

## The Conversation

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# Argentina can learn from Australia's economic success



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In 2009, I launched a book titled *Drifting Apart: The Diverging Development Paths of Argentina and Australia*, which I co-authored with Fernando Tohmé from Universidad Nacional del Sur in Argentina. We compared the economic and social trajectories of Argentina and Australia over the twentieth and early part of the twenty-first century. At the time we were writing the book, the Argentine economy was still struggling to recover from the massive economic and social crises of 2001.



Argentina, like many other Latin American economies, could learn much from Australia's economic resilience. Luis Fdez

While Argentina's financial situation appears to have improved since, I would like to posit that the nation's recovery itself was contingent on an extended period of democracy (from 1983 onward) and the subsequent institutional reform this made possible.

This relative improvement in Argentina's economic situation has also been experienced elsewhere in Latin America, in countries such as Brazil, Colombia and Chile, among others. Tjeerd M. Boonman et al provide confirmation of this, claiming that the key to Latin America's growth has been an "improved institutional framework, a healthier financial system (better regulation, higher profitability margins, lower non-performing loans) and lower levels of debt".

While this situation sounds and appears much better than in the past, particularly as a result of a worldwide commodities boom, Latin American countries are still haunted by the "eternal return of the same", falling victim to past mistakes arising from poor governance and weak financial institutions.

Such blunders and the "eternal recurrence" of periods of economic and social turmoil can be attributed to two key factors. The first being the poor functioning of institutions in Latin America, an inheritance from Spain that by and large created a set of institutions designed to benefit the Spanish crown and its representative elites in the new colonies.

These institutions were characterised by poorly defined property rights and often a lack of democratic principles. Furthermore these "institutions were shaped largely by the factor endowments that the Europeans found in Central and South America".

The second is an over-reliance on the cult of personality manifested in the form of the

Caudillo. The term Caudillo is commonly used to refer to charismatic populist leaders such as Hugo Chávez in Venezuela, Evo Morales in Bolivia and even Argentina's late President Néstor Kirchner.

In the ragged history of Argentine politics, he was part of a phenomenon which remains constant amongst all the turmoil – the figure of the all-powerful leader known as the Caudillo. From Juan Manuel de Rosas to Juan Domingo Perón to Néstor Kirchner, these strongmen have used charisma and cunning to lord over the multitudes, crush those who oppose them and reap that which nourishes them – power (Colasimone, 2012).

The curse of Caudillos in Latin America has been characterised by a lack of respect for institutions, emanating from extreme and unchecked power used to promote their own wealth and that of their cronies. It is my belief that the rise of such a new breed of leaders in Latin America poses a grave threat to the important process of democratisation and relative economic wealth and stability.

But what can Latin American countries do to avoid making the same mistakes? Is there a model to follow?

While Argentina and other Latin American countries have had to suffer myriad highs and lows, I would argue that in contrast Australia's ability to successfully navigate global downturns and crises – thus enjoying a steady path of economic affluence and success – is a by-product of well-constructed and stable institutions: financial, political and social.

To begin, it is important to note that since federation, it has been Australia's political stability that has provided much of the bedrock from which these effective institutions could be formed. As such, Australia's institutions have allowed the country to prosper, assisted in helping assert its position in the world, and thus experience both continuous and sustainable growth, and economic and social prosperity.

While much of Western society was brought to its knees by the global financial crisis, the rapid intervention of Australia's government – which produced policy initiatives by the Federal Treasury and the Reserve Bank – led to the country emerging from the GFC with little or no impact on its society, economy, employment statistics or gross domestic product.

Thus as I compare Australia and Argentina, what stands out are their divergent national histories. However, looking deeper, I encounter the profound disparity between their governments' ability to envision, create and maintain institutions which remain adaptive and responsive to international events. This means that while Australia has fostered stability, which in turn has expedited sustained prosperity, Argentina (and many other Latin American countries) have experienced an unabated roller-coaster of frenetic growth and fiscal ruin.

Douglass North suggests the main tenet of the neo-institutional strand of economics is that good institutions induce a good economic performance over time. Causal evidence suggests that successful economies are endowed with solid and effective institutions.

North defines institutions as: the humanly devised constraints that structure political, economic and social interaction. They consist of both formal and informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights).

Institutions are crucial, as they help solve a key economic problem of agents coordinating their economic plans and activities by promoting cooperative behaviours. They do so because institutions reduce uncertainty and support the formation of human and social capital. To date, Australia's institutions have to a high degree been able to do this.

This knowledge, experience and skill is a service resource that can be exported to emerging

economies such as Argentina, Brazil, Colombia and Chile to assist them in following a path of continuous sustainable economic growth and social development.

In my last four visits to Latin America – and in particular to Argentina, Chile, Colombia and Mexico – the repeated question asked by my academic colleagues has been: “What have Australians done and continue to do that we are unable to achieve, to ensure stable government, societies and economies?”

By world standards, Australia has a reputation as a nation where egalitarian values continue to flourish in relative terms. Its democracy has been characterised by solving complex economic and socio-political issues by consensus and by ensuring wide participation. The way its colonies became a federation in 1900 ensured on the whole that trade and interstate commerce would be unaffected by protectionism.

Since that time, Australia has developed a solid parliamentary democracy characterised by a highly professional and well regulated public service, excellent education, welfare, legal and health systems, together with powerful financial institutions at both government and private levels. Indeed, it is important to point that as a result of the correct functioning of these institutions, Australia has been able to sail through the GFC almost unscathed. This efficient institutional matrix, as Douglass North describes, is in my view a model for nations in Latin America, such as Argentina. These nations, in the midst of high and rapid economic expansion, have much to learn from Australia's experience and legacy.

Argentina can learn much from Australia's institutions. These two southern hemisphere countries share many physical similarities, such as climate, soil and abundance of natural resources in vast, scarcely populated, territories. Their current populations arose in demographic processes in which the native inhabitants were decimated and masses of immigrants (mostly Europeans) arrived in the late 19th and early 20th centuries. In recent decades the source of most of the immigration has been the geographical neighbourhood. The early implementation of mass education to high rates of literacy and the creation of educated elites provided the basis for a sustained process of development. A robust middle class arose in both countries, unlike their neighbours, which acted as a strong force for upward mobility.

The economies of the two countries show a striking parallelism, both specialising in the production of commodities, while their urban population is catered for by a large variety of services like those in the rich countries of the northern hemisphere. In fact, up to the Great Depression, Australia and Argentina were two dominions of the British Empire, one in official and the other in informal but equally real terms. They exported food and other commodities to Britain, while the latter invested in the development of their infrastructure, mainly in transportation and communications, but also in all kind of services aimed to support these commercial ties.

Like Australia, Argentina and other Latin American countries are experiencing a period of solid economic growth fuelled by the demand of its high quality export commodities. The challenge for Latin America is to make this economic growth continuous and its benefits to be shared by their populations at large. Their challenge is to strengthen their institutional matrices so that this period of wealth creation is not wasted and serves to benefit the masses of poor and struggling Latin Americans.

Looking to countries such as Australia is a way of ensuring the creation of sustainable development, so that their societies do not again experience cycles of economic upswings and downturns that leave these nations in dire social dislocation and distress. The benefit to Australia is that exporting their institutional expertise to this wealthy and marvellous continent will provide Latin Americans and Australians alike with varied economic opportunities, a far more secure financial future and an end to the “eternal return of the same”.

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