off reform.

Union power increased under Frondizi. By 1959, half of all workers in Argentina, across all industries and wage levels, were unionized, a total membership of approximately 4 million.¹⁰⁰ On the eve of Frondizi abandoning his reform effort with the IMF, Argentine unions could cripple nearly any industry in a single day. The example of Castro's revolution in Cuba galvanized the far left. After Perón's corporatism, persecution of Perónists was often inseparable from the persecution of union leadership because Perón had made them one in the same. This persecution forged an image for the Argentine public of the labor movement being one of the only effective institutions to resist the hegemony of the elite-lead military that sought to cut off Perón's beloved welfarist policies and ban his party to keep reformist frauds like Frondizi in power. Rebellious factions of major unions arose repeatedly in the decades after Perón hoping to save the union from extreme persecution under the military, but they were never able to capture the affection of the rank and file members.¹⁰¹ Instead, membership swelled and allegiance to Perón intensified. Perón used his wife as a proxy to assemble and negotiate with labor groups while he was in exile. Frondizi attempted to use the military to quell protests and allow for his reforms, but the unions proved to be capable of reorganization after the capture of their leaders. Union mobilization killed any willingness the Frondizi government had to sit through recurrent currency crises to rescue the Argentine government from Perón's hole.

As an extension of the mobilization that derailed Frondizi's reform plan, the populist left dominated legislative and provincial elections in 1962 with over 70% of the popular vote.¹⁰² With the return of the populist left imminent, General Aramburu led an intervention to prevent Perónists from coming into power in provincial seats and forced Frondizi out of office in 1962. In three short months the military tried several ministers of the economy with distinct plans to no avail. Federico Pinedo, for example, held office for 15 days, and inflation continued to soar.

Illia and Los Azules

At this time, a division emerged between “red” vs “blue” factions in the military. The “Reds” (or *los colorados*) were strict anti-Perónist nationalists who believed that Perónism was as reprehensible as communism and the entire populist left was a welfare parasite. They backed further intervention like Aramburu's interjection after the mid-term elections of 1962 and continued military occupation of the government. The “blues” (or *los azules*), in contrast, supported institutional legitimacy, insisted on a policy of nonintervention, and recognized that Perónism was more palatable than communism. This polarization in the military accompanied a broader polarization in society into the bipolar world of the Cold War. Everyone was either a capitalist or communist even though Argentina relied on neither system. This simplification harmed the ability for Perónism to compete in the electoral arena because proscription of Perónism became synonymous with repressing communism—the great enemy of the fascist states idolized by the rightists in the military. Intense anti-communist persecution began in Argentina much as it did in the US. The general public, significantly more sympathetic to leftist politics than the American public, backed *los azules*. This period of the 1960s was a curious referendum on the choice confronting the nation—fascism or democracy. *Los azules* and *los*

colorados competed for public support. *Los azules* developed a magazine *Primera Plana* to broadcast anti-Nazi messages, and eventually were able to place their leader, General Juan Onganía, into the presidency. Onganía held elections in July of 1963 with Perónism still proscribed. Arturo Illia of the *UCR del Pueblo* party won with less than 25% of the popular vote.¹⁰³ Perónists, with their candidates banned, cast blank ballots. The result was the election of a moderate leftist leader who with a shaky coalition of union leaders, anti-fascists, and a few Perónists defecting from the blank ballot movement. Illia had little broad appeal and knew the *colorados* would intervene after the slightest misstep or economic downturn.

The direct effect of military proscription on Perónism was the repeated election of unpopular leaders who are under constant military scrutiny and had to fight against incessant union backlash to lead Argentina down a path of reform. In Frondizi's and Illia's elections, blank ballots outnumbered supporting ballots for their candidacy and neither leader had allies in a majority of provincial seats. Illia's shaky coalition compelled him to move swiftly and haphazardly to implement reforms. Luis Romero notes throughout the 1960s, Argentina had a highly erratic economic policy that would swing dramatically, often contradicting expressed missions from months prior because of the creation of the industrial planning/modernization groups above and their competing claims for power.¹⁰⁴ For example, Illia created and cancelled changes in import tariff levels repeatedly. This contradictory and unstable policy-making in the post-Perón era is a convergence of Policy Pathways 2 and 4. Critically, this dysfunctional reform came in the aftermath of a severed relationship with the IMF and prevented any meaningful reform from taking place to create macroeconomic stability. Illia took power in October 1963, and by May of 1964, the nation was already descending into chaos as emergent union leader

Augusto Vandor ordered demonstrations that included over 4 million workers from 11,000 factories.

Illia's economic policies were far from the liberalization Argentina needed to escape increasing inflation and GDP growth sluggishness. His ideology was Keynesian and protectionist. The only departures from Perón to a "reformist" like Illia was a transition from an extreme to a moderate welfare state and from full-fledged ISI to trade control just tight enough to keep a minimal level of international activity in the economy. This position was a compromise between Perónism and the nationalist factions of the military. Illia's subsidies and tariffs were a milder version of Perón's outright ISI because the former allows some imports but still cradles inefficient domestic industries for nationalistic reasons. Modernization in Argentina was still a centrally planned affair left to a set of bureaucratic boards to leverage scientific progress and technical expertise such as the National Institute of Agricultural Technology (INTA), the National Institute of Industrial Technology (INTI), and National Council of Scientific and Technical Research (CONICET).

The Foreign Direct Investment entering Argentina under Illia, while modest, was enough to stimulate some growth. A gap began to emerge between modern industries/firms backed by foreign capital and older more inefficient companies bolstered by protectionist policies. The prospect of the government abandoning the SOEs fueled the unions to rally around their emerging leader, Vandor, in 1964. The left became highly anti-democratic, believing that elections and civil liberties were a farce presented by elites and the military to maintain power over workers.¹⁰⁵ This belief proved to be correct again when General Onganía overthrew Illia in June of 1966.

Onganía

The public, while distrusting of the military, disfavored Illia and Frondizi, feeling that they had hijacked Perónist voters and offered few substantive welfarist policies. The military right supported an end of tepid leftist policies. In agreeing on the removal of Illia, Argentina accomplished an odd and short-lived convergence of interests between the populist left and the military right. General Onganía aimed to broker a peace between the far-right in the military who wished to return the nation to a conservative oligarchy and the leftists by fixing the currency crisis. Knowing his policies would be popularly opposed, he demolished implementation barriers. He pushed to amend the Argentine Constitution to abolish the legislature, banned all political parties, reduced the elaborate welfarist administration of the state down to five ministries, closed all universities, and censored public speech. More importantly, he rationalized production by breaking up of some largest state-owned or supported companies and met the ensuing protests with violent oppression. Onganía's aim was to end political squabble of groups competing for resources in the corporatist structure and remove narrow time frames for policy implementation.

This was Argentina's first significant liberalizing reform era, and, critically, it came from *los azules*, the moderate minority in the military. Onganía agreed to two new rounds of IMF loans in 1967 and 1968 and appointed Adalberto Krieger Vasena as minister of the economy in December 1966 with the task of initiating reforms to stop a decade of inflation. Vasena's strategy was to promote the domination of more efficient businesses and sectors over the SOEs. Public expenditure was slashed dramatically, and the government undertook a board array of deflationary measures under direction from the IMF to limit capital outflow and replenish the Central Bank's foreign exchange reserves. Vasena enticed foreign companies to buy government

factories and simultaneously reduced tariffs and subsidies. As Figure 7 demonstrates, inflation plateaued after 1967 and disappeared by 1970, marking the end to the Perón-era currency crisis that had attracted 7 total loans from the IMF between 1958 and 1968. A period of relatively currency stability followed from 1970-1975.

It was not the case that Onganía's reforms entirely solved the underlying macroeconomic imbalance of the country, however. He merely controlled inflation temporarily with moderate liberalization reforms and covered the deficit with loans. Onganía was part of a wave of Latin American leaders who attracted foreign capital in the late 1960s and early 1970s to cover underlying gaps in revenue and expenditure that eventually culminated in the Latin American Debt Crisis. At the time, GDP growth was positive and promising in these countries, so loans were readily available and cheap. The debt crisis began when it became apparent that the Latin America governments would not be able to repay their loans, starting in 1982 with Mexico's default. The debt bubble began in Argentina with Onganía and fresh IMF loans in 1967 and 1968. Onganía's reforms came from a military government but did not originate from the far-right. Onganía was one of the only successful reformers capable of brokering a peace between the populist left and military right temporarily by eliminating inflation by 1970. The macroeconomic imbalance created under Perón and left unaffected by Frondizi and Illia was partially corrected by Onganía, signaling an end to Argentina's first currency crises and Cluster 1 of IMF lending.

Summary

There were four major developments in the 1946-1968 period of Argentine history that precipitated the cluster of seven IMF loans from 1958-1968. First, President Perón demolished the foreign exchange reserves, budget balance, and creditworthiness of the Argentine

government. This began an inflationary trend that would not end until 1970 and is representative of Pathway 1. Second, President Frondizi failed to make corrective reforms that could have saved the Peso from hyper-inflation due to pressure from leftist groups including the unions. This is representative of Pathway 2. Third, General Aramburu lead a junta government and undercut reform efforts by rotating cabinet members often. This is representative of Pathway 3. Fourth, President Illia enacted short-lived and contradictory reforms that further undermined investor confidence and failed to slow the rapid rise of inflation. This is consistent with Pathways 2 and 4. This categorization of important policy pathways for Cluster 1 is formalized as follows:

Figure 9 – Cluster 1 Policy Pathways

	Event	Currency Impact	Policy Pathway
Cluster 1 (1958- 1968)	Perón expands ISI and establishes a welfare state	Depletes foreign exchange reserves and promotes inflation	1
	Frondizi abandons reform effort in 1962 after public backlash	Inflation worsens	2
	Aramburu botches reform by rotating ministers of the economy and new reform plans every few weeks	Inflation worsens	3
	Illia enacts contradictory reforms	Inflation worsens	2 and 4

Cluster 2: 1976 – 1989

After a brief hiatus starting in 1970, unhealthy inflation returned to Argentina by 1975 and intensified to hyperinflation as early as 1977. In response, the IMF extended lines of credit to Argentina on five occasions from 1976-1989. As an overview, these five loans interact with the theory of policy pathways in this thesis in the following six ways. First, Perón returned to the presidency and reintroduced the same type of unsustainable spending that spurred inflation in the

1950s. This is consistent with Pathway 1. Second, General Onganía borrowed large sums of money to correct for the fiscal imbalances of the Perón regime rather than make lasting reforms to choke off inflation. Pressure from leftists throughout Onganía's presidency makes this development consistent with Pathway 2. Third, the junta increased deficit government spending, a move that spurred further inflation consistent with Pathway 3. Fourth, in combination with increased spending, the Junta undercut the creditworthiness of the Argentine government, intensifying inflationary pressure consistent with Pathway 3. Fifth, the junta sustained the indebtedness of the government, making the government susceptible to a debt bubble collapse under Pathway 3. Sixth, the labor unions thwarted President Alfonsín's reform efforts, leaving the Peso unstable under Pathway 2.

Left combats Onganía's reforms

Labor protests peaked in 1969 because of mass firings in certain sectors and provinces not favored in Vasena's rationalization plan. Union leadership, in response, incited uprisings because of the consistent exclusion from policy consultation. This mobilization effort culminated in the famous *Cordobazo* protest period in May 1969 in Córdoba that began to weaken Onganía's grip on public order. The army intervened violently to quell *Cordobazo* protests, killing dozens and arresting thousands, including sentencing union leaders such as Agustín Tosco to life prison sentences via military tribunals. Uprisings against the government in 1969 began as narrow demonstrations by displaced workers and cut-off union leaders but drew solidarity from broader portions of Argentine society. From 1969 – 1973, a broad anti-regime movement gained form consisting of students and professors stripped of university freedoms, displaced workers, and other groups stripped of previous avenues for speech. At this point in

Argentine history, the military repression was the worst it had ever been, only to be exceeded by the junta that would eventually seize power in 1976.

