New Institutional Economics and the Performance of Nations: The Case of Australia and Argentina

Alexis Esposto* and Fernando Tohme†

This paper analyses the economic performance of Australia and Argentina by conducting an "economic experiment". This comparative exercise contrasts the economic performance over time of these two economies by analysing and comparing "popular" economic indices. In conducting this experiment, we test the hypothesis that the main tenet of the neo-institutional strand of economics is that good institutions induce superior economic and social performance over time. The results of this study indicate that Australia's superior economic performance relative to that of Argentina is mainly due to the more successful functioning and operation of its economic and social institutions.

JEL Codes: O16, O43, and P52

1. Introduction

One of the most relevant problems in economics today is to find the determinants of economic performance. Neo-Institutional Economics (NIE) argues that a major difference of economic and social performance between most developed and developing nations lies in the performance and efficacy of their domestic, economic and political institutions (Todaro & Smith, 2008, p. 77).

The main tenet of the neo-institutional strand of economics is that good institutions induce a good economic and social performance over time (North, 1991). Drawing on Coase’s theorem, they see the main roadblock for efficient economic behaviour as the pervasiveness of transaction costs, in other words, the cost of engaging in economic transactions. Institutions are created for handling these costs, and how well they manage them determines the degree of efficiency of the economy, and consequently its performance (North, 1990b). So, the way in which both the culture and the legal system enforce rights and contracts becomes a determinant of the size of the efficiency losses in the economy, due to both bad policy and business practices or just to unfavourable economic and social conditions (North, 1994; Acemoglu & Johnson, 2005). A key issue arising out of this discussion is how can we determine whether two economies exhibit "successful socio-economic" performance due to the performance of their economic institutions.

A way of tackling our problem is to find two economies, similar in many aspects – the physical features that matter for economic performance, the endowment of human capital and so on – differing almost only in their institutions. Say, one with “good” and the other with “bad” institutions. If the latter exhibits a consistent pattern of worse performance than the former, the

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issue would be finally put to rest (La Porta et al., 1999; Acemoglu et al., 2004). If, instead, economies with “good” institutions do not show a better performance, the question will remain open, although it will be time to look at the converse that this failure might indicate that performance impacts on the institutional architecture of society, and not the other way around.

This work is aimed at finding the aforementioned natural experiment. Our candidates are Australia and Argentina. These two Southern Hemisphere countries share many physical similarities, such as climate, soil and abundance of natural resources in vast, rather 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 (Meredith, 1995).

The economies of the two countries show a striking parallelism, both specializing 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 (Gerchunoff & Fajgelbaum, 2006). 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 (Schedvin, 1990).

But since the 1930s their paths started to diverge, Australia following a steady course while Argentina started a cycle of upswings and downturns that left it well behind in terms of per capita income. While up to some point this was due to the disintegration of the British Empire, its impact was not the same on both countries. Australia rapidly found new markets, but political events in Argentina became an obstacle to this, leaving the country without major commercial partners (Della Paolera & Taylor, 2003).

The explanation for the differences lies, for us, in the institutions and culture of the two countries. In Australia, law abidance, enforcement of contracts and transparency in public affairs were the norm, but in Argentina, arbitrariness, authoritarianism and corruption became widely “accepted”.

In trying to understand Argentina’s and Australia’s social and economic differences, we use the Index of Economic Freedom which was created in 1995 by the Heritage Foundation and the Wall Street Journal. The paper proceeds as follows: Section 2 provides a review of the current literature; Section 3 discusses the methodology, limitations and data employed; Section 4 presents a discussions of the findings; and Section 5 provides a conclusion.
2. Literature Review

2.1 Why Institutions Matter

The interest of NIE in institutions has arisen from the realization that they influence the incentives that give rise to efficient economic performance (Acemoglu et al., 2004). Institutions play a significant role in determining whether transaction costs are low or high and potentially generate a structure of incentives that foster economic growth (North, 1990a). They give shape to property rights and provide markets with an environment where competition can exist and flourish. For example, without the existence of property rights, individuals could not invest in human or physical capital, develop or adopt new technologies or implement new ideas. Another important function of institutions is that they help allocate resources in the most efficient way by determining who gets profits, revenues and residual rights of control (Acemoglu et al., 2004, p. 2). When economic institutions do not allow markets to flourish, as in the Soviet bloc prior to 1989, resources tend to be misallocated. Societies with economic institutions that assist in the facilitation of innovation and the efficient allocation of resources are more likely to prosper. Such institutions can thrive where good governance is allowed to exist.

