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PERONIST BELIEFS AND INTERVENTIONIST POLICIES

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**ABSTRACT**

We study the logic of Peronist interventionist policies and the beliefs that support them. Instead of a comprehensive approach, we focus on three elements. First, we study beliefs and values about the economic system present in Peron's speeches during the period 1943-55. Second, we study survey data for the 1990's on the beliefs of Peronist and Non Peronist voters in Argentina and Democrat and Republican voters in the US. While income and education suggest that Peronists (in relative terms) look like the American Democrats, their beliefs and values suggest that Peronists are the Argentine equivalent of the Republicans. Third, given that these beliefs are non-standard (for economists) we present a model formalizing some of their key aspects (for example, the idea that there is something more than a material exchange in labor relations).

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## I. Introduction

In a seminal study, Diaz Alejandro (1970) blamed Argentina's relative decline to the low rates of capital accumulation which followed the replacement of the export-oriented, market friendly policies by populist, interventionist policies around the time of the great depression (see also Taylor, 1994). In this account, broadly, Argentina's relative decline during the 20<sup>th</sup> century can be attributed to the prevalence of populist policies supplied by leaders who often exploit a mass of uneducated, poor voters. Peron and his followers play a prominent role in such narratives of Argentina's exceptional underperformance. There are variations in this basic account. For example, it is often claimed that policymaking, even during relatively centrist administrations, was complicated enormously by the presence of a populist party demanding government intervention. And that political instability arising from attempts at suppressing the Peronists, particularly since the 1960's and until the 1980's, has been responsible for the low levels of private investment and weak overall economic performance of the country. In other words, in this account the problem has been Argentina's populist tradition which has fueled bad policies and political instability.

A troubling aspect of this account, however, is that it does not explain why voters find populist policies appealing. As stated, this narrative soon has to conclude that democracy is not a reasonable way to elect the country's leaders. Paradoxically, it should somehow also question the benefits of markets. Indeed, humans in this account must have some type of dual type of rationality: on the one hand they are able to make reasonable use of information so that markets are in fact quite efficient, but on the other hand they are unable to see that the leaders they elect are bad for them. Rationality in this account of democratic capitalism is a bit like the Cheshire cat of Alice in Wonderland: now you see it, now you don't. In brief, while it is clear that populist policies play a big role in Argentine exceptionalism by interfering with capital accumulation, it is less clear in this narrative is what the logic of populist policies and what explains their popularity. Our study is concerned with these questions.

Economists have not made significant progress in understanding Latin American populism because they tend to find the interest group theory of policy quite compelling. In the standard account, bad policies are put in place by special interests and voters would get rid of them if only they cared to vote. Interestingly, however, voters do vote in large numbers, so the empirical appeal of the interest group theory of policy formation, at least in its simplest form, is low. A more promising approach accepts that populist policies are in fact appealing to (at least some group of) voters and tries to explain this appeal within a rational model (by which we mean a model where agents try to do the best they possibly can, given their objectives –which may be broader than material payoffs). That is, broadly, the strategy we adopt here. The demand for populism is central to the political and economic legacy of Peronism which has marked the period going from Peron's ascent to the secretary of Labor in 1943 until the present. Indeed, part of the political instability that characterizes Argentina after 1943 originates in the intense appeal of Peronist policies to a large group of voters and the difficulty in generating consensus around a set of basic policies that would have allowed the country to avoid macroeconomic instability.

Our analysis has three main parts, which follow a brief section on the historical and political background of Peronist policies (section II). In the first substantive part (section III), we use qualitative data from Peron's early speeches (1944-55) to provide some evidence on Peron's beliefs (i.e., positive descriptions of how the world works) and preferences (i.e., normative values describing how the world should work). These speeches suggest to us three simple but important points. First, Peron's policies were known to his voters (in contrast to later Peronist presidents, such as Carlos Menem in the 1990's, who was elected on a platform but changed it upon being elected). Second, what Peron is doing in the speeches, at least in part, is providing "meaning" by interpreting the evidence available in the light of (what we would call) a coherent model of the world. Although such "interpretation" is unusual in economic models, it is often discussed by scholars who study beliefs (and in "discourse analysis"). The third and final element in his speeches that we think is worth emphasizing is that he gives a prominent role to the forces that determine income. In contrast to what the literature on varieties of capitalism has emphasized in terms of the origins of income (distinguishing between effort versus luck), Peron emphasizes the role of others in determining (reducing) our income through exploitation. This emphasis results in a focus on actors (foreign countries and rich local elites, who would rather be living in Europe than in Argentina).<sup>1</sup> And in a focus on distinguishing the components of welfare: there are utility losses from being "exploited", which go beyond the material losses (losing one's dignity).