Militant counter-escalation on the left began in 1969. There was a rapid rise in communist militant guerilla groups including the *Fuerzas Armadas Revolucionarias* (FAR), the *Montoneros*, and the *Ejército Revolucionario del Pueblo* (ERP). The *Montoneros* kidnapped and killed former President General Aramburu in May of 1970 and occupied the city of La Calera in Córdoba. The *Montoneros* and ERP kidnapped business executives, robbed military barracks, occupied other small towns, and assassinated anti-leftists. This counter-escalation sent Argentina barreling towards civil war. Facing mutiny in the military, Onganía agreed to step down and allow General Roberto Levingston to assume the presidency in 1970. Livingston governed for only 9 months. Subsequent uprisings spurred the government to replace Livingston with General Lanusse in March of 1971. With civil war imminent, Lanusse extended an olive branch by calling for an election and lifting the proscription on Perónism to appease the left. With the certainty that Perón would win the election, the military agreed to allow all Perónists except Perón himself to run in a plan called the *Gran Acuerdo Nacional*. Perón, in response, organized the *Frente Justicialista de Liberación Nacional* (FREJULI) party in 1972 as his proxy party to run in the elections. His party and its puppet candidate, Héctor Cámpora, won the election in March of 1973 and hosted a socialist revival celebration with leaders including Salvador Allende of Chile. Perón made his highly-anticipated return from exile and into the presidency in 1974 after a special election is called. His wife, Isabel, acted as his vice president. Unexpectedly, Perón died in July of 1975, and wife ruled from July 1975 – March 1976 when General Jorge Videla overthrew the widely popular Perónist government and initiated a domestic terrorism campaign to scare the citizens of Argentina into submission

The brief period of Perónist rule from 1973-1976 brought the return of inflation and a worsening government deficit from a spike in government spending. The Peróns, Isabel and Juan, also revived protectionist policies and expanded workers' benefits and protections in the direction of recreating Perón's empire of 1946-1955. Figure 10, below, demonstrates the catastrophic effect of Perón's renewed policies on foreign exchange reserves. As had happened in Perón's first tenure, this surge in state spending propelled a noticeable and short-lived uptick in GDP as production expanded to meet the demands of the common people who now had significantly more money in their pockets from welfarist policies and wage increases. Inflation quickly followed, however, and an economic downturn in 1975 ensued along with a breakout of fighting between leftist militant groups like the *Montoneros* and the military.

Figure 10 -



Junta's domestic terrorism

With the nation careening towards civil war once again, General Videla intervened. Whereas previous coups occurred when the rightist majority in the military had overcome the

opposition of some of the more moderate military leaders, the coup in 1976 was executed by a unified and blood-thirsty military. General Videla represented the army, Admiral Emilio Massera headed the navy, and Brigadier Orlando Agosti headed the air force. Together, they were the infamous organizers of the dark era in Argentinian history known by many names, including *el proceso* and *la guerra sucia*, that aimed to finally purge the leftist scourge from society and return the country to conservative oligarchy. This effort required domestic terrorism on a scale that previous military leaders had been unwilling to lead. Overall, approximately 30,000 people were executed from 1975-1985.¹⁰⁶ The famous *Nunca Más* report in 1984 published by President Raúl Alfonsín's *Comisión Nacional sobre la Desaparición de Personas* (CONADEP) after the fall of the junta documented 8,961 deaths and estimated up to 30,000 additional killings along with revealing a network of 340 secret detention and torture facilities called *chupaderos*.

Videla's junta was widely unpopular from the very beginning. The junta tried to rally popular support by hosting 1978 World Cup and rally nationalistic sentiments in 1978 by nearly going to war with Chile in the Beagle Conflict over Picton, Lennox and Nueva islands in Tierra Del Fuego. While the Process of National Reorganization did restrict the ability of leftist organizations to organize, labor was able to recover and protest the junta. In 1979, 75% of Argentina's union membership struck unified on one day.¹⁰⁷ And in response to the Malvinas War, 90% of all unionized workers in Buenos Aires staged a strike.¹⁰⁸

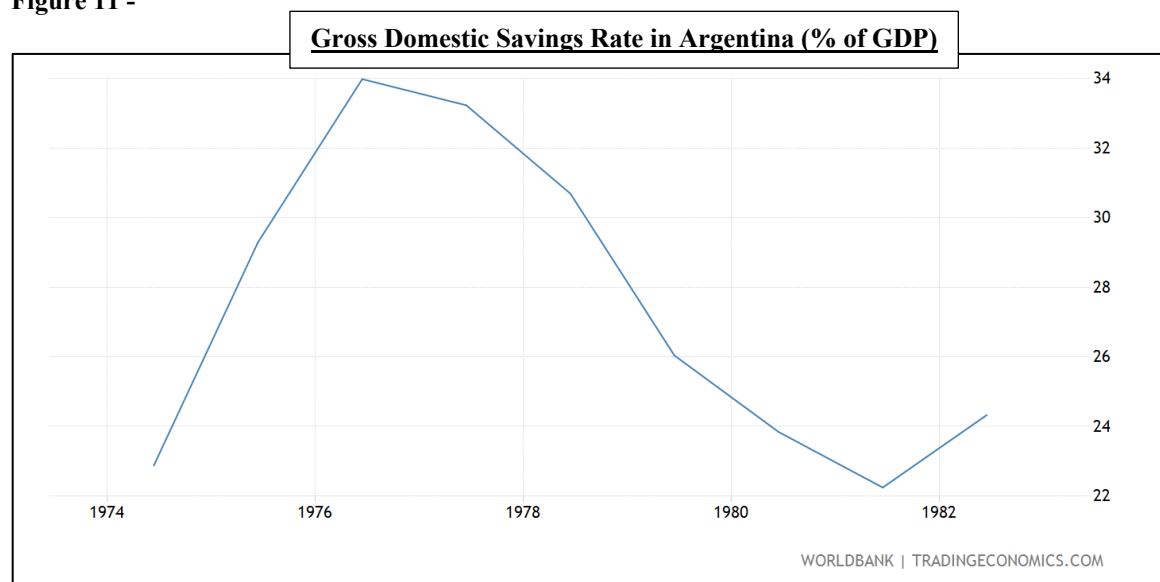
Hollow reform

The IMF rewarded the junta with loans in August of 1976 and September of 1977 in hope of catalyzing significant structural reforms to offset the inflation crises that was rapidly approaching hyperinflation. To the disappointment of the international community and the Fund, the junta did not show an interest in dramatically reforming the economy. Instead, the junta

prioritized anti-communism. In fact, macroeconomic stability significantly deteriorated under the junta. Official statistics, for example, indicate that government expenditure on the military tripled under the junta, and this statistic does not capture spending that went unrecorded.¹⁰⁹ By the time the junta ended, the level of public debt had more than doubled to \$45 billion in 1983.¹¹⁰ By 1982, public debt was already 49.8% of GDP and government expenditures as a share of GDP climbed from 30% in 1960 to a whopping 50% of GDP by 1985 when the junta lost power.¹¹¹ This spending was not for welfarist projects, however. It was used on military infrastructure and hardware, embezzled, and used to provide low interest loans to business owners with ties to the junta. Unlike spending under Perón, the spending under the junta did not have a short-run stimulating effect on the economy. In fact, Manufacturing output fell 28% from 1977 – 1983.¹¹² In 1980 – 1991, average GDP growth was a retraction of 3.2% per year.¹¹³

Videla appointed José Martínez de Hoz to Minister of Economy in 1976 to lead what was a rational quest for growth in name only. The junta's economic policy was more a means for punishing parasitic corporatist industry heads and union bosses than stimulating growth or monetary stability. There was no reduction in state intervention but merely a refocusing to break up and cut off corporatist interest groups. Austerity was enacted selectively to gut workers' protections. The government encouraged the growth of a large set of commercial banks that lent indiscriminately to large firms and the debt bubble that had first formed under Onganía grew. Profits consistently underperformed, and debt repayment became a fantasy. Widespread bankruptcies ensued spurring capital flight that plunged Argentina into hyper-inflation by 1978 that continued through 1983. Figure 11 overviews the impact of the Junta on the domestic saving rate. Note the precipitous decline from 1977 to 1981.

Figure 11 -



The Argentine military was a damning combination of policy inept, uncompromising on policy reform restrictions, and, ironically, stability-oriented. The ideology of the junta military disregarded economic reform in attempt to reimpose the hierarchical order from before Perón. This idea is consistent with the political landscape idiosyncrasy I tabulated in characteristic 4 of Figure 4. The junta sought economic change only as a means to social control and handcuffed their policy makers to enact only those policies that had been vetted for stability concerns. More dramatic, but nonetheless needed, corrections (e.g. privatizing all SOEs) would have caused unemployment to jump. The junta left almost all of the goliath Argentine SOEs untouched. By the time President Alfonsín replaced the military government, there were still over 800 SOEs propelling the government deficit.¹¹⁴ Major public companies were deemed to large or risky to break up, such as the automobile SOEs. Unemployment risked riots from supporters of the populist left. In response, full employment was a policy priority of the junta. Despite hyperinflation, a collapsing debt bundle, economic contraction, and a bank run, the unemployment rate under the junta was just 2.3% in 1980.¹¹⁵ The junta handcuffed the Minister

of the economy Martínez de Hoz and foreign economic advisors to prevent the type of corrective liberalization that happened in Chile and caused unemployment rates to soar. IMF policy advisors in Argentina counseling the government in 1976 and 1977 after successive loans were disallowed from accessing data on YPF, Argentina's largest SOE at the time or reducing its employment, let alone privatizing it.¹¹⁶ This is one of the main explanations for why the Fund abandoned Argentina from 1977-1983. The junta under Videla showed no interest in complying with conditionalities. There was a team of "Chicago boys" in Argentina alongside Martínez de Hoz. A whole team of neo-liberal and highly credentialed PhD's, including several out of Milton Friedman's UChicago classrooms such as Adolfo Diz, were in Argentina making policy recommendations that were almost entirely ignored because the military right in Argentina was not concerned with macroeconomic health—only revenge (consistent with Figure 4).

This botched reform era from 1976 – 1981 left the economy highly concentrated, lacking foreign investment, and dependent on loans to fund the budget deficit. The junta did suffer some unfavorable international economic developments that soured the economic climate externally. An oil crisis began in 1973 when the members of the Organization of Arab Petroleum Exporting Countries proclaimed an oil embargo targeted at nations perceived as supporting Israel during the Yom Kippur War causing the price of oil to rise. Nonetheless, the inflation of the junta is centrally attributable to inciting a bank run by undercutting public and foreign confidence in the credibility of the government.

Junta crumbles

With inflation worsening, Videla ceded the presidency to General Roberto Viola in March of 1981. This corresponded with a removal of Martínez de Hoz from the Ministry of the Economy. As the economy worsened, divisions in the military resurfaced. Commanders of two

of the Army Corps (Benjamín Menéndez and Carlos Masos) openly contradicted Videla and Martínez de Hoz's leadership. The leader of the Navy, Admiral Emilio Massera, acted without oversight, proposing to invade the Falkland Islands in 1982 despite open refusal of Videla and Viola. Viola tried to retain a semblance of a governing coalition by granting businesses and bank leaders cabinet positions. Viola's declining health, however, handed power to General Leopoldo Galtieri in late 1981. Galtieri appointed Roberto Alemann (one of Martínez de Hoz's advising team) to continue Martínez de Hoz's unsuccessful reform program.