Ali (2003, p. 350) argues that institutions that operate successfully will provide a setting that will have a substantial impact on economic growth, while poorly functioning ones will hinder it by inducing economic agents to engage in redistributive behaviours that hinder growth. Institutions matter because they help solve a key economic problem of agents coordinating their economic plans and activities:

[they] promote cooperative behaviour and overcome opportunism; make agents internalize externalities, and reduce uncertainty. They support the formation of social capital and of a historical experience of collective action which, in turn, positively affect the likelihood to credibility commitment in cooperative strategies (Gagliardi, 2008, p. 419).

2.2 Defining Institutions

In NIE and beyond there is a strong consensus emerging that institutions play an important role in shaping the growth and development of nations. A body of work in the social sciences points to their role in promoting economic change and sustainability (Gagliardi, 2008, p. 416). Furthermore, they offer the justifications that explain differences in growth rates and development paths across developing and developed nations (Jutting, 2003). Many economists and other social scientists have put forward the notion that good economic institutions, particularly in the public sector, are crucial and instrumental to generating economic growth and development (La Porta et al., 1999, p. 222). Definitions of institutions abound, many of which are narrow, overarching or vague, while others confine themselves to describing organizational bodies. Institutions are not homogenous, they vary in shape, size, importance and role, and they are not easily transportable or transferable.

Gagliardi (2008) classifies definitions of institutions in three categories:
Esposto & Tohme

- The first category considers institutions as the rules of the game as described by North (1990a);
- The second classification is that of Nelson (1994) who defines institutions as the players participating in the game. This definition considers the role of those who have to apply the rules and ensure that those participating abide by them. Examples include universities, industry groups, government agencies and hospitals;
- The third definition considers institutions as the self-enforcing equilibrium outcome of the game. Under this definition, they consist of two interrelated elements: the beliefs individuals form of other players and the organizations, which alter the rules of the game (Gagliardi, 2008, p. 417).

The last definition is closely linked to Aoki’s “self-sustaining systems of shared beliefs” (2001, p. 10), mapping out not only the rules of the game but also the way in which it needs to be played. Given this proliferation of interpretations, it is convenient to keep a consistent view for our analysis. This has been attempted by one of the main authors in NIE, Douglass North. According to him (1991), institutions are:

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).

This definition is further simplified by North as “the rules of the game in a society or, more formally … the humanly devised constraints that shape human interaction” (1990a, p. 3). This concept provides a roadmap indicating how human beings interact with each other as individuals or as social groups, and in political, social or economic exchange processes. North’s definition is intrinsically historical in suggesting that much of the development of nations has been shaped by historical decisions (correct or otherwise), thus placing path dependence at the centre of institutional evolution:

But economic history is overwhelmingly a story of economies that failed to produce a set of economic rules (with enforcement) that produce sustained economic growth. The central issue of economic history and of economic development is to account for the evolution of political and economic institutions that create an economic environment that induces increasing productivity (1991, p. 98).

North’s view of institutions is twofold. Firstly, history matters because the process of institutional theory is incremental and path dependent. Secondly, institutions impact on economic performance by influencing the level of transaction costs. If correctly implemented, institutions are potentially capable of reducing uncertainty and providing a setting in which individuals and organizations can engage in economic transactions in such a way that transaction costs are minimized and profit maximization is ensured.

2.3 Argentina and Australia: A Brief Comparison

Argentina at the beginning of the 20th century occupied the privileged position of being amongst the ten richest nations in the world, while Australia, prior to
the First World War, experienced a deep economic downturn and failed to grow at rates similar to those experienced by Canada and Argentina (McLean, 2006, p. 215-16). Since then the tables turned and Argentina has experienced an economic history characterized by deep economic crises and stagnation and social instability, which contrasts:

the “golden years” of Argentine economic development around the turn of the century. At that time Argentina boasted one of the highest growth rates of per capita income in the world and its economic future, compared with other “settler economies” such as Australia and Canada, and more broadly, with that of Europe, seemed secure (Sanz-Villarroya, 2005, pp. 439-40).

What have been the reasons and course of events that have pushed Argentina down the ladder of economic performance to levels comparable to nations that boast lower levels of natural and human capital endowments (e.g. Gabon, Malaysia and Turkey) while at the same time other “new settler” nations such as Australia and Canada have been able to manufacture a more prosperous future for their population?

