

Argentina



Key Macroeconomic developments in Argentina 1870 - 1913

- High economic growth (7% growth in GDP p.a.) (c.f. 70 rule)
- In 1913 Argentina has the 4th highest GDP per capita in the World (USA, UK, Australia...)

Today:

The top 3 are still high on this list, but Argentina "fell off". Why?

It is likely that the thing that made them rich also contributed to them becoming "poor"

Argentina had massive immigration. Population increase: 1.7m to 7.8m
(1857) (1912)

Ethnicity of Immigrants:

32% Spanish (Low skill farmers)

46% Italians (Small sheep owners)

 Germans (Skilled)

 Welsh (Shepherds)

 Norwegians (Whaling)

Massive capital inflows:

Roughly 0.6B dollars (1913), so about 60B dollars per year in to Argentina

↳ 60% comes from UK

Massive infrastructure investment:

- Ports

- Refrigeration (Wheat, Beef) Becomes possible on long ship routes in 1890

- Railroads 20 000 miles in 1912

 [US has 30 000 miles in 1860]

 [Russia has 30 000 miles in 1905]

Why do they have so much railtrack?

Argentina has a 26% social savings for railroads

Many similar cases in the New World in the 19th century

US, Canada, Australia...

Why did it develop like that?

↳ Migration

 Push and Pull factors

 Pull: High Wages, Free travel (sometimes)

 Push: Low Wages in Europe, Political persecutions

Land was readily available = Higher wages = Pull

Big Question:

Are immigrants the "best people" or the "worst people"?

↳ Positively or negatively selected?

Early immigration: The best people

Later (Post 1900): A lot of poor people emigrated (Poland & Southern Italy)

2) Expanding Frontier

US & Argentina: Land Rich

3) High return on Capital

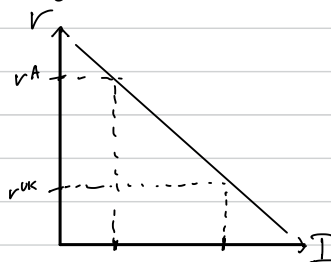
Lots of land and labour, just add Capital

Land & K: Either complements and substitutes

Edelstein:

UK invested a large amount of Capital abroad

They earned a larger rate of return (ERR) other places because of diminishing returns



a) r was high. Promised $r - [p(\text{default}) \cdot \text{loss given default}]$
Even adjusted for defaults the realized rate of return

i) Risk was low

c) Negative Beta assets!

4) UK firms want to export products!

If the company goes bankrupt, the investors could seize assets

Fun fact: Latin America is good at football because of British constructors of ports and railways

5) Alan Taylor:

Model on economic growth

How did all this come together?

Production inputs:

- 1) Land
- 2) Capital
- 3) Labour
- 4) Entrepreneurship

How did Argentina develop?

Intermediated by merchant houses / private entrepreneurs e.g. Tornquist

- ↳ Assets in Argentina and opportunities
- ↳ Tech. and knowledge abroad
- ↳ Tornquist mediates this interchange

Tornquist has great connections in Arg. c.g. Brown in US industrialization
Very keen on the gold standard

Overlapping ownership / partnership structure of his business

↳ Also relying on friends and family

* Is "Crony Capitalism" good in the long run?

Competition is impossible, Tornquist used his influence to create tariffs

Convergence

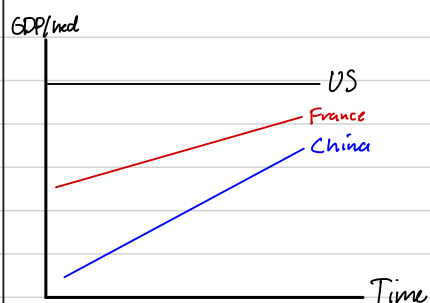
1) $\Delta \text{GDP/Head} = a - \beta_0 \cdot \text{GDP/Head} + \text{Other} + e \dots$ Greek letters: [True model of the World]

2) $\Delta \text{GDP/Head} = a - b \cdot \text{GDP/Head} + c \cdot \text{Others} + e \dots$ Latin letters

Beta - convergence

σ - convergence

Note: You can have Beta - convergence without sigma - convergence



Example:

	GDP	Growth	Year 1	Year 2
Country 1	100	2%	100	102
Country 2	10	10%	10	11

↳ Beta convergence = Faster relative

↳ σ - convergence = They are further apart in absolute GDP