The ban on political activity de facto ended in late 1981 when a coalition of remaining leftists form the *Multipartido* to organize around in increasingly evident weakness of the junta. This renewed leftist organization eventually becomes bipolar – Perónists versus Radicals. General Bignone tried to negotiate a return to electoral politics with a proposal that would grant military leaders immunity for involvement in the dirty war and guarantee the military institutional power, but mass protests forced the military to schedule election for 1983 without an agreement. The protests rallied around the Mothers of the Plaza de Mayo demanding justice for their loved ones who were now members of the *desaparecidos* missing from *el proceso*.

Alfonsín & the failed middle road (1983-1989)

Raúl Alfonsín won popular appeal for public criticism of the military and calls for justice to recover from *el proceso*. He campaigned as the candidate of modernization and a new future, effectively painting both the military rightist and Perónist candidates as choices of an older and dysfunctional era. His victory in October 1983 was the first national electoral defeat for Perónism in an election in which it was allowed to participate. Alfonsín was handed a nation with a debt bubble on the brink of collapse. Alfonsín was legendarily inept as an economic

policymaker, however. He was, instead, a charismatic politician skilled in coalition building and not crafting policy. For example, he famously proposed a law that would ban black markets.¹¹⁷

The military dictatorship after Videla and Martinez de Hoz had been able to secure an IMF deal in 1983 before the elections. Alfonsín arrived in office and negotiated two more IMF loans in 1984 and 1987. To comply with IMF conditionalities, Alfonsín cut government expenditures and ceased printing new money. Alfonsín appointed Juan Sourrouille to Minister of the Economy, and Sourrouille implemented the Austral Plan to rapidly adopt a new pegged currency called the Austral freeze prices in order to stop inflation. The plan worked, and inflation dropped from a level of astronomical hyper-inflation down to 348% in 1985, 20% in 1986, and under 10% by 1987.¹¹⁸ Then, the impacts of deflation were felt, most notably a decline in exports. Alfonsín's political project proved to be futile because the labor unions were too formidable to deny institutionalized power. Under Alfonsín, the populist left recovered to its strength of the pre-junta era. The persecution of the populist left under the junta temporarily tempered its electoral domination by, quite literally, killing viable leftist candidates. The lull ended quickly, however, as the unions regained formidable strength. Despite the best efforts of the Alfonsín government to pursue reform despite incessant pressure from the populist left, his administration crumbled from an inability to control the deficit that eventually killed the austral plan.¹¹⁹

From 1985-1988, Argentina often fell out of compliance with IMF conditions as a result of domestic mobilization against austerity led by the labor unions. The IMF deal from 1987 was restructured repeatedly before the IMF cancelled the deal in 1988 citing ongoing noncompliance. Unions rebelled against Alfonsín for the use of a wage freeze. In response, Alfonsín resumed printing money and inflation returned, reaching hyperinflationary rates by 1989. Alfonsín also

restored union protections to Perón-era levels. From 1984 – 1988, Argentine experienced an extreme uptick in strikes and union activity calling for an end to Alfonsín's presidency. In capitulation to this pressure from the unions and to solidify a coalition opposed to renewed military intervention despite worsening economic conditions, Alfonsín appointed fifteen of the most influential union bosses to positions in the Ministry of Labor, effectively re-corporatizing the labor movement to build a pro-government public consensus. By the time Alfonsín left office in early 1989, Argentina resembled the highly-incorporated welfare state that Perón had left behind in 1976. Alfonsín resigned from office early as looting and hyperinflation plagued the nation.

Summary

Alfonsín's capitulation to the unions and departure from office in early 1989 signal the end of IMF loan Cluster 2. As a summary, the five loans in Cluster 2 interact with the theory of policy pathways in this thesis in the following six ways. First, Perón returned to the presidency and reintroduced the same type of unsustainable spending that spurred inflation in the 1950s. This is consistent with Pathway 1. Second, General Onganía borrowed large sums of money to correct for the fiscal imbalances of the Perón regime rather than make lasting reforms to choke off inflation. Pressure from leftists throughout Onganía's presidency makes this development consistent with Pathway 2. Third, the junta increased deficit government spending, a move that spurred further inflation consistent with Pathway 3. Fourth, in combination with increased spending, the Junta undercut the creditworthiness of the Argentine government, intensifying inflationary pressure consistent with Pathway 3. Fifth, the junta sustained the indebtedness of the government, making the government susceptible to a debt bubble collapse under Pathway 3.

Sixth, the labor unions thwarted President Alfonsín’s reform efforts, leaving the Peso unstable under Pathway 2. Figure 12 formalizes these findings:

Figure 12– Cluster 2 Policy Pathways

	Event	Currency Impact	Pathway
Cluster 2 (1976-1987)	Perón returns and revives welfarist and protectionist policies	Depletes foreign exchange reserves and promotes inflation	1
	Onganía covers part of the deficit with loans rather than cutting expenditures or raising revenues to offset the deficit	Contributes to speculative bank run that sped up inflation	2
	Junta increases government spending	Promotes inflation	3
	Junta undermines domestic and international faith in deposits and investments	Bank run that promotes inflation	3
	Junta adds to debt bubble formed under Onganía	Contributes to speculative bank run that sped up inflation	3
	Unions undercut Alfonsín’s reforms	Promotes inflation	2

Cluster 3: 1989-2001

The end of Alfonsín’s administration signaled an end to centrist efforts to reform the Argentine economy and currency, and the leftist populists returned to power. For this reason, the seven IMF loans from 1989-2001 are part of a distinct cluster even though inflation remained at a sustained high level from Cluster 2 to Cluster 3. As an overview, the seven IMF loans in Cluster 3 link to the theory of policy pathways in the following five ways. First, the budget deficit from the second Peronist era and the Junta remains unpaid, promoting seigniorage via Pathways 1 and 3. Second, debt began to pile up under the junta, contributing to the eventual debt bubble crash after 1999 via Pathway 3. Third, Alfonsín’s failed reform and increased borrowing also contributed to the debt bubble via Pathway 2. Fourth, President Menem continued the trend of hiding a budget deficit and currency depreciation with borrowed funds.

This blind eye tactic also contributed to the development of the 1999 debt bubble alongside the borrowing of Alfonsín and the junta, but Menem's borrowing occurred via Pathway 1. Fifth, Menem undercut the creditworthiness of the Argentine government, beginning the downward trend in creditor confidence that accelerated into the debt bubble collapse via Pathway 1.

Normalization of the graft state

Perónists dominated the mid-term election of 1987, making a presidential victory for the populist left in 1989 seem inevitable. Leading this post-junta re-organization of the populist left was the *renovador* movement—a modernization and democratizing of the Perónist party lead by Antonio Cafiero and Carlos Menem. Menem won the presidential election in 1989 and entered office as a president enjoying public celebrations not seen since Perón, including parades and rallies in the nation's largest sports stadiums. Menem represented a major adaptation in Perónism. Menem preserved the corporatist policies of older Perónism but softened its extreme welfarism in order to allow Argentina to escape some of the pressure of the active hyperinflation crisis. The general public regarded Menem as a savior to rescue Argentina from several administrations of mediocrity and return the country to a leftist populist direction. Remarkably, the election in 1989 was the first peaceful transition of power between democratically elected leaders in 71 years, and the first peaceful transition of power between members of opposition parties in 83 years.

Menem inherited a crumbling and hyper-inflating economy with pressure from the international community to immediately introduce neo-liberal reforms. Despite campaigning on welfarist policies harkening back to Perón, Menem had no choice but to comply with some of the policy recommendations provided by the IMF, including the privatization of some inefficient SOEs, reduced tariffs and subsidies, and, in truly anti-Perónist fashion, raised taxes to attempt to

balance the budget. With an inflation rate close to 4000% when entered office,¹²⁰ Menem had no choice to comply. This was the first time the IMF had been able to convince the populist left in Argentina to pursue even modest reforms. Vreeland (1999) explains that Menem had very few viable paths as incoming president, he was able to defer the blame for cuts to popular programs on the IMF instead of his leftist populist supporters blaming his government. As a result, Menem maintained the loyalty of most of the populist left even after he capitulated partially to the IMF. An urgent need for inflation relief, a cornering from international financial community that left Menem few alternatives, and lack of alternative Perónist leaders to rally around allowed Menem to remain popular.

Initially, Menem appeared to the international community to be the savior of populism in Argentina because he would be able to inject it with some fiscal discipline and avoid catastrophic union backlash. The illusion of Menem as the populist leftist reformer was short-lived, however. In true Perónist fashion, Menem quickly began consolidating his power to return Argentina to its era of authoritarianism. He modified the constitution to allow himself to run for an additional term in 1995, enacted reforms to add four new justices to the supreme court to avoid any challenges to his policies and used emergency decrees to overcome legislative opposition. At the same time, Menem spent lavishly on personal comforts including private jets and construction of private golf courses. The corrupt modern Argentine state began under the Junta and became normalized under Menem. As the economy grew healthily early in his presidency, Menem organized a corrupt scheme to benefit personally and coopt opposition. Menem repeatedly tried to pass versions of a law called *Ley de Flexibilización Laboral*, a “labor flexibilization” law that broadened the definition of what it meant to be an employee of the state and would have allowed the state to legally compensate workers for a long list of unusual tasks. To coopt the military,

Menem pardoned the *carapintadas*, appointed military leaders to cabinet offices, and secured a loyalist General Martín Balza to be army commander.

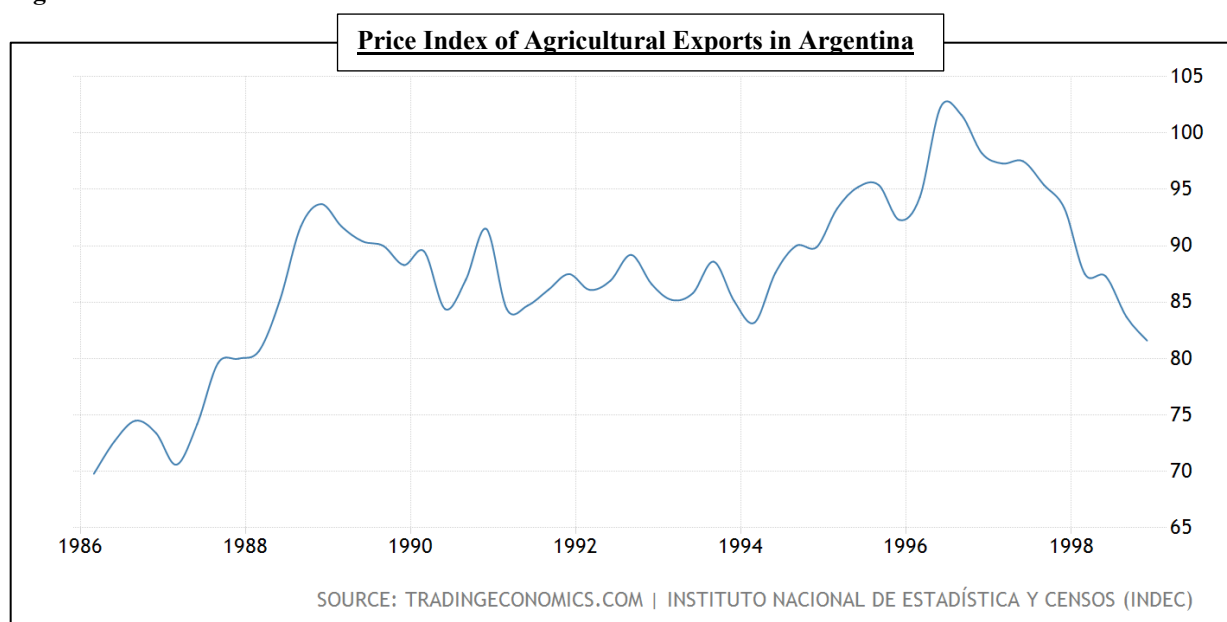
Compliance with IMF conditionalities meant that an outright welfare state was off the table. In a stable macroeconomic environment, however, there is little doubt that Menem would have re-established a welfare state. Instead, under hyper-inflationary pressure, Menem developed a hidden graft state that provided the highest possible level of wealth distribution relative to the possibilities at the time. This corruption proved to be the most damning policy enacted under the Menem regime. It slowly eroded the credit worthiness of the government that had allowed the government to initially sell bonds and enjoy a capital influx to propel growth from 1990-1994. The Corruption Perception Index (CPI) tracked this change in international perception of the Menem government. Argentina's CPI fell from a score of 5.24 out of 10 in 1995 to 2.81 out of 10 in 1997, the largest change for any nation in that two-year span.¹²¹ For reference, 5 out of 10 is the threshold of corrupt versus not corrupt on the CPI scale, meaning that Menem tanked the trustworthiness of the Argentinian government into a realm of extreme corruption. Menem accumulated massive international debt to hide the deficit and corrupt spending of the state while simultaneously undermining the creditworthiness of the Argentine state. This combination meant that Argentina would soon be barred from accessing new credit with affordable interest rates, making a debt crisis inevitable. The five IMF loans under Menem (in 1989, 1991, 1992, 1996, and 1998) were part of this debt accumulation process and are explained by policy Pathways 1.