Gerchunoff and Fajgelbaum (2006) commence this complex and awkward exercise by comparing Argentina’s GDP per capita as a percentage of Australia’s GDP per capita for the 1884-2005 period. The idea is to gain a broader understanding of when the two nations began to converge and diverge by comparing economic phases. Phase comparisons are important in the contrast of the economic history of these two relatively young nations because they can give a starting point as to when they began to come together or move apart in an economic, social and institutional sense. The phases are summarized by Gerchunoff and Fajgelbaum in Table 1.

<table>
<thead>
<tr>
<th>Period</th>
<th>Phase</th>
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<tbody>
<tr>
<td>1884-1929</td>
<td>Convergence</td>
</tr>
<tr>
<td>1884-1914</td>
<td>Initial convergence</td>
</tr>
<tr>
<td>1914-29</td>
<td>Final convergence</td>
</tr>
<tr>
<td>1929-2002</td>
<td>Divergence</td>
</tr>
<tr>
<td>1929-45</td>
<td>Moderate divergence</td>
</tr>
<tr>
<td>1945-75</td>
<td>Weak divergence</td>
</tr>
<tr>
<td>1975-2002</td>
<td>Strong divergence</td>
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The convergence phase (1884-1929) is characterized by a stronger rate in GDP per capita growth for Argentina than for Australia. Real GDP grew by 4.6 percent per year, while Australia only managed 2.8 percent (Duncan & Fogarty, 1984, p. 25). The depression of the 1890s had hit Australia pretty hard, and recovery was slow and painful. The 1880s represented the end of the boom and the end of an era of economic growth that had begun 50 years earlier (Duncan & Fogarty, 1984, p. 27). According to McLean (2006), economic growth in Australia from 1895 to 1913 was far below that of the comparable economies of Canada and Argentina.

Between 1914 and 1929 further differences began to emerge, particularly after the First World War. In terms of social policy, both Australian and Argentine workers suffered the curse of inflation and productivity declined. Argentine economic policy continued on the path of trade, while Australians
Esposto & Tohme

had lost trust in openness and opted more for redistributive policies and stronger government intervention (Gerchunoff & Fajgelbaum, 2005).

Divergence begins as the Great Depression engulfs the world. The fall in international demand for agricultural products and commodities and the protectionist policies that take hold in Europe and the United States have negative consequences for both nations. Exports per capita appear to be increasing for Australia, relative to Argentina. But perhaps a more plausible reason for the increasing difference between both countries is Australia’s alliance with the United States, both as a result of Japan’s threat to Australia during the Second World War, and Britain’s debacle in Singapore and its concurrent diminishing importance in the world stage (Fullilove, 2007).

3. Methodology and Data

In trying to understand Argentina’s and Australia’s social and economic differences, we use the Index of Economic Freedom which was created in 1995 by the Heritage Foundation and the Wall Street Journal. The rationale behind it is unapologetically laissez faire as the authors consider economic freedom as the driver of prosperity for individuals, crucial for the development of nations and intrinsically important for economic prosperity. Philosophically, it is based on the ideas of Locke and Montesquieu who viewed private property as a fundamental human right and intrinsically important for personal welfare and advancement. The authors define economic freedom as encompassing:

all liberties, rights of production, distribution, or consumption of goods and services. The highest form of economic freedom provides absolute right of property ownership; fully realized freedoms of movement of labor, capital and goods; and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintain liberty itself (Holmes et al., 2008, p. 40).

The index is made up of a simple average of ten freedoms that are considered to be crucial for the development and prosperity of nations and individual freedoms. These are weighted on an equal basis to avoid bias on any factor or particular policy leaning. The index uses a grading scale ranging from 0 to 100, where 100 is a perfect score for freedom. A nation that achieves a score close to 100 would then be operating in an economic system that most approximates economic freedom. The index possesses a continuous grading scale, indicating that a particular nation can have a score of 77.8 while another can have a lower or higher score, thus allowing for comparability. The period of the study is over a financial year. For example, the data examined for 2008 covers the second half of 2006 and the first half of 2007. The data used to construct the 10 indices comes from a wide range of sources, including the IMF, World Bank, Economist Intelligence Unit, US Department of Commerce, Corruption Perception Index and many other organizations that collect and disseminate data. The index aggregates the following items: Business freedom, Trade freedom, Fiscal freedom, Government size,
Esposto & Tohme

Monetary freedom, Investment freedom, Financial freedom, Property rights, Freedom from corruption, Labour freedom.