In the second part (section IV), we study Peronist beliefs after Peron's death and place them in comparative perspective by looking at data from the World Values Survey in the 1990's. Respondents that declare an intention to vote for Peronism are also those on relatively low income and education. This is consistent with our analysis of Peron's speeches of the 1944-55 period, which appear to be on the left side of the political spectrum, and with specific events of that period (the burning of the Jockey Club, the anti-American slogans, etc). Indeed, a small literature on the subject has claimed that Peronism is the local version of the American Democrats or the British Labour Party. However, we can investigate the beliefs of these Peronist voters with respect to the origins of income (e.g., luck vs effort) and compare them with those of American voters. Our results suggest that Peronist beliefs tend to be more on the right of the political spectrum than the opposition (although all Argentine voters are quite lefty). In relative terms, Peronist beliefs in the 1990's appear to be similar to Republican beliefs. In other words, the opposition to Peron seems to have come from the conservatives while the opposition to the Peronists in the 1990's seems to have come from the ideological left (although in both periods the opposition seems to have been on higher income than the Peronists).

In the third and final section (Section V) we develop a model to explain this low "demand for capitalism". If voters maximize something else than just their material payoff, then even with correct beliefs about how the world works, they may demand bad policies (from the narrow point of view of

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<sup>1</sup> One of the Spanish words for "traitor" is "vendepatrias" (literally "seller of the motherland"). Acario Cotapos, a Chilean artist, once commented on the possibility of selling the motherland, adding "yes, and let's buy something smaller, but closer to Paris". Betrayal by the oligarchy during the decade prior to Peron's first government is emphasized for example, in Torres, (1973) and Hernandez Arregui (1973).

maximizing income). A voter concerned with the fairness of outcomes is a case in point. Specifically, we assume that voters demand that firms behave kindly (and this must be true in some scenarios). When they do not, voters experience anger which decreases when such firms are punished. In Argentina firms are more likely to misbehave than in rich countries (perhaps because of low competition or because of low productivity) so the State must intervene (“regulate to humanize Capital”). Section VI concludes.

## II. Peron, Interventionist Policies and Argentine Politics: Background

Beyond the obvious interest in a better understanding of the demand for populism, work on Peronism is important because of the crucial role of political instability in Argentina’s relative decline. In 1930, as the World economic crisis affected Argentina, a military coup by a group with neo-fascist inclinations resulted in the first military government of the country. The succession of non-democratic governments (seven) which followed included episodes of serious violence, and ended in the presidency of Juan Peron in 1946. Since 1930, and until the Menem administration of the 1990’s, no democratic president was able to complete its term, with the exception of the first Peron government. This coincided with Argentina’s economic woes. Indeed, Argentina’s comparative economic performance (see Figure 1 in Llach, 2010) reveals two periods where divergence appears to be present: the 1930’s, when the series appears to begin to fall (with the exception of the Peron administration), and the 1970’s, another period of heavy political instability, when the decline appears to accelerate.

This suggests, at least at this broad level of generality, that there is some merit in the hypothesis that political instability and relative economic decline are positively correlated. Interestingly, the rate of investment during 1930-40 (the “infamous decade”) appears low (9.1%), particularly when compared with that of the XXth century (14.4%), or with the rate of investment prevailing during the decade prior to the start of the First World War (19.3%), one of the periods where the government was in the hands of “elitist” governments and the economy was relatively open to international trade. Figure 1 reveals that investment over GDP rises with Peronism, with an increasingly larger role taken by public investment (whereas in the early years it is mainly private investment) until the fiscal crisis of the early 1980’s.<sup>2</sup> A simple hypothesis suggested by the data is that political instability causes lower private investment, and that this is the main cause for Argentina’s relative decline. This is a natural complement to theories of Argentina’s relative decline emphasizing investment. Diaz Alejandro (1970, 1988), for example, has emphasized the difficulties in maintaining high levels of investment once the export-oriented, market friendly regime was replaced by the more interventionist regimes that follow the great depression. Taylor (1994) also emphasizes the role of the extremely high rates of capital accumulation pre 1913, explaining that low savings rate constrained capital accumulation until the 1930’s while the subsequent protectionist policies resulted in a high relative price of imported capital goods also contributed to retard capital accumulation (for evidence on the role of machinery investment in growth, see De Long and Summers, 1991). A natural extension of this line of research is that political instability

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<sup>2</sup> For an alternative view of the Investment performance, see Taylor (1998).

plays a similar role interfering with private investment and contributing to Argentina's decline. Of course then, a key is why do these interventionist policies get implemented and why does political instability persist.