Debt bubble

The Argentine public charged Menem with handling the fallout of the imbalances and inflation initiated under Perón's second reign, but he achieved few successes across all measures—growth, inflation, and unemployment. Menem temporarily achieved the first two at

the expense of the third, due in large part to favorable global markets beyond his control. Figure 13 demonstrates the positive trade environment that initially hid come of the dysfunctionality of the Menem government. 1986-1989 included a steep rise in agricultural export prices, 1989-1997 was a period of modest but positive price growth, and prices declined after 1997, straining the economy by lowering revenues and foreign exchange reserves. Price levels decreased rapidly in correspondence with the Asian Debt Crisis.

Figure 13 -



Menem appointed Domingo Cavallo as his Minister of the Economy and initially gave him carte blanche. Cavallo introduced the Convertibility Law that pegged the peso to the USD in 1992 and limited money printing to equal that of USD reserves. Simultaneously, the government eliminated its own tools for currency manipulation yielding to the international lending community. Cavallo's currency peg and block on government borrowing from the central bank essentially blocked all inflationary ways of covering the deficit in the hope of instigating real corrective measures. It soon became clear, however, that Menem was not leading a coordinated

reform effort but a farce to gain favor and loans from the international community while still empowering the populist left political structure. For example, the actual deficit and the reported deficit were significantly different, with the latter being much lower. Widespread economic data fabrication began in Menem's Ministries of Finance and Economy. In addition, his economic policies were highly unstable, impulsive, and sometimes even contradictory.

At the direction of the US, Argentina introduced Brady Bonds in 1989 to raise revenues by selling government debt. These highly liquid, tradable government bonds gave Menem the revenues needed to make debt payments. These reforms had modest but positive impact and the economy grew in 1989. A flood of prospective capital entered the country from 1991-1994 and further fueled growth and raised tax revenues. From 1990-1994, average GDP growth in Argentina was 7.9%.¹²² The recommended response of Minister Cavallo and the IMF to a decline in regional purchases of Argentine exports and decline in access to credit stemming from Mexico currency crisis in 1994 was to reduce spending. Menem, in line with the preferences of his base, rejected this proposal. The deficit remained larger than reported, kickbacks to unions off the books continued, and international credit flowed into the country giving the government the illusion of solvency. From 1995-1999 alone, public debt under Menem doubled.¹²³ It increasingly became obvious to members of the cabinet and foreign advisors that the SOE selling process had been corruptly handled by Menem and his party backers. Failure to significantly lower public expenditures and consistent borrowing from foreign sources in the 1990s fueled the growth of the debt bubble.

The favorable economic conditions in 1994 began to cool with recession among notable neighbors and allies including a recession in Mexico from 1994-1996. The growth of new sectors proved inadequate to absorb a majority of displaced workers. The unemployment rate surpassed

10% for the first time in the recorded history in 1993.¹²⁴ Nonetheless, as a figure of stability leading Argentina away from decades of chaos, Menem won the 1995 presidential election by promising expanded social programs spending to win over his populist left voters.

Approaching the end of the Menem presidency, the unions lashed out in 1998 with massive strikes as income inequality and inflation were accelerating. Fernando de la Rúa won the 1999 presidential elections, inheriting an economy on the brink of collapse. The De la Rúa presidency negotiated an IMF package in 2000 with some of the strictest conditionalities in IMF history after Menem had abused the trust of the Fund for almost a decade. Minister of Economy José Luis Machinea implemented a trifecta of tax hikes, wage cuts, and spending cuts to secure IMF loans in 2000, but Argentina continued to suffer capital flight. Domingo Cavallo was then re-appointed as minister of the economy after Machinea's early policies fail to lessen the recession. Cavallo banned imports and encouraged exports, and the IMF abandoned Argentina in 2000 citing continued non-compliance with loan conditionalities. Like Menem, De la Rúa proved to be incapable of enacting the dramatic liberalization reforms needed to avert another economic downturn. Continued budget deficits and low credit worthiness limited Argentina's ability to earn loans to make debt payments, and Peso peg kept the peso artificially overvalued, thereby, dramatically restricted exports and depleted the Central Bank's foreign exchange reserves by 60% in under two years.¹²⁵

As the bank run intensified, Cavallo introduced a policy called *el corralito* that placed withdrawal restrictions on bank accounts. Net capital flows in Argentina dropped -400% in one year from 2001 to 2002.¹²⁶ The corralito attempted to offset this outflow. De la Rúa proposed other reforms to the legislature but populist leftists blocked the reforms and staged mass strikes across the country. At the same time, the creditworthiness of the government continued to

decline. In separate 2003 and 2004 versions of the Corruption Perception Index (CPI), Argentina scored as having the most corrupt political parties of any democracy on Earth under De la Rúa.¹²⁷ In December 2001, a unified labor front managed to organize some of the largest strikes in history. Looting and riots began. De la Rúa resigned in December 2001 and the nation remained without a president temporarily as society plunged into chaos.

The Senate appointed Adolfo Rodríguez Saá to the presidency, but he lasted one week before resigning. Saá broke the dollar peg to devalue peso and attract demand for exports. He also announced that Argentina would be defaulting on its private foreign debt, maintaining only IMF payments. In December 2001, this default on \$103 Billion in loans to private creditors became the largest debt default of any kind in world history.¹²⁸ On Jan 1, 2002, the Senate appointed Eduardo Duhalde to the presidency as the 5th president in the last 10 days. Duhalde began the *Plan de Jefes y Jefas del Hogar* with assistance from the World Bank to give cash to the poorest Argentinians in 2002 in attempt to rescue Argentina from severe economic crisis. Still, the IMF would not lend because the Peso was not reliably valued. For example, debts were transferred from dollars to Peso at two different rates depending on the type of the debt and many people used government bonds rather than pesos as currency. In fact, a broad array of currency alternatives were widespread and barter economies developed in many places. Mass protests filled the streets of cities across Argentina with citizens protesting their locked away savings and poverty. Duhalde appointed Roberto Lavagna to ministry of the economy in April 2002. Argentina's economy began to recover not through fiscal remedies but via revival of agricultural exports to feed booming Asian demand.

This recovery ended the Cluster 3 group of IMF loans from 1989-2001 that had been part of the formation of the debt bubble that had begun under Perón's second term, and continued

through the junta, Alfonsín, Menem, and the intermediate crisis leaders of 1999-2002 (De la Rúa, Saá, etc.). An alternative explanation is that international lenders were scared away by debt solvency crises that year in Hong Kong, Thailand, Korea, Japan, and Brazil (1997 Asian Financial Crisis). However, economists widely acknowledge that it was the structural deficit and not the solely the credit market that caused the bubble burst.¹²⁹

Summary

The seven IMF loans in Cluster 3 link to the theory of policy pathways in the following five ways. First, the budget deficit from the second Peronist era and the Junta remained unpaid, promoting seigniorage via Pathways 1 and 3. Second, debt began to pile up under the junta, contributing to the eventual debt bubble crash after 1999 via Pathway 3. Third, Alfonsín's failed reform and increased borrowing also contributed to the debt bubble via Pathway 2. Fourth, President Menem continued the trend of hiding a budget deficit and currency depreciation with borrowed funds. This blind eye tactic also contributed to the development of the 1999 debt bubble alongside the borrowing of Alfonsín and the junta, but Menem's borrowing occurred via Pathway 1. Fifth, Menem undercut the creditworthiness of the Argentine government, beginning the downward trend in creditor confidence that accelerated into the debt bubble collapse via Pathway 1. The summary of policy pathways for Cluster 3 are as follows:

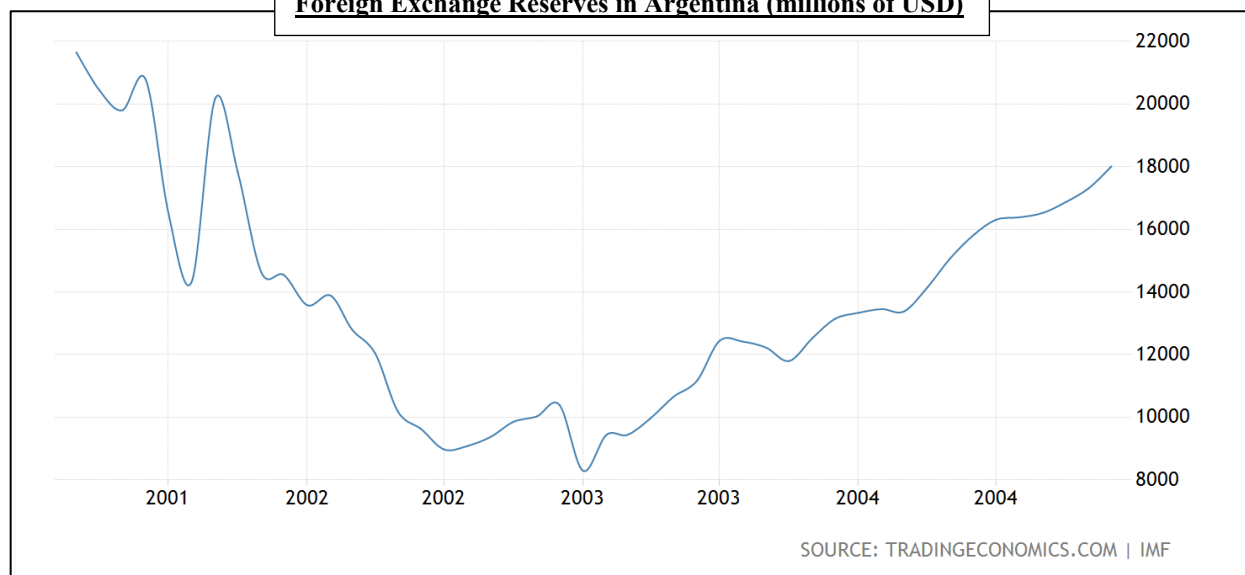
Figure 14 – Cluster 3 Policy Pathways

	Event	Currency Impact	Policy Pathway
Cluster 3 (1989-2001)	Budget deficit remains from the Perónist government of 1973 -1975 and the junta of 1976-1983	Promoted Inflation	1 and 3
	Debt accumulation under the junta	Contributed to the development of the debt bubble that ended in bank run and inflation after 1999	3
	Alfonsín fails to offset budget deficit and instead accumulates more debt	Contributed to the development of the debt bubble that ended in bank run and inflation after 1999	2
	Menem expands borrowing instead of cutting spending	Contributed to the development of the debt bubble that ended in bank run and inflation after 1999	1
	Menem corrupts the state and undermines Argentina's creditworthiness	Contributed to the collapse of the debt bubble after 1999	1

Cluster 4: 2003

The distinction between Cluster 3 and Cluster 4 is very thin. Cluster 4 consists of two stimulus loans from the IMF in 2003 while Cluster 3 consisted of loans that had contributed to the formation of a debt bubble up until 2001. As Argentina's export profits recovered after 2002 and replenished foreign exchange reserves, the government taxed agricultural exports above 20% and raised substantial revenues rapidly, achieving some currency stabilization. Figure 15 displays the foreign exchange reserve rebound in 2002 as international demand for Argentine agricultural products grew.