The Index of Economic Freedom is not free of limitation (e.g. Sachs, 2005; Karlsson, 2005).

4. Findings and Discussion

4.1 Economic Freedom

It was only in 1996 that Argentina experienced a higher level of economic freedom than Australia. Thereafter, its position declined, reaching its worst ranking of 120th in 2005 and then improving to the current lowly ranking of 108th. According to the index’s assessment, Argentina’s economy was at its least free in 2005 at 52.8 percent (rank 120) compared to 55.1 percent free in 2008 (rank 108). In contrast, Australia had its lowest level of economic freedom in 1996, at 74 percent (rank 10), improving to its best ranking of 4th in 2008, at 82 percent free. Australia’s high ranking of economic freedom can be explained by its strong democratic tradition since Federation in 1901. In contrast, Argentina experienced severe economic crises, stretching as far back as the years previous to the military rule from 1976 to 1983 and the economic collapse of 2002.

4.2 Business Freedom

Starting a business in Australia has become a comparatively easy affair, taking an average of two days, as compared to Argentina where it takes on average 31 days. This is better than the world average of 43 days. For Australians the task of opening up businesses has become much easier since 1995, when Australia ranked 31st in terms of business freedom, as a result of government calls to the population to become more entrepreneurial.

4.3 Trade Freedom

The rationale of this index is to obtain an understanding of the level of trade freedom experienced by each country. It is compiled using two inputs, namely, the trade weighted average tariff rate and the non-tariff barriers. To determine non-tariff barriers, the authors gather both qualitative and quantitative data. A wide range of data is used to construct the index, and most prominent of these are trade indicators obtained from the World Bank and the World Trade Organization (Holmes et al., 2008, p. 43). Australia’s ranking has fluctuated, being better in 1999 than in 2008. In contrast to popular belief, work by the Reserve Bank of Australia (Andrews & Arculus, 2008) demonstrates that trade as a proportion of GDP is small compared to other advanced economies. This is against a background of rapid growth of the Asian economies, driven particularly by China and India.

Between 2000-07 Australia’s exports grew by an average of 2.4 percent, while during the 1990s the growth had averaged 8 percent.
Esposto & Tohme

In 1995, Argentina ranked 54th in terms of trade freedom, and its trajectory has deteriorated considerably since that time. The features that make its trade restrictive are the non-tariff barriers which have the effect of restraining trade and frustrating businesses wishing to import and export. There have been some improvements in terms of port handling and customs processes, but these do not appear to go far enough.

Table 4.1: Economic freedom indices and rankings, Australia and Argentina, selected years (rankings in brackets)

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2006</th>
<th>2008</th>
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<tr>
<td></td>
<td>Australia</td>
<td>Argentina</td>
<td>Australia</td>
</tr>
<tr>
<td>Economic freedom</td>
<td>74.1 (8)</td>
<td>67.9 (22)</td>
<td>79.4 (7)</td>
</tr>
<tr>
<td>Business freedom</td>
<td>70 (31)</td>
<td>85 (7)</td>
<td>90.9 (12)</td>
</tr>
<tr>
<td>Trade freedom</td>
<td>77 (19)</td>
<td>58.4 (54)</td>
<td>77.4 (52)</td>
</tr>
<tr>
<td>Fiscal freedom</td>
<td>59.6 (62)</td>
<td>80.7 (17)</td>
<td>58.9 (139)</td>
</tr>
<tr>
<td>Government size</td>
<td>53.9 (72)</td>
<td>86.6 (28)</td>
<td>62.2 (99)</td>
</tr>
<tr>
<td>Monetary freedom</td>
<td>86.7 (3)</td>
<td>61.1 (67)</td>
<td>85 (37)</td>
</tr>
<tr>
<td>Investment freedom</td>
<td>7 (8)</td>
<td>70 (7)</td>
<td>70 (14)</td>
</tr>
<tr>
<td>Financial freedom</td>
<td>90 (1)</td>
<td>50 (33)</td>
<td>90 (1)</td>
</tr>
<tr>
<td>Property rights</td>
<td>90 (1)</td>
<td>70 (16)</td>
<td>90 (1)</td>
</tr>
<tr>
<td>Freedom from corruption</td>
<td>70 (12)</td>
<td>50 (23)</td>
<td>88 (9)</td>
</tr>
<tr>
<td>Labour freedom</td>
<td>N/A</td>
<td>N/A</td>
<td>81.6 (18)</td>
</tr>
</tbody>
</table>


4.4 Fiscal Freedom

Governments potentially have the ability to impose a burden on economic activity by generating revenue for themselves, mainly through the manipulation of the taxation system and also by incurring debt, which is ultimately paid off by the taxpayer (Holmes et al., 2008, p. 45). This index has three quantitative components which are equally treated and are designed to measure taxation levels. On this index, Australia had a poorer ranking than Argentina, having deteriorated from 62nd in 1995 to 140th in 2008. Argentina had a better ranking in 1995, 17th, but fell to 106th, still performing better than Australia.