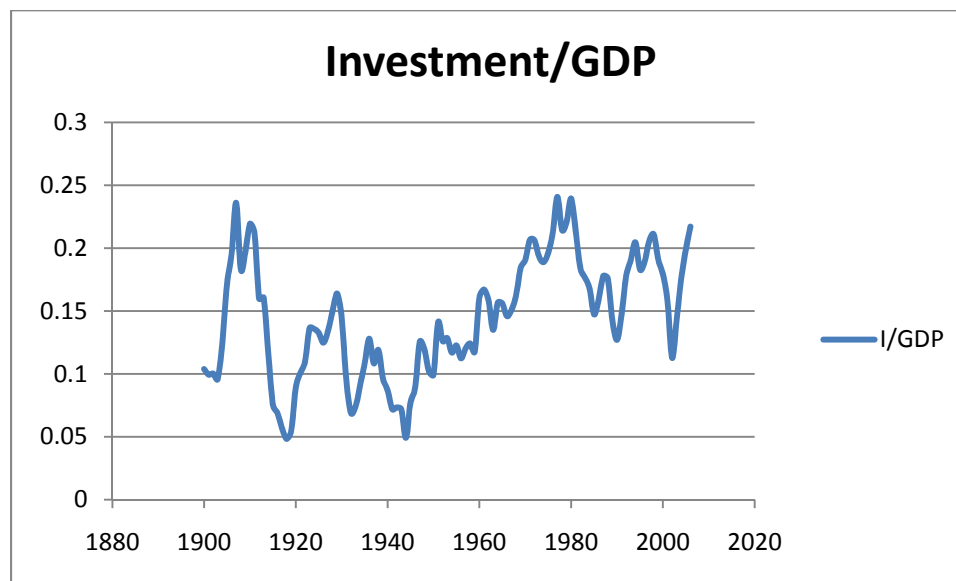


Figure 1: Total Investment over GDP. Source Gerchunoff and Llach (1998).

Several authors have emphasized the role of Peronism in Argentina's development.<sup>3</sup> Since General Peron's ascent to the Labor Secretariat in 1943 (with the Military Government of General Ramirez) he was the preeminent political figure of Argentina. Even after his death policies have been defined with relation to the Peronist political legacy (see, for example, O'Donnell, 1977 and Portantiero, 1973). Several hypotheses have been advanced to explain the causes of Peronist support. Germani (1962), for example, has emphasized the emotional fragility of internal migrants (from the provinces) and the charismatic, paternal nature of Peron's leadership. He provides an estimate of 83,000 migrants per year to the greater Buenos Aires area for the period 1936-47, increasing thereafter. By 1957, Germani estimates a doubling of the population in the Buenos Aires metropolitan area (from 3.4 to 6.3 million). Thus, labor became a central economic and political force in the country. During this period, the share of output accounted for by industry increased, so that the Peronist pro-labor policies go a long way in explaining its popular support, even if voters only had material concerns. Some authors estimate the

<sup>3</sup> There is, of course, a large literature on Argentina's economic performance and on the role played by Peronism which is in no way summarized or reviewed in the short paragraphs offered here as context for the relatively narrow set of points we try to emphasize. For a description of economic policies under the 1946-55 Peron government, see Gerchunoff (1989). See also Diaz Alejandro (1970), Cortes Conde (1998), Waisman (1987), Halperin Donghi (1994), Llach and Gerchunoff (1989), *inter alia*.

increase in the real wage of unskilled labor in the Buenos Aires area at 17%.<sup>4</sup> It is unclear how much of this increase was sustainable, although there were presumably some economies of scale as the internal market expanded and higher profits from the continuing program of import substitution (see Galiani and Somaini, 2010). It is worth pointing out that anti-export policies also contributed to the increase in real wages through lower prices of food (see Brambilla, Galiani and Porto, 2010). Besides policies that directly supported labor, a variety of social programs in different areas were put in place, ranging from increased access to the free health care, to the creation of a comprehensive housing program to the establishment of a generous system of social security (for a good description see, for example, Gaggero and Garro, 2009). There was also the public-private partnership symbolized by the Eva Peron Foundation, a private entity run by Peron's wife, funded through contributions from the private and public entities and which distributed considerable amounts of social assistance (see, Stawski, 2005 ).