Figure 15 -

Foreign Exchange Reserves in Argentina (millions of USD)

Duhalde was finally able to restore IMF confidence in the Argentine government and signed two lending agreements with IMF in January and September of 2003. These agreements were recession recovery measures with root causes identical to Cluster 4 and Figure 14. In other words, the pair of 2003 IMF loans that constitute Cluster 4 responded to the debt bubble and Cluster 3 lending as was summarized in Figure 14. The two Cluster 4 loans link to the exact same political pathways as the Cluster 3 loans. Accordingly, Figure 14 explains the political pathway origins of both Cluster 3 and Cluster 4 loans. It is nonetheless critical to differentiate the two loans in 2003 from the loans in Cluster 3 because they occurred in dramatically different policy environments. The currency crisis fallout of the hyperinflationary period of 1976-1991 had ended by 2002, and the pair of 2003 loans from the IMF acted less as emergency liquidity and more as stimulus, signaling that the IMF had a restored faith in the Argentine government. Moving forwards, the international lending community hoped that the dramatic default in the

early 2000s had reset the Argentine economy and would allow for more prudent policymaking to begin in the country.

Cluster 5 – The 2018 IMF Loan

From 2003 – 2018 Argentina enjoyed sustained economic growth and a generally resilient Peso. By 2018, however, inflation had returned to concerning levels, and the IMF intervened once more to aid the government. As an overview, the 2018 IMF loan is attributable to Pathway 1 in three distinct senses. First, the Kirchners reignited the demand-pull inflation that had plagued previous leftist-populist governments by rapidly expanding government spending. Second, the Kirchners undermined the creditworthiness of the Argentine government by condoning data manipulation. This is a Pathway 1 outcome. Third, the Kirchners revived old populist leftist tactics like vote buying that undermined the faith of the international community in the potential for reform in Argentina and reduced demand for the Peso (Pathway 1).

Kirchnerismo

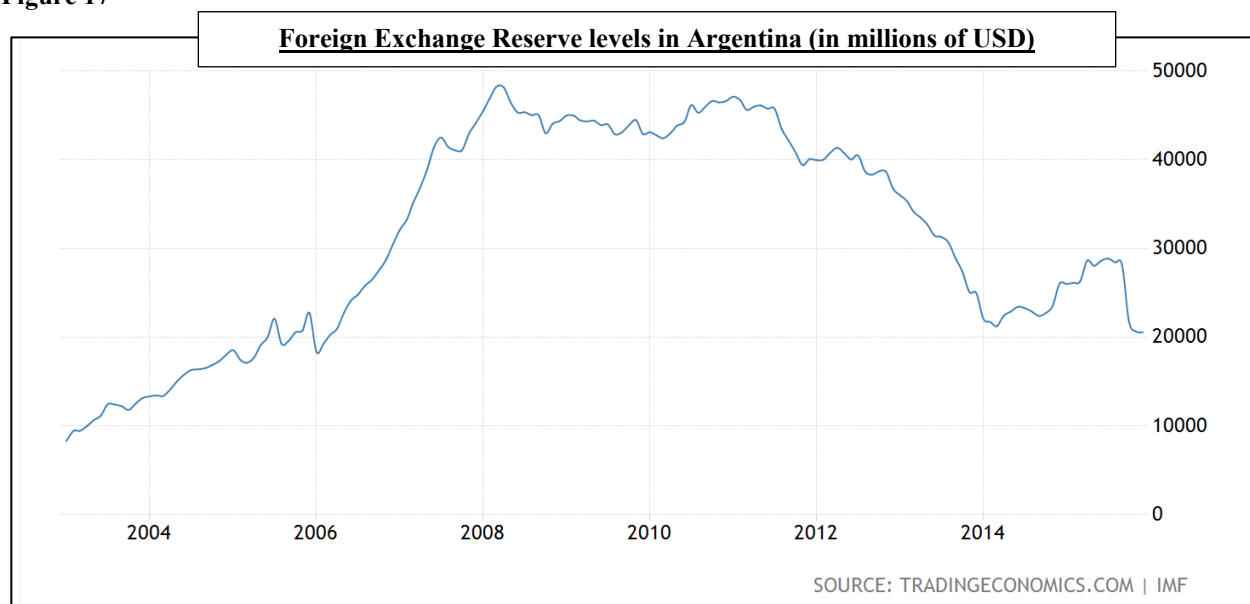
As the economic recovery continued in Argentina, the rent-seeking claims of the populist left returned. In 2003, the populist left elected a new president to lead the country—Néstor Kirchner. The ensuing political era from 2003-2015 consisted of a dynasty of a single married couple in power. Néstor ruled from 2003-2007 before his wife, Cristina, won consecutive elections to hold office from 2007-2015. Together, they ushered in a new era of populist leftist policies called *kirchnerismo*. *Kirchnerismo* enjoyed an exceptionally strong global trade climate that allowed the government to re-establish macroeconomic imbalances without immediately spurring a jump in inflation. This idea, that the Kirchners were carried by global trade trends and not their own policy wisdom, is widely acknowledged among economists.¹³⁰ Agricultural export

demand in Asia for goods like soybeans and vegetable oil was growing rapidly. Figure 16 displays the consistent growth in the export price index from 2002-2014, and Figure 17 shows the corresponding foreign exchange liquidity.

Figure 16 -



Figure 17 -



Néstor's election brought an immediate return to leftist policies like re-nationalizations of many companies and price controls. The populist left was back. Recognizing an avenue to reclaim control over policy-making, union strike activity rose over 700% from 2004 to 2005 to win wage hikes.¹³¹ Cristina's election in 2007 accelerated the speed of *kirchnerismo*. The Kirchners nationalized the postal service, AySA (the water utility serving Buenos Aires), pension funds (transferred to an SOE called ANSES), Aerolíneas Argentinas, the energy firm YPF, and the railways. Wage, pension, and subsidy spending rose by a figure equivalent to 11% of total GDP per year under Cristina.¹³² The Kirchners re-introduced capital movement restrictions and wage increases, signaling a return to the era of plundering agricultural profits under Perón by levying export taxes. Establishment of the National Office of Control of Agricultural Trade (ONCCA) distributed another 8 billion pesos worth of subsidies annually. In March of 2008, Cristina established a floating tax system that allowed the government to seize large and arbitrary portions agriculture export profits. In total, government expenditure more than tripled from 2002-2009.¹³³

Leftist mobilization intensified to support *kirchnerismo*. The *Confederación General del Trabajo*, one single union confederation, came to represent 38% of all laborers in Argentina under Cristina.¹³⁴ The payoff for swelling unions was handsome. Public works projects, workers' compensation, and collective bargaining protections all expanded. Néstor even increased the size of national pension programs at an annual cost of over 2 billion Pesos to buy votes ahead of the 2007 election. The increase in state expenditures spurred domestic consumption and brought a fresh round of demand-pull inflation by 2006 that persisted through 2010 and tilted Argentina's trade balance back towards level after the exceptionally strong export growth 2003-2010. In response to inflation, the Kirchners implemented additional price controls, a meat export ban,

and widespread economic statistics manipulation to hide the precarious position of the economy. One scholar estimates that the government reported inflation every year under the Kirchners to be half or less of the estimates made by outside sources.¹³⁵

The Kirchners also ignored democratic norms to assert their power in a style reminiscent of Perón's authoritarianism. The Kirchners routinely ignored budgets passed by the legislature using emergency powers to spend over 25 billion pesos more than budgeted throughout administration.¹³⁶ Overpriced public works projects included kickbacks for involved parties, a legacy from the Menem era, and members of ministries often owned stakes in the companies they regulated. The Kirchners used the *Consejo de la Magistratura* to intimidate and threaten members of the judiciary with impeachment. They controlled the press, issued propaganda, and forced INDEC (the national statistics institute) to falsify employment, inflation, and other economic data. The Kirchners could maintain a term length that avoided the constitutional stickiness of Menem's extended presidency by ruling consecutively while overseeing constitutionally questionable policies. The Kirchners nationalized private pension funds *Las Administradoras de Fondos de Jubilaciones y Pensiones* (AFJP) worth 30 billion USD to raise revenues instead of tax hikes and created the Bicentennial Fund to pay debt obligations with foreign-exchange reserves. Martín Redrado, president of the Central Bank, refused to implement this policy and was fired for his opposition and replaced with a loyalist.

Rising inflation and demand domestically coupled with global downturn in 2008-2009 that dropped the price of agricultural commodities caused the government to begin running a deficit and seeking international creditors. Meanwhile, the Kirchner government continued to expand domestic programs to counteract drops in its approval ratings. The Kirchners alienated the international lending community with ill-advised policy choices including a semi-free-semi-

pegged exchange rate that undercut investor confidence in the stability of currency conversions. Unable to permanently hide Argentina's worrisome growth trajectory, negative growth, an exchange crisis, and capital flight resumed in 2011. The government imposed capital controls in 2012 and defaulted on its private debt again in 2014.

Grain prices and demand for exports recovered and rescued Argentina from the brink of another crisis, but the economic instability caused the Kirchners to begin to lose popularity despite their corrupt and welfarist policies.

Conservatism wins for the first time

In 2015, Mauricio Macri won the presidential elections as the first conservative president to break the 16% vote share won in the 1916 presidential elections.¹³⁷ Macri's campaign was overtly pro-market openly praised liberal economic principles. During the campaign he promised to liberalize exchange rates, lower subsidies and tariffs, finance growth-stimulating infrastructure projects, reform pensions, and lead broad tax reform to broaden the base and increase collection rates, all policies that have rarely earned voters in Argentina. He has attracted a notable following, and international interest in investing in Argentina is on the rise because of perceived increase in credit worthiness. His government immediately focused on restructuring debt payments, limiting size of payments to avoid deficits, negotiating for longer repayment dates, and postponing bond maturity dates. In September of 2018, President Macri's government agreed to a three-year loan package worth \$57.1 billion, the largest ever in the history of the IMF. The 2018 loan will likely be followed with future liquidity so long as Macri remains compliant with conditionalities. This seems likely because many of his policy platforms resemble IMF conditionalities, including current account liberalization.