The Australian government collects part of its revenues from three forms of income tax: personal incomes, such as salaries and wages; business income, derived from money obtained from operating a business; and capital gains, which is collected from the sale of profits made on shares or property. Australia also has a valued added tax (GST). Tax revenue as a percentage of GDP stood at 30.9 percent according to the OECD in 2005 and was ranked 27th amongst OECD members, behind Sweden which was ranked first at 51.3
percent of GDP and Brazil which was ranked 15th at 37.4 percent of GDP. Australia’s efficient revenue collection has placed it in a favourable position to deal with the global financial crisis.

In contrast, Argentina’s public debt peaked at 143.5 percent of GDP during the 2002 crisis and declined to 51.5 percent during the second quarter of 2008 (Weisbrot, 2008, p. 2). Furthermore, Argentina is not as highly taxed as Australia, making it harder to deal with economic shocks such as the GFC.

4.5 Government Size

Government size is considered by some authors as being a hindrance when it comes to economic efficiency and its impact on economic development. This particular index is constructed using a non-linear quadratic equation. The size of government is factored on government expenditure as a percentage on GDP (Holmes et al., 2008, p. 46). Government expenditures by Australia are relatively high in comparative terms. It ranked 100 in 2008, compared to Argentina which had a lower ranking of 56. According to Holmes et al., Australia’s government expenditure as a proportion of GDP was 35.2 percent (p. 88) compared to Argentina’s at 25.2 percent for 2005. The proportion of GDP expenditure provided by Holmes et al. is different to that provided by the Treasury of Australia.

4.6 Monetary Freedom

The score for this index is based on two factors, namely, the weighted average of inflation for the most recent three years and price controls. Australia’s ranking is high at 13, compared to Argentina’s poor standing at 144. Much of this low score is due to the policies followed by the Kirchner governments. Official sources claim that inflation over the period 2005-07 averaged at 10.2 percent, supposedly declining from 12.3 to 8.5 percent. However, the credibility of these figures has come under question because the government has manipulated its data sources in an attempt to reduce contracted obligations tied to inflation levels. Besides, a main tenet of the economic policy of these administrations has been to regulate the prices of many goods and services, including electricity, water and other essential services. In contrast, Australia’s high ranking is due to its relatively low inflation rate which averaged 2.8 percent between 2004-05 and 2006-07 (ABS, Cat. no. 6401.0).

4.7 Investment Freedom

The methodology employed here examines the country’s policies towards foreign investment and policies that monitor internal capital flows. The index assesses the free flow of capital, especially foreign capital (Holmes et al., 2008, p. 41). These criteria are assessed to determine the health of the country’s investment climate. Australia’s standing in an international sense is quite impressive, not having fallen from its position when the index was created. Its current ranking is 8 compared to 50 for Argentina which has deteriorated considerably from a ranking of 7 in 1995.
4.8 Financial Freedom

This index measures the relative openness of each country’s banking and financial systems. The index attempts to capture banking security, as well as independence from government control (Holmes et al., 2008, p. 41).

Government interference can have considerable bad economic impacts such as Argentina’s financial policies that led to the corralito debacle of 2001. While the Argentine peso remained pegged to the US dollar, the fears of a crash, due to the state of stagnation of the economy, induced a flight of money (earned in pesos and transformed into dollars) to safer places, draining the resources of the financial system. By December 2001, the government froze all accounts, allowing only small weekly withdrawals. This stopped the already weak flow of resources in the economy, leaving the poorest segment of society in a state of despair.

Up to the 1980s the Australian financial system, as in many other parts of the world, was heavily regulated. Much emphasis was placed on controls on bank lending, control of the exchange rate, and exchange controls regulating movements between national and foreign currencies (Industry Commission, 1991, p. 14).