At the same time, institutional weaknesses played an increasing role in limiting the ability to generate political answers to the country's economic problems. Some have argued that specific aspects played a key role, such as electoral institutions giving preeminence to the party in the decision to re-elect politicians (see Jones, Saiegh, Spiller and Tommasi, 2000). Others have pointed out that there have been many political institutions, particularly since 1946, that directly led to unexpected changes in economic policy (see, for example, Spiller and Tommasi, 2004), although electoral fraud preceded Peron and may have lent some legitimacy to some of the abuses of the Peronist regime (see, for example, Alston and Gallo, 2009). Naturally, the ability to protect the rights to property under weak institutions was limited and there is the possibility that this is what led to weaker investment performance (see, for example, Adelman, 1999, Cortes Conde, 1998 and Alston and Gallo, 2009).<sup>5</sup> It is worth noting that there was less access to external capital after the great depression (see Taylor, 1994). Foreign direct investment fell somewhat in importance, albeit from very high levels (Diaz Alejandro, 1970 reports that foreigner's share of the stock of capital in 1927 was 34%, down from 48% prior to the First World War).

A somewhat different picture emerges from the period leading to the Peronist administration of the 1970's. The relatively closed economy of the 1960's experienced difficulties adjusting to economic expansions as increased imports often led to periodic balance of payments crises and inflation. Against this background, and with the political proscription of Peronism, attempts at using wage and income policies to stabilize the economy were unsuccessful. More often the military governments focused on reducing wage pressure, typically by restricting trade unions (for example the Onganía government

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<sup>4</sup> See Murmis and Portantiero (1971). On the role of the support of socialist trade unions, see Torre (1989). See also Horowitz (1990), Di Tella (2003) and Torre (1990), as well as O'Donnell (1977), and the contributions collected in Brennan (1998) and Miguens and Turner (1988).

<sup>5</sup> Saiegh (2007) emphasizes that, even during the early market-friendly phase following the passing of the liberal constitution in 1853/60, the security of some rights to property (for example on public debt) depended on political considerations such as the extent of partisan control over the legislature.

imposed a wage freeze, attempted to increase working hours, limited labour strikes and suspended the legal status of several trade unions). Tensions soon fuelled the presence of left wing elements, and fighting communism became a serious government concern. As riots erupted in Cordoba, left wing terrorism became a political force, with some legitimacy (given the lack of democracy) and a claim to centrality in the Peronist “movement”. There is some evidence that Peron himself encouraged this identification with the left.<sup>6</sup> During the 1970’s kidnappings and assassinations reached their peak, as the terrorist organizations (the Marxist People’s Revolutionary Army and the Montoneros -of Peronist extraction) clashed with the police and armed forces (see the data on the assassination of policemen in the province of Buenos Aires in Boruchowicz and Wagner, 2010). Eventually, in the 1970’s, with the terrorist organizations still active after his return to the country’s presidency, Peron broke with them in a dramatic speech, ejecting them from the Plaza de Mayo. Thus, in contrast to the early years, when Peronism arrived and launched a true workers movement opposed to the Conservatives, during the 1970’s the opposition to Peron seems to have come from the left. The survey data reported later is consistent with this description.

In brief, it seems clear that Peron’s arrival on the political scene in the 1940’s coincided with the increased importance of labor in Argentina’s economy, and a reduced importance of openness to foreign capital and trade as the global economy was affected by the war and the Great Depression. Accordingly, Peron’s ideology reflected a degree of nationalism and faith in government intervention that would persist over time. The opposition, however, seems to have evolved from a traditional conservative position to a position that is much more on the left of the political spectrum.

### III. Peron in his own words

There is some difficulty in defining exactly what Peron’s political legacy is. Some have argued that because he was a fascist sympathizer, his ideological legacy must simply be fascism. This would answer the question of how bad policies come to be implemented: Peron’s authoritarian rule imposed such policies. For our purposes, the biggest problem is that such policies appear to be popular with the electorate and they continued to be so even after Peron was deposed and the most egregious aspects of his authoritarian rule (such as indoctrination) were no longer active.<sup>7</sup> Furthermore, Peronism seems to

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<sup>6</sup> For example, while in exile in Madrid, Peron appears to have designated John William Cooke, a man who argued for “armed struggle” based on the Cuban model, as his main representative in the country. There is ample evidence of the armed group’s identification with Peron (see Baschetti, 2004).

<sup>7</sup> One (of several) possible differences with fascism, for example, is that trade union leaders were closer (more loyal) to members of the union than to the government (perhaps in spite of Peron’s wishes). Also, there were attempts at constructing “Peronism without Peron” and instances of trade union leaders who were perceived to be quite independent of Peron (leading to the extreme view that Peron himself was involved in the killing of trade union leader Vandor). And, most importantly, large increases in the Labor share of GDP took place under Peronist administrations (for historical evidence and a comparison with Australia, see Gerchunoff and Fajgelbaum, 2006).



involve opinions about economic independence that are central and easily compatible with less authoritarian political forms. It is of some significance that Peron's political ideology was developing in the immediate aftermath of the First World War. Born in 1895, he was 28 years old as the Weimar republic was struggling with the war reparations, which became a convenient scapegoat, together with bankers, Jews and foreign speculators, so it is perhaps unsurprising that attribution (particularly to external forces) plays a big role in his speeches. And he was 35 as the Great Depression affected the world economy and rich countries were starting to cope through public works programs and government spending (in part linked to rearmament). Perhaps even more significant, in 1935 one of the first actions of the newly created central was a bailout of the banking system at a large social cost (della Paolera and Taylor, 2002). Thus, it must have been clear to him that large shocks could disrupt the macroeconomy to a very large extent, making individual effort often irrelevant in the determination of income.