Exit military; enter the political right

The election of Macri signifies a significant re-ordering of the political landscape in Argentina away from the formalization I gave in Figure 4. In the aftermath of the 1999-2001 recession, the center-right political organization has re-emerged. Macri won the presidency as the leader of the *Cambiamos* party that acts as a coalition of one center-right (*Propuesta Republicana*), one centrist (*Unión Cívica Radical*), and one libertarian (*Coalición Cívica ARI*) party. The inclusion of the UCR in this coalition suggests that centrist voters in Argentina may have moved rightwards. A number of scholars have emerged to explain this dramatic turn of events. Casullo (2018) argues that Macri's rise is not attributable to riding any existing party momentum but instead convincing the public that center-right politics can be socially compassionate.¹³⁸ A notion, no doubt, modelled by Chile. Niedzwiecki and Pribble (2018) argue that Macri's push to the right has remained popular because of its gradualism and avoidance in cutting major welfare programs, seeking, instead, more indirect ways of ushering the country towards stability like export promotion.¹³⁹ Morresi and Vommaro (2013) argue that *Cambiamos* awoke a plurality of supports that had long existed but failed to win elections previously.¹⁴⁰ Andermann (2016) argues that the public has crisis exhaustion to such an extent that crisis avoidance may have finally become the most important voting issue in Argentina after 100 years of turbulence.¹⁴¹ No matter the cause, it is clear that Macri's election is a major departure from the model given in Figure 4, meaning that the future of the IMF in Argentina is in flux.

Summary

The 2018 IMF loan is attributable to Pathway 1 in three distinct senses. First, the Kirchners reignited the demand-pull inflation that had plagued previous leftist-populist governments by rapidly expanding government spending. Second, the Kirchners undermined the

creditworthiness of the Argentine government by condoning data manipulation. This is a Pathway 1 outcome. Third, the Kirchners revived old populist leftist tactics like vote buying that undermined the faith of the international community in the potential for reform in Argentina and reduced demand for the Peso (Pathway 1).

Figure 18 - Policy Pathways for 2018 IMF Loan

	Event	Currency Impact	Policy Pathway
2018 IMF Loan	Kirchners push high levels of spending; increase quantity of money in circulation	Demand-pull inflation	1
	Kirchners manipulate economic indicators, lowering the creditworthiness of government and desirability of the Peso	Declined demand for the Peso; inflation	1
	Kirchners revive both the policies and political tactics of previous leftist governments, lowering the confidence of both domestic depositors and international lenders	Declined demand for the peso; declined savings rate; inflation	1

Contrast with Chile

Chile operates as a counterfactual to what recovery from ISI after the 1940s could have looked like had the political landscape in Argentina lacked its highly asymmetrical nature. Chile's recovery was informed by rationalization and policy coordination with the US via electorally successful and widely popular center-right or conservative governments. Chilean leaders have adhered to neo-liberal models that, overall, produced far less turbulence. It is no small irony that Argentina, on the cusp of becoming an economic super power at the start of the twentieth century, first tried isolation like most of Latin America with an ISI model and then, after, immediate welfare state consolidation only to have consistently lower GDP per capita throughout the twentieth century than its more patient neighbor, Chile. The contrast in Chile versus Argentina is a testament the fallout of one political landscape versus another (Figure 4) as it is a testament to the difference in short-run versus long-run economic policy making. Interestingly, differences in the former may produce a contrast in the latter.

Effective early rationalization

After the early ISI era in Latin America, Chile and Argentina diverged. Chile emerged from the ISI period with strength for two reasons. (1) The left did not have a monopoly on voters' affection or nearly as strong of a union structure, and (2) the right won power and implemented reforms designed to stabilize the economy and keep the currency afloat. In 1952, a Chilean populace weary of party politics and ISI elected Carlos Ibáñez to transcend party politics and implement economic reforms. He immediately consolidated struggling banks to form the Banco Central and repressed labor movements and union leaders to clear a path for reform. Critically, Ibáñez sought the help of foreign advisors to guide the reform project instead of

turning inwards like Perón. Ibáñez invited the US consulting firm Klein-Saks to provide policy recommendations in 1955 after Ibáñez was unable to control the inflation remaining from the ISI era. The central notion of the Klein-Saks plan crafted for Ibáñez was that the government deficit was driving inflation because money was being printed for the sole purpose of paying expenses instead of being derived from tax revenues or loans. The Klein-Saks plan called for spending cuts including the military and subsidies to ISI-favored firms, increased tax collection through raised rates and more strict collection, a limitation to growth in the money supply, raised interest rates to induce saving over spending, and wage cuts with indexing so that wages growth would not outpace inflation.

Ibáñez enacted portions of the Klein-Saks plan in 1955, but his reforms were met with resistance in Chile's national legislature. The legislature voted to nullify most of the Klein-Saks liberal policies, but they would be reenacted by Ibáñez's successors. Even before their reversal, the Klein-Saks project showed significant benefits. Inflation dropped from 84% in 1955 to 37.8% in 1956, and further to 17.1 % in 1957.¹ The Klein-Saks project was allowed to happen initially because of the power of international arbiters who convinced a divided congress and skeptical electorate of its necessity, an idea consistent with Vreeland's (1999) scholarship. For similar reasons, the Chilean congress rejected wage indexation in 1954, but passed the same policy under direction of the foreign advisors in 1956.² Even after the Klein-Saks plan died under Ibáñez, policy consultants remained in the country July 1955 – September 1958 to advise the government full time. This period of initial liberal policy experimentation and outside consultation stands in sharp contrast to Argentina. At this time in the late 1950s, Argentina was under a military dictatorship after Perón had caused an inflation crisis with his welfare and ISI policies.

Ten of Chile's 15 total lending arrangements with the IMF happened from 1956-1970 in an initial reform era that aimed to overcome the structural imbalances of the ISI era. This reform gained momentum under President Jorge Alessandri, who served 1958-1964. Alessandri began a rationalization program that included spending cuts and raised interest rates to offset inflationary pressures. His reforms resembled the Klein-Saks recommendations³ and were consistent with the overarching trend of US economic ideological influence over Chile. His policies slowed inflation but failed to fully correct for the balance of payments crisis inherited from the previous government. Alessandri needed repeated loans from the IMF, and he retained the trust of the Fund because of his continued reforms that liberalized exports and offset the budget deficit. Despite Alessandri's notable progress, inflation was still 50% when he departed office.⁴ Nonetheless, Alessandri's legacy is one of expertly-crafted and consistent reform. His liberalization techniques were, in some cases, cutting edge, including a crawling exchange rate that allowed for gradual devaluation to make debts serviceable while still limiting inflation that easily could have reached high levels.⁵ A 50% inflation rate by 1964 is a success story in comparison to botched Argentine reforms of the same era.

In 1964, President Eduardo Frei Montalva came to power after peaceful elections. With a more stable monetary and budgetary climate, he was able to boost growth with public works and housing projects and enact tax reforms to help offset the new spending. At the same time, he enjoyed sustained investment from the US and other international sources that propelled annual GDP growth of 4% from 1964 – 1970.⁶ Eduardo Frei's center-right presidency is an example of an electorally viable conservatism in Chile in contrast to Argentina. Chile's political experiment after ISI was a technocracy, while Argentina's was a welfare state and hollow centrist reform.

The results in Chile were very positive. The budget was balanced, growth had returned, and inflation was low.

A less populist leftist populism

The left and labor unions in Chile, while significantly weaker than the unions in Argentina, were formidable enough to issue a response to the presidencies of Alessandri and Frei Montalva. Salvador Allende's famous rise to the presidency in 1970 was the Chilean equivalent of a leftist backlash to three administrations of democratically-supported liberalization. Salvador Allende's election was hardly a sign of an unstoppable left like existed in Argentina, however. Salvador Allende lost three consecutive elections prior to 1970, and he only won in 1970 because of a hasty unification of leftist parties (Communists, Radicals, and Socialists) that allowed him to capture enough moderate voters to win with a 1.3% margin and a 35% overall vote plurality of votes.⁷ In comparison to every elected leader before him in Chilean history, Allende was remarkably unpopular. And leftist activity in Chile, even under Allende, was lackluster compared to Argentina. Under Perón, an era in which union leadership was deconstructed to eliminate opposition to the state and workers were pacified with heavy welfarism, there was 5x more strike activity in Argentina than there was at the height of labor demonstrations in Chile.⁸ At the peak of the unionization surge that preceded the 1970 election in Chile, still less than 20% of total laborers were unionized.⁹

President Salvador Allende was an interruption of a generally center-right governing coalition in Chile. Allende, in 1970, created the first budget deficit in Chile that had existed since 1952.¹⁰ He inherited a foreign exchange surplus and a budget surplus. Allende immediately began nationalizations of major industries and raised social program spending. As happened in Argentina in the early phases of state-lead growth under leaders like Perón, the economy under

Allende's initially thrived. Allende appointed leftist economist Pedro Vuskovic as his Minister of the Economy, and Vuskovic implemented price freezes to prevent inflation alongside wage increases to generate a theoretically noninflationary spending stimulus. Firms, unable to raise prices, dramatically expand production, hiring, and imports, and GDP growth was 8% in 1971.¹¹ Domestic suppliers, however, were soon unable to meet domestic demand and shortages and black markets emerged. Social unrest quickly followed the shortages, hoarding, and black markets. Rapid and radical state spending increased and eventually triggered, as they did in Argentina, contraction and inflation. On the eve of Allende's exit from power, annual inflation was above 700%.¹² Allende drew loans from communist allies China and the USSR to cover the ballooning deficit, but public unrest continued to grow as inflation intensified. By 1973, Allende was even less popular than when he won office, and the coup lead by General Pinochet to overthrow Allende was correcting an extreme policy swing that was disfavored by over 60% of the country when it began in 1970.

Contrasting Juntas

Ideological orientation

Despite the disfavor for Allende domestically, historians of this era agree that the general public was aghast at the choice of the military to intervene.¹³ The 1973 coup was deeply surprising to many Chileans who felt it was a dramatic interruption of the existing democratic order and peace of the nation.¹⁴ The Chilean military was divided on the idea of intervening, with a small faction sympathetic to the US advocating for a coup.¹⁵ The coup emerged from a small group of opportunistic fascists acting in a rare moment of church support, economic crisis, and US backed anti-communism. Critically, the US compelled the Chilean military to intervene. The Chilean military, although concerned with the extremism of the Allende government, was

resistant to intervening and upending the democratic order. The idea that the US created the coup is widely accepted among historians.^{16, 17, 18}

In addition, there is plentiful circumstantial evidence from the time of coup to believe that the coup was a product of the US hijacking the Chilean military. The commander-in-chief of the Chilean armed forces at the start of 1970 was René Schneider, and he was assassinated by the CIA two days before the September 4, 1970 historic elections. Schneider was a vocal opponent to intervention in Chilean politics. In 2003, a Chilean newspaper published a transcript of a July 23, 1970 meeting of the Chilean military's General Staff meeting. A translation of Schneider's speech reads: "the armed forces are not a road to political power nor an alternative to that power. They exist to guarantee the regular work of the political system and the use of force for any other purpose than its defense constitutes high treason."¹⁹ General Carlos Prats replaced Schneider in September of 1970 and was also an expressed supporter of the constitutional order. He was appointed to serve as Allende's Minister of the Interior in 1972 even before his accession to commander-in-chief following Schneider's assassination, and he was responsible for quelling rebellious activity from fascist factions in the military in the 1970-1973 period, including the infamous June 1973 *Tanquetazo* when rebellious fascist soldiers shot civilian onlookers in front of the *Palacio de La Moneda* presidential palace to protest Allende's policies. Prats feared retaliation from extreme members of the military and fled the country on August 23, 1973. Pinochet assumed the role of commander-in-chief title the same day, staged the coup 19 days later, and sent an assassin after Prats to kill him in Argentina in 1974. This same assassin committed a string of assassinations on behalf of the American government, including a bomb that killed exiled economist Orlando Letelier in downtown Washington, DC in 1976. Plus,

declassified documents released after 1973 show that Henry Kissinger implored US military officials to intervene in the months preceding Allende's election.²⁰

As the junta and the domestic terrorism campaign began, Remmer (1979) argues that the Pinochet regime isolated itself from the rest of the military and acted as unchecked economic planners while the rest of the military was appeased with the legality of extra-judicial killings. Most of the military resisted the idea of intervention in politics, but the entire military hated communism.²¹ The distinction between a coup lead by a majority of the Chilean armed forces and one compelled by a foreign country is critical. This distinction allows for the categorization in Figure 4. The Chilean's military's otherwise clear commitment to non-intervention before 1973 and after 1990 promoted a stable political arena that boosted public faith in democracy and allowed for reforms to be contested and enacted within the normal means of a democratic state instead of by the edicts of a junta.