4.9 Property Rights

This index measures the ability that individuals have to accumulate private property, protected by clearly defined laws that are enforced and secured by the state. It measures the ability to accumulate private property, which is seen by the authors as the main determinant of activity in a market economy, with the rule of law being vital to a fully functioning free-market economy. Well structured, respected and enforced property rights give citizens the confidence and ability to conduct commercial activities, save their income and make long-term plans because they know that their income and savings are safe from expropriation (Holmes et al., 2008, p. 51).

Australia ranks top of the world in terms of property rights. Its score of 90 across all the selected years suggests that private property is guaranteed by the government and that the government enforces contracts efficiently and quickly. The justice system is designed to punish those who confiscate property in an unlawful or deceiving way and corruption levels are some of the lowest in the world.

In contrast, Argentina received a score of 30 and its ranking was also 30th in the world. This implies that property ownership is weakly protected and the court system is highly inefficient. Corruption is widespread and strongly influenced by other branches of government. Expropriation is possible and occurs. The executive branch influences the judiciary. Independent surveys indicate that public confidence remains weak, particularly since the 2001-02 economic crises. Courts are notoriously slow, inefficient, secretive and corrupt and any foreign investors resort to international arbitration.
4.10 Freedom from Corruption

Holmes et al. (2008, p. 41) define corruption as dishonesty or decay. In the context of governance, it can be defined as the failure of integrity in the system, a distortion by which individuals gain personally at the expense of the whole. The index is based on quantitative data that assesses the perception of corruption in the business environment, government and judicial system. The most reliable source for measuring this phenomenon relies on Transparency International’s Corruption Perceptions Index (CPI) which measures the level of corruption scores of countries that are also listed in the Index of Economic Freedom. In creating the index, data is sourced from the CPI, the US Department of Commerce, and the Economist Intelligence Unit. Australia ranked as the 9th least corrupt country in the world whereas Argentina ranked 90th (Holmes et al., 2008, p. 53). Corruption is perceived as minimal in Australia. The least corrupt country in the world in 2008 was New Zealand. In contrast Argentina suffers from severe problems, and is ranked 93rd out of 163 countries in the 2006 CPI. It is in the same category as Bosnia-Herzegovina and Tanzania where corruption is perceived to be widespread. Foreign investors complain frequently about both government and private sector corruption.

4.11 Labour Freedom

Since 2007, the labour freedom index is designed to measure labour market regulations. It is a composite measure of workers and businesses to interact without restrictions by governments (Holmes et al., 2008, p. 41). Australia’s labour freedom ranked 3rd in the world in 2008, while Argentina’s ranking was 113th. Australia’s labour market operates under highly flexible regulations that enhance employment creation and productivity growth. The non-salary cost of employing a worker can be moderate, and dismissing a redundant employee is costless.

According to Galiani and Gerchunoff (2003), Argentina’s labour market over the last century experienced fundamental change and evolution. Initially wages were mainly determined by the business cycle and the costs of firing and hiring workers were virtually unimportant, but the labour market has evolved to one “characterized by both explicit and implicit long-term commitments between firms and workers” (Galiani & Gerchunoff, 2003, p. 122). This has seen the creation of a labour market where employers and employees experience high levels of regulation which impact negatively on job creation, productivity increases and flexible employment arrangements.

5. Conclusion

What have we learned from this exercise? At least two clear lessons can be drawn. One is that Argentina has been left behind while Australia moves ahead steadily. The second is that in many non-cultural and non-institutional aspects, the nations remain quite close. So, going back to the counterfactual analysis discussed in the introduction and, given the proximity between Argentina and Australia in a certain number of real economic aspects, the
differences in performance have to be attributed to the non-similarities between them, that is, to cultural and institutional aspects.

For Argentina, it can be argued, that a balancing act is called for, if it is still possible, in order to achieve a sustained path of economic and social development. To achieve this, it is our view that the right institutional setting must be implemented. Thus, the challenge for Argentina is to find its place in the world, particularly articulating a strong export economy in partnership with its customers and a steady reconstruction of its institutional framework. A way of achieving this is to look at Australia’s successful performance, particularly as it relates to its institutional matrix (North, 1990a, 1990b, 2005), and to continue with a research agenda that concentrates on comparative studies of institutional performance and its successful application.

Endnotes

i The Heritage Foundation, founded in 1973 is regarded as one of the United States’ most influential New Right thinktanks. It is based in Washington, DC (Miller and Holmes, 2011).

References

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Esposto & Tohme