The Peronist regime of the 1940's and 50's accompanied the economic changes that were implemented, first from the Labor Secretariat and then from the Presidency, with a powerful new rhetoric that gave workers a preeminent role in the formation of policy. Keynesian ideas were becoming known, at least through Roosevelt's actions and some of the main ideas were making their way to Argentina.<sup>8</sup> Rhetoric, of course, was only one element in a broad attempt to create support for the social and political changes that would sustain the redistribution of income at the core of Peronist policies. Other elements included a set of political rituals linked to mass mobilization, the emotional appeal of Evita and a clear attempt to influence people's perceptions and beliefs through propaganda. Although we study Peron's speeches, we note that this might be a relatively narrow focus, particularly given the discussion of these elements appearing for example in Plotkin (2003). Of course a potentially important determinant of beliefs is the education system and the Peronist regime heavily intervened in the design of the national curriculum and the public schools system (see, for example, Bernetti and Puiggros, 1993, Bianchi, 1992, and Escude, 1990).

There is important previous work in the field of discourse analysis focused on Peron's speeches by Sigal and Veron (2003).<sup>9</sup> They analyze several aspects of his speeches and put special emphasis on their

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However much weight one gives to these considerations, it seems the distance between fascism and Peronism, at least in their authoritarian styles and rhetoric, is not large. See Germani (1962) and Lewis (1980), for interesting discussions.

<sup>8</sup> Federico Pinedo and Luis Duhau, together with Raul Prebisch, put in place the Plan de Acción Económica Nacional in 1933. They were influential in affecting foreign trade and in the creation of the Argentine Central Bank in 1935. Della Paolera and Taylor (1999) describe heterodox monetary policy after 1929, the change in beliefs and expectations following the shift in monetary regime and the relatively mild economic depression.

<sup>9</sup> There are several interesting cultural aspects of Peronism that we do not discuss, including the focus on one date (October 17<sup>th</sup>), when Peronism "starts". For a discussion and several of the key details of the mass mobilization that took place during October 17<sup>th</sup>, 1945, see James (1988).

political dimension. For example, Sigal and Veron put forward the interesting hypothesis that Peron actively constructs the notion that he “arrives” to the State from the “outside” (a life dedicated to the military) to provide unity/harmony to a divided country (during 1973-4, the main focus of their analysis), which is significant given some of the electoral decisions made at the time. In contrast we focus on the economic dimension of his speeches. The material we studied was contained in 62 speeches, delivered between October 15<sup>th</sup> 1944 and May 1<sup>st</sup>, 1953. They include a few speeches during rallies (as reported in the media), some speeches during particular celebrations, as well as messages to congress and other legislative bodies.

### *Peron’s Speeches*

The first striking point (to an economist) of his speeches is their low informational content. In contrast to what might be expected, they are not of the form: “I am informing the people of Argentina that we are facing a shock with the following characteristics, and here is what we are going to do about it.” In other words, they are not predominantly exercises in the transmission of information. Rather, they are heavily interpreted narratives of what has happened in the past, and how the conclusions that we draw from looking at history can help us shape policy in the present. In brief, a key element of the speeches is that they are primarily centered on the reinterpretation of already available information. Also, scholars working on analysis of discourse would say he is engaged in the “production of meaning”. In particular, such research is concerned with establishing the “source’s relationship to the content” (related in this case to the source’s status). Under the assumption that minds and memory are malleable in this way, an economist would have no problem modeling it as a (self-interested) activity of the politician. An example is Glaeser (2004), where politicians supply stories and voters fail to investigate their accuracy. Finally, the speeches can also be interpreted as trying to influence the system of values of the population. In this regard, Rokeach (1973) is an influential study of value systems and their impact on behavior (also focusing, in part, on the writings of major political figures). See also Converse (1964) and for a recent review, Kinder (1998).