Successful neo-liberalism

When General Pinochet did eventually overthrow Allende in 1973, Chile entered into its most consequential economic reform era. The remaining 5 of Chile's 15 IMF lending arrangements came under the Junta (1974-1989), and they were all meant to correct for imbalances remaining from Allende's brief term in office. In stark contrast with the junta in Argentina, the Chilean junta was successful in enacting reforms that caused short-run shock for the sake of long-run macroeconomic stability. From 1973 to 1975, the junta under Pinochet began strategic currency devaluation to finance debt payments, removed price controls that sheltered inefficient business practices, eliminated capital gains taxes to stimulate investment, re-privatized a few of the companies Allende had seized, reduced tariffs to allow cheap imports into the country, and reduced government spending and the number of employees. The moves

provided some immediate relief, but Chilean export prices remained low, oil prices remained high, and the economy felt constrained.

The junta resorted to more extreme neo-liberal measures in 1975 to fully liberate the markets in Chile from Allende's imbalances. The junta knew that this move would entail short-term suffering to achieve lasting macroeconomic balance. Pinochet's finance minister, Jorge Cauas, told the nation in a 1975 public address: "the way to recovery, although it is short and well known, is fraught with sacrifices."²² The Junta initiated 200 privatizations between 1973 – 1975.²³ After 1975, the Junta's extreme neoliberal reforms included complete import liberalization, financial market deregulation, elimination of price controls, extreme austerity, privatization of all remaining SOEs, and flattened tax rate away from the progressive structure Allende imposed. As was expected, in 1975 the Chilean economy contracted immediately—a 17% drop in GDP in 1975 that created a dramatic under-utilization of domestic capacity.²⁴ Eventually, the regime introduced a currency peg in 1979 to reduce inflation and restore the faith of depositors. After 1979, the government incurred large outside debt to offset its remaining deficit, but the underlying structure of the macroeconomic environment was stable. The junta corrected both the structural budget deficit and the trade deficit. In fact, Chile achieved a trade surplus of over US\$500 million by 1976.²⁵

Allende averaged -4.2% contraction in exports annually from 1970-1973 while Pinochet achieved 10.6% annual export growth 1974-1989.²⁶ The average annual growth the government deficit under Allende was over -11% per year, and 0.3% under Pinochet 1974-1989.²⁷ The rate of inflation fell from 505% in 1974 to only 30% in 1978.²⁸ Tax revenues rose 77%, 1973-1977.²⁹ Of the 494 firms held by the Chilean ISI board Corfo in 1973, 449 had been returned to the private sector by February 1978.³⁰

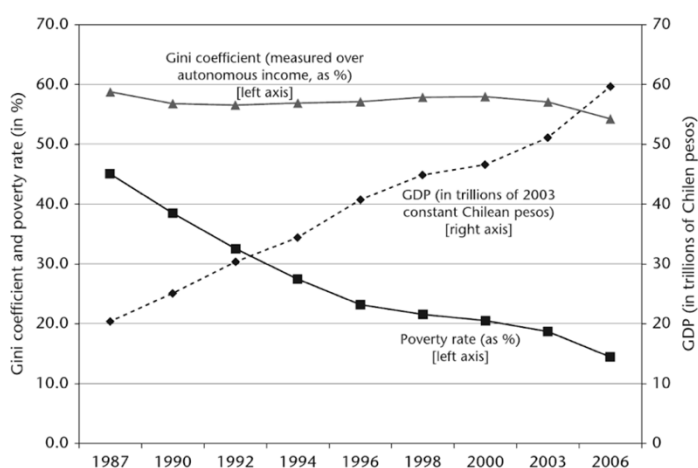
One of the key reasons that liberalization under the junta in Chile was effective (unlike in Argentina) was that outside economic advisors in Chile had free reign to enact policies. Pinochet famously appointed a group of Chilean economists to ministry positions who had been educated in the United States at the University of Chicago. Chile was able to drastically transform from an economy with a protected market and strong government intervention into a liberalized, world-integrated economy where market forces were left free to guide most of the economy's decisions. After 1975 the economy grew continually from 1977 to 1980, making Chile a showcase for monetarists and neo-liberals like Milton Friedman. With the onset of the 1982 Latin American debt crisis that began in Mexico, Chile's exceptionally open economy suffered a bank run and downturn. The initial neoliberal "Miracle of Chile" under the "Chicago Boys" was successful in liberalizing the Chilean economy, but the neoliberal reforms had left the economy highly vulnerable to speculative attacks like the one in 1982. Inflation statistics alone do not represent underlying strength of Chilean macroeconomic design that resulted from the policy advice of the Chicago Boys. The juntas in Chile and Argentina both suffered bank runs and hyper-inflation. The proof of superior macroeconomic design in Chile comes from the ability for Chile to recover from crisis under the junta and launch two decades of growth afterwards that were, critically, without any future currency crises requiring IMF loans.

Post-Junta

In Chile, the junta ceded power to a democratically-elected government in 1990 with a healthy economy. In Argentina, the election of Alfonsín in 1983 passed a hyper-inflation crisis from the junta to the democratic government. The electorates in Chile and Argentina selected polar opposite paths in the aftermath of their respective juntas. Argentina opted, first, for a failed reformer (Alfonsín) and then three corrupt populist leaders (Menem, Néstor, and Cristina)

divided by a few brief crisis presidencies and a recession. In Chile, the end of the junta ushered in four consecutive center-right presidents under one political banner—the *Concertación*. Liberalism was widely unpopular under the Junta in Chile. The role of the *Concertación* has been to soften neo-liberalism so that it can be popular without altering the underlying stability of the economy that originated from the junta’s reforms, a process overviewed in Figure 19 that displays GDP growth and poverty rates moving in opposite directions in Chile.

Figure 19 -



Source: Solimano, 2013, page 343 created with data from the Central Bank of Chile and CASEN Surveys

This quest for a neoliberal popularization in Chile has been successful. Average annual GDP growth was over 7% 1990-1998.³¹ The government softened the austerity of the Pinochet regime by expanding social program spending and enacting tax reforms to pay for the new spending. In 1991, the government agreed to minimum wage increases so long as they were indexed to GDP growth to prevent the demand-pull inflation that had crashed Allende’s economy. Most of the core economic policies from the junta era, however, have gone unchanged under the *Concertación*. The notably illiberal part of Chile’s growth since 1990 has been a reliance on the nationalized copper industry, *Corporación Nacional del Cobre de Chile* (CODELCO). This state ownership, however, was accompanied by strong and sustained FDI and

capital inflows from a positive perception of democratization and responsible reforms following the junta. The rightist post-junta administrations in Chile were effective in promoting creditworthiness to attract capital inflows, unlike Menem or the Kirchners in Argentina. Sustained FDI, responding to the trustworthiness of the Chilean government, has grown domestic capacity and maintained a positive trade balance and foreign exchange inflows.

The *Concertación* presidents have been obsessed with macroeconomic balance. The Chilean government enacted a rule to ban budgets with a surplus less than 1% of GDP in 2000.³² This rule was changed under President Bachelet to a .5% threshold to fund social programs, but, under law, the Chilean government under *Concertación* was not allowed to pass a budget that created a deficit.³³ All four Concertación presidents have maintained budget surpluses and a consistent downward inflation trend with only a few minor jumps attributable to market volatility.³⁴ Inflation when President Aylwin took office, for example, was 18% but the rate dropped to under 3% under Lagos by 2005.³⁵ Menem and the Kirchners, in contrast, did not significantly alter the structural imbalances of the state but sought instead to hide them. Both administrations were guilty of widespread economic misreporting. In addition, Menem concealed the deficit with generous loans developing the most extreme government credit bubble in world history, and the Kirchners used skyrocketing agricultural commodity prices to disguise their budgetary imbalances.

After the junta in Chile, the new governments have stoked a growth and diversification of Chilean exports that catapulted Chile to sustained GDP growth. Argentina's economy was comparatively pretty closed after the junta with less than 10% of GDP being exports, about ¼ of Chile's share of 31%.³⁶ Domestic production in Argentina was high, but not relative to the size of domestic demand. Since the ISI era in Argentina, growth in domestic demand has outstripped

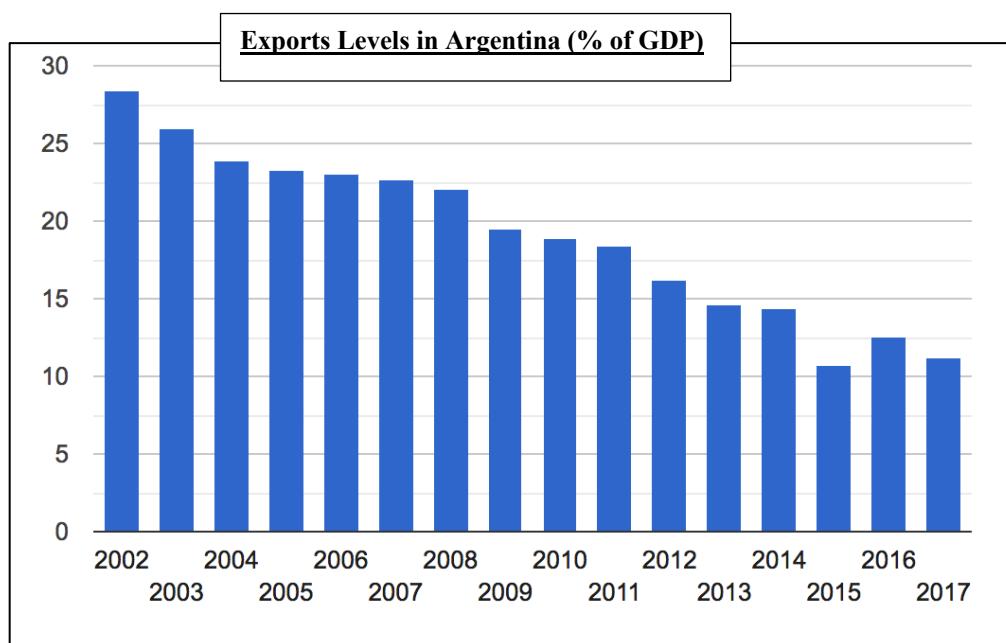
the growth of domestic supply, meaning that exports have shrunk and consistently tipped the trade balance towards a deficit. In 1983, 60% of export profits in Chile were from Copper,³⁷ but diversification ensued. From 1990-1994 non-copper export growth more than doubled copper export growth.³⁸ In 1970, 70% of Chile's export value was copper, but by 1995 that figure was closer to 30%.³⁹ Total exports grew by between 8.8%-9.4% per year 1989-2000.⁴⁰ Chile became the largest fruit exporter in the Southern Hemisphere in the 1990s.⁴¹ Chile underwent a discernable policy shift to push export diversification and maintain a positive trade balance as a stabilizing mechanism.⁴² For example, the government began freshwater salmon farming projects in 1981 and commercial production began in 1986. Freshwater farmed salmon are now among Chile's most profitable exports. The Chilean government aggressively sought new export markets for itself in the 1990s by signing free trade agreements from 1993 – 1999 with Bolivia, Venezuela, Colombia, Ecuador, Peru, Mexico, Canada, and the European Union. Chile exported to only 31 countries in 1970 but to 174 in 2000.⁴³