The second, and perhaps key part of this “interpretation exercise” is that Peron assumes the role of a heroic whistleblower, denouncing a corrupt state of affairs where politicians are bought by one particular group in society (the economic and cultural elite, who are seduced by all things foreign) in order to enact policies against workers and the poor. It is a variation of the theme of Peron’s “arrival” as an external player (as emphasized by Sigal and Veron but with special significance for the beliefs about the generation of income). One example is:

It can be seen that, not knowledgeable of the art of pretending, I have exposed the anguishing situations that burdened my feelings as I absorbed the Daedalus of laws and decrees (...) which in a large number of cases restricted the rights of workers, or, if they recognized them, it would be to kill the last trace of the hope of justice. May 1<sup>st</sup> 1945

I have been accused of having agitated the conscience of the country's workers. Of having created a social problem where none existed before ... instead of silencing the inequalities and social injustices, I have uncovered them so that we all could know where evil was and we could find the more convenient medicines. ... The previous tactic consisted in faking a social welfare ... with the exclusive aim of not disturbing the good digestion of the golden Bourgeoisie. May 1<sup>st</sup> 1945.

Another characteristic of his speeches is the continuous attempt to reassure supporters that he has a coherent view of the world. Examples take place in several speeches, but the one on May 24<sup>th</sup>, 1950 is centered on explaining Peron's theories. He begins by reacting to accusations that his is not a coherent economic plan stating,

It has been said that ... the Justicialista movement lacks an economic theory. Nothing more untrue. We have a perfect economic theory. What happens is that we have not yet spelled it out because we did not want that the oligarchs, or the capitalist consortia that exploited the country through conscienceless and avaricious bosses, could, knowing our plan, stop our action ... When we have been able to dominate these international monopolies or the forces of the anti-motherland, then we will explain our theory to the world. May 24<sup>th</sup>, 1950.

And he explains (in the same speech) some details

... old economic theory ... was based on a principle called "hedonic". ... what does it represent? The capitalist says "my capital is the basis of the economy because I am the one who promotes, pays and makes. As a consequence I produce 10, and don't produce less or more as in both cases I lose." But me, the sociologist, I tell him: "Yes sir, you produce 10, but here this man has to eat and he tells me that 10 is not enough, he needs 20". Then the capitalist replies to me "Ah, let him explode, let him eat with 10 because if I produce more of that I lose money." ... That is when the hedonic principle stops being so naturally rational, least of all from the point of view of welfare, which is the basis of all organized communities. ... we do not want an economy subordinated to capital, we want capital subordinated to the economy ... If, after that, the capitalist is able to fill its coffer with gold, let him do it; we don't care; even better if he does. But we can't do that until the people is satisfied and happy and has the purchasing power needed to achieve a minimum of happiness, without which life is not worth living. May 24<sup>th</sup>, 1950.

### Types of Businesspeople

The "conspiracy" that Peron comes to uncover is relevant to workers because it identifies an influence on their income. This representation requires that capitalists, at least until Peron's "arrival", were unkind (inconsiderate or who made their money through corrupt means). The speeches include constant references to such "bad types" amongst businesspeople.

People have been faced with the idea that a fateful lodge of demagogues was the ruling class of the country, its elite, and as such was made up by wise, rich and kind people. It has to be pointed out that the wise have rarely been rich and the rich have rarely been kind. October 15<sup>th</sup>, 1944.

In other words, those privileged by the capitalist regime are finished; those that had everything, that took the cow in the ship when they went to Europe to have coffee with milk. No, let's have them have coffee with milk, but with powder milk. It is not that bad for them. May 12<sup>th</sup>, 1950.

It used to be easy for capitalists: when there was a strike workers were put in jail, they were processed and they didn't rise again. ... Remember Vasena. ... Workers confronted the situation but the result was several thousand men dead. The oligarchs were all home doing the "five o' clock tea". ... It used to happen that a capitalist who was almost bankrupt was made to earn, with just a signature, two or three million pesos without him having the need to do more than wake up in the morning and ask over the phone if the matter was ready. In this way favors were being granted upon someone who perhaps was a shameless one. August 9<sup>th</sup>, 1950.

### "Others" determine our income

With "bad types" amongst the capitalists, it was easier for Peron to press forward with the idea that the process where income was generated was under their influence. This matches well with the widespread belief that Argentina is a rich country and one has to find an explanation for why there is want amidst plenty (for a discussion of belief formation when natural resources are important, see Di Tella, Dubra and MacCulloch, 2010). Indeed, one part of his speeches can be reduced to arguments in support of the idea that instead of individual effort (internal to the individual) or luck (external but without intention), the relevant influence on income is an external force with human intention. It is "others" who are actively taking actions which lower Argentinian's income. It is not a question of making a bigger effort at the individual level; nor a question of taking a collective stand to reduce the influence of natural elements (through insurance or a better selection of activities and crops). It is a question of actively opposing other actors that try to exploit Argentines (on the role of corruption perceptions in explaining the appeal of capitalism, see Di Tella and MacCulloch, 2009).

There are numerous examples of this conception of the income generating process, and the support of the State in enforcing it, in Peron's speeches. One example is

The economic destiny of workers was exclusively in the hands of the bosses ... and if workers organized a protest movement or adopted an attitude defensive of their rights, they were left out of the law and exposed to the bosses' response and the police repression. ... A group of capitalists, characterized the most by its continued, bloody opposition to workers' vindications, has plotted an unthinkable maneuver to neutralize the steps that had been adopted to stop the rise in the cost of living ... and counteract the effects of inflation. May 1<sup>st</sup> 1945

... we need arms, brains, capital. But capital that is humanized in its function, which puts the public's welfare before a greedy interest in individual profit. I express my strongest rejection to the God of unproductive and static gold, to the cold and calculating supercapitalism that harbors in its metallic gutters Shylock's infamous sentiments. May 1<sup>st</sup>, 1947.

In the year 1943 our economy was in the hands of foreign capitalist consortia because, until 1943, those consortia were those that paid a vile price to producers, gathered, exported, transported and sold to foreign consumers the produce of Argentine work. It cannot be doubted that in such intermediation went most of the profits. March 5<sup>th</sup>, 1950

There might remain some former exploiter of human labor, who cannot conceive an Argentine nation socially fair, ... or some old lawyer of foreign companies who might yearn for the times of the Bembergs, when treason was also profitable... May 1<sup>st</sup>, 1950.

300 families, in our country for example, put together their capital and enslaved 17 million Argentines. August 9<sup>th</sup>, 1950.

We are in favor that a man might enrich himself working, but we oppose that he might do so defrauding or taking advantage of other people's weaknesses. We want (...) that each Argentine has prosperity and good fortune within reach, but we do not accept that in order to obtain them he would commit crimes against other Argentines or against the community that we all are a part of. March 5<sup>th</sup>, 1952.

On some occasions, as in the reference to Bemberg above, Peron names specific members of the elite, although less than one might imagine if he was stirring up hatred against the rich. In one case they are described as guilty of exploiting capitalists themselves. One example is

The monopoly, be it called ... Bunge y Born, Dreyfus, etc. ... was the one doing the gathering ... the poor producer received six pesos and this intermediary octopus received thirty or forty for what somebody else had produced ... When this is organized properly, the small farmer will produce, transport, gather, sell; and the product will go exclusively to him and not for the "smart one", who constitute a tumor that was placed in the middle. August 9<sup>th</sup>, 1950

Yet in some of these same speeches he distinguishes between local and foreign capitalists and justifies the behavior of the former. This is often mentioned in the context of speeches with a strong nationalist component.

When I have said that there was excessive exploitation, I have not blamed our bosses, because I know full well that our bosses were themselves exploited from the other side (...) That is why we have bought the railroads and everything else concerning public services (...) May 12<sup>th</sup>, 1950

These descriptions of the state of affairs in Argentina at the time naturally lead to the justification of a set of interventionist policies adopted to address the main problems. Interestingly, in these portions of his speeches, the announced policies are not only linked to the solution of the set of economic problems uncovered, but also to the type of people Argentines (who implement these policies) are. There is a connection to identity in that there are (apparently discreet) categories of people that take certain actions, so that when these actions change, identity also changes, which appears inherently desirable (for a model of identity, see Akerlof and Kranton, 2003). It is as if people who are able to defy their exploiters and stand up for their rights and cannot be fooled into accepting compromise solutions are true Argentines.

The speeches provide several examples of the interventionist policies that match the needs created by Peron's description of the main problems faced by Argentina. These include,

We implement, in a loyal and sincere fashion, a social policy designed to give workers a human place in society, we treat him as a brother and as an Argentine. October 15<sup>th</sup>, 1944.

No man should earn less than what he needs to live. ... We said that there is a line for life determined by the minimum essential wage, and those below that line were the submerged; and that in our country there could not be "submerged"; everyone had to be "emerged". October 21<sup>st</sup>, 1946.

If we have intervened in some (enterprises) it has been because we had to somehow (avoid) the constant outflow of national wealth. (...) not only we respect private activity, but we also help and protect it. The only thing we don't want is a return to the old age of monopolistic consortia of exploitation. We want that men work (...) as they see fit but we do not want that it takes place at the expense of the consumer or the producer. We want that he who produces wealth may place it without pressure or exploitation of any type. February 7<sup>th</sup>, 1950.

The Estatuto del Peón, might not be to the liking of some exploiters-without-conscience, (...) who have been upset at the possibility that I might defend with more enthusiasm the perfecting of the human race than that of Argentine bulls or dogs. March 5<sup>th</sup>, 1950.