This string of conservative *Concertación* leaders have made largely prudent choices to sustain stability in Chile and liberate the Central Bank from the IMF, and, critically, they all won popular elections to enact these policies by beating all leftist populist candidates in successive elections from 1990 – 2006. The *Concertación* lineage is actually comparatively center-right compared to Michelle Bachelet's successor Sebastián Piñera, who, technically, is Chile's first self-described conservative president in almost 60 years. This is a nominal oddity resulting from the entire political spectrum being shifted to the right in Chile as it is in the US. "Socialist" party candidate Michelle Bachelet's most radical policies are a reformation of the national pension system to expand eligibility without raising costs and a sovereign wealth fund that skims a small percentage of surplus revenue to provide a stimulus buffer in the event that the government

needs to recover from a recession. She has famously resisted calls from within her own party to expand welfare programs with the government surplus.⁴⁴

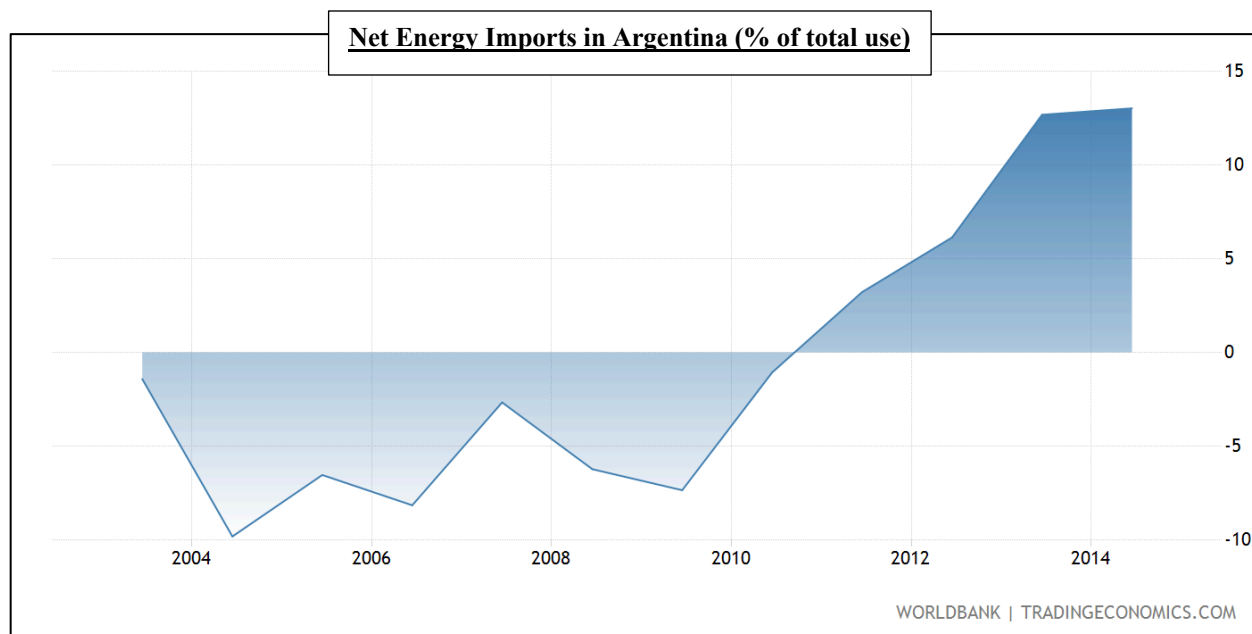
The Argentine government, in sharp contrast to Chile since 1990, has neither successfully promoted export diversification nor ensured budget surpluses. The exact opposite occurred under the Kirchners. Price controls with high inflation essentially killed the domestic Argentine energy market with the country flipped from net exporter to net importer. In tandem, Figures 20 and 21 shows the lack of diverse export strength in Argentina rooting in continued rule of leftist populists.

Figure 20 -



Source: The World Bank via globeconomy.com

Figure 21 -



Overall, the corrupt governments in Argentina have undermined the business and lending climate. On the World Bank Ease of Doing Business Index, Chile scored nearly twice as well as Argentina in 2018.⁴⁵ As Figure 22 shows, there has been a persistent gap between the public perception of the Chilean and Argentine governments stemming from the fiscal sobriety of the former.

Figure 22 - Corruption Perception Index

	Argentina	Chile
1995	52.4	79.4 (higher than the US)
1996	34.1	68
1997	28.1	60.5
1998	30	68
1999	30	69
2000	35	74
2001	35	75
2002	28	75
2003	25	74
2004	25	74
2005	28	73
2006	29	73
2007	29	70
2008	29	69
2009	29	67

2010	29	72
2011	30	72
2012	35	72
2013	34	73
2014	34	73
2015	32	70
2016	36	66
2017	39	67
2018	40	67

Source: Transparency International

In total, the contrast in Argentina and Chile's relationships with the IMF roots in the differences in political landscapes in Figure 4. In particular, Argentina did not have an electorally viable rightist political party from 1916-2018 while Chile has enjoyed rightist parties that have run and won national elections often over that same time period; the military was partial to the right in Argentina, but the military was impartial in Chile; Argentina has had consistently strong labor unions while Chile's labor unions have typically struggled to win policy successes; and the policy priority of the far right in Argentina has been order while it has been macroeconomic health in Chile. These contrasts have manifested themselves into four key distinctions in the resultant histories of Argentina and Chile relevant to IMF dependency. First, Chile responded to initial ISI in the mid-twentieth century with effective rationalization programs guided by liberal thinking. Second, the left did not have the popular fervor in Chile that it had in Argentina, so the left was in power less often and faced more obstacles when in office. Third, the military junta in Chile was effective in implementing neoliberal restructuring reforms while military leaders in Argentina were consistently unable and/or unwilling to make the necessary reforms to stabilize the Peso. Fourth, the post-junta administrations in Chile have been creditworthy, transparent, promotional of export diversification, and fiscally responsible. These four results of Table 4 culminate in the divergence of Chile away from Argentina after 1990. Both Chile and Argentina

needed decades of IMF aid to recover from ISI, but Chile channeled that capital into lasting reform while Argentina has remained dependent.

Conclusion

The IMF has long been openly devout to an apolitical approach for currency stabilization. Vito Tanzi, a long-time senior analyst at the IMF and head of the expert team from the Fund that visited Argentina during its junta government 1976-1983, has written repeatedly that the objective of his IMF team in Argentina was to remain not only politically neutral but politically ignorant,⁴⁶ pointing to perhaps the most grave oversight of the IMF during the 20th century—excessive discipline isolationism. IMF teams, while uncontestedly gifted as economic technocrats, represent the danger in overly differentiating disciplines is the social sciences. Of the 17,352 International Monetary Fund technical papers publicly available through the IMF database, only two discuss the idea of IMF dependency. Even though 51 countries have received loans 10 or more times since the Fund was founded in 1945 and 68 of the countries that have been members of the Fund for 30 or more years have needed aid more than once every ten years, the IMF has not changed its methods of analysis. This is not to say that 51 countries by the first count or 68 by the second are currently or ever have been dependent on the IMF for basic currency stability. Identifying IMF loan dependency requires a more refined investigation. These preliminary figures do indicate, however, that the IMF has a large class of potentially dependent states in stark contrast to the Fund's fixation with economic methodologies, that, put simply, may systematically overlook the root causes of recurrent currency crisis.

In an ideal world, IMF aid would cease to be in demand. An international market place of independent nation states free of currency crises, fantastical as it may seem, is the unstated objective of the IMF. The IMF is among a curious class of institutions that aims to eliminate its own demand. Development, in theory, will never reach cease, meaning liquidity from institutions like the World Bank will never fall out of demand—out of fashion, perhaps, but not demand. The

International Committee of the Red Cross will not run short of natural disasters necessitating humanitarian aid. The mission of the IMF, in contrast, is to achieve a global trade system resilient enough to avoid currency crises altogether, and the implied objective of every major and minor policy recommendation to the Fund is to help the Fund reach this lofty goal. Stable currency exchange across all borders promotes an essential goal of every nation—economic prosperity. In light of the gravity of this endeavor, how can we, as an academic community, so persistently ignore the idea that a broader set of factors may be at play in the IMF's most extreme cases—the highly dependent nations? Their mere existence is compelling evidence that current thinking may be failing.

After exhaustive categorization of each of the 22 Argentina IMF loans into one of five clusters that originated in some combination of four policy pathways, other questions remain. Central among them is the generalizability of the theory of political landscapes relating to distinct policy pathways. As an extension of the Argentina case, it is likely that a polarization in political interest groups that leaves each side with the same or similar mechanisms to exercise power can create strong contestation. In other words, strong left-right polarization undermines institutional legitimacy when the left and right have different avenues available to them to influence the public policy process as was the case in Argentina where the left dominated public opinion and the right monopolized the use of legitimate force with the military. With asymmetrical mechanisms for policy influence, institutional instability and more extreme policy swings are likely to occur. If strong left-right polarization exists in an environment where, for example, both sides are electorally competitive, then policy contestation occurs within the organs of the state like the legislatures (Chile, e.g.).

Critically, it seems that the nature of a nation's political landscape influences the nature of the policy pathways that are viable in a country. Had the military not had a tutelary role in Argentina, for example, Policy Pathway 4 would not exist. Further, a whole set of intermediate pathways would emerge in a political system that had electorally successful parties from across the political spectrum. The barrier between Pathways 1 and 2 on the left and Pathways 3 and 4 on the right would be less meaningful in a political system with left-right contestation in legislatures that yields policies of complex compromise that do not fit cleanly into the pathways as presented in Figure 5.

Working in tandem, a conceptualization of unique political "landscape" qualities like those in Figure 4 with the resultant pathways in Figure 5 serves methodologically as a foundation to investigate the political origins of IMF dependency in the other nations in Figure 1. Indeed, an extension of this thesis could formalize the policy pathways for IMF dependency in Chile with the overview of the some of the unique qualities of its political landscape given in Figure 4. First, researchers can ask if the Argentine set of pathways fits in other cases, and second, if the answer is no, researchers can develop new sets of pathways that correspond to a particular nation's history. The use of a single set of policy pathways across nations gives a particular instance of the theory generalizability, but the ability to construct exhaustive sets of pathways that lead to currency crises for all cases, regardless of their differences, proves the core contention of this thesis—currency crises, and thereby IMF dependency, has political origins.

This theory is extendable in a second sense too. The arrival of Macri in 2015 upends the political landscape of Argentina represented in Figure 4. If the relationship between this landscape and policy pathways in Argentina is sound, then, *ceteris paribus*, Argentina might well cease to be dependent on the IMF. In other words, barring international economic downturn or

some other extenuating factor, Macri's gradual center-right reforms have the potential to correct long-standing macroeconomic imbalances in Argentina and liberate the nation from the International Monetary Fund forever.

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