One of the barriers to national unity was undoubtedly the injustices committed by the capitalist oligarchy exploiting workers with the complicity of the authorities ... in charge of distributive justice. ... A people with an immense majority of slaves cannot be free, just as a free people can never be subjugated. ... I am not exaggerating when I say that in 1943 there were slaves in the Argentine Republic. May 1<sup>st</sup>, 1950.

Today, May 1<sup>st</sup>, the La Prensa newspaper ... will be handed over to the workers ... This newspaper, which exploited its workers and the poor during years, which was refined instrument of all foreign and national exploitation, which represented the crudest form of treason to the motherland, will have to purge its sins serving the working people. May 1<sup>st</sup>, 1951.

The government is committed to enforcing price controls, even if that means hanging them all.  
... They have a right to earn, but they don't have a right to steal. May 1<sup>st</sup>, 1952.

This simple overview of Peron's speeches suggests to us that a key component of Peronist beliefs is the idea that welfare can be affected by others. This suggests two changes to the standard formulation in economics, where agents are assumed to derive income from individual effort or from luck (which is beyond anyone's control). The first is that other players can affect an individual's income (local elites, foreign countries). The second is that labor relations have a non-monetary dimension, which we interpret as an influence of fairness in people's welfare (and not just income). Given these beliefs, there is a role for government in ensuring that workers are treated with dignity ("humanize capital"), which we interpret as some reassurance that firms are behaving with some reasonable amount of concern for workers' well-being.

#### IV. Peronism and the American Democrats: Differences in Survey data on Beliefs and Values

Given Peron's continued influence on political and economic events even after the 1955 coup, it is of interest to provide at least some evidence on the later evolution of Peronist beliefs and values and to place them in comparative perspective (for example, by comparing them to American beliefs as a benchmark). The approach we follow is to focus in a snapshot of the public's interpretation of Peronism at a later date. Unfortunately, continued survey data from different periods is unavailable. However, we have data on beliefs and voting pertaining to the 1990's from a comparative survey that contains data for the US and Argentina (and other countries). Of course, the 1990's was a period where both the US and Argentina are ruled by two politicians, Menem and Clinton, that are elected on a platform that is on the left of the political spectrum but who end up implementing reforms that are more consistent with centrist/conservative values. In the case of the US this happens only after there are mid-term electoral losses and mainly involve welfare reforms and the dropping of some of the less popular initiatives such as healthcare reform, whereas in the case of Menem they were larger and made from the start of the term, and they involved a complex relationship with the labour movement which was an important supporter (see Murillo, 2001, Levitsky, 2003 and Etchemendy and Palermo, 1998, for discussions; on policy reversals in Latin America during this period, see Stokes, 2001).

Our interest in comparisons with the US comes from a hypothesis "explaining" Peronism, namely that it is the Argentine version of the American Democrats (given that they are supported by similar demographic and socio-economic groups). A similar point is also made with respect to Peronism's association with the British Labour Party. Cross-country survey data on people's opinion about elements of capitalism is available from the World Values Survey. Coordinated by Ronald Inglehart, the 1995-97 wave asks adults (older than 18) in over 50 countries several questions of interest. In the US, the data is obtained from a representative sample of individuals age 18 and older through face to face interviews.

In Argentina, sampling was limited to the urbanized central portion of the country, where about 70 per cent of the population is concentrated.<sup>10</sup>

Importantly for our purposes, the survey contains data on (self-reported) voting, allowing us to derive measures of vote intention, or at least sympathy, towards the main parties in the country, including Peronists. Thus, we first divide the sample in Argentina in two groups: between those that declare to vote for Peronists and those that declare to want to vote for other groups. The precise question asked is: "If there were a national election tomorrow, for which party on this list would you vote? Just call out the number on this card." Then a card with "1. Partido Justicialista, 2. Union Civica Radical, 3. Frepaso, 4. Modin and 7. Blank ballot" is shown. Peronists are those answering 1, while Non Peronists are those answering 2, 3 and 4. In the US, a similar procedure allows us to determine two subsamples: Republicans and Democrats.

We then used a measure of income to divide the sample into two categories (rich and poor). The question asked was "Here is a scale of incomes. We would like to know in what group your household is, counting all wages, salaries, pensions and other incomes that come in. Just give the letter of the group your household falls into, before taxes and other deductions." Then a scale with 10 groups, corresponding to the income deciles in the country is shown (this scale is different in each country). We classify as poor those in the lowest 5 categories. Table I shows that 69 percent of Peronists, whereas 59 percent on Non Peronists, report incomes that are in the lowest 5 categories. In the US, within those admitting a preference for voting a particular group, we note that within those that prefer the Democrats, 42 percent declare to be in the lowest 5 deciles while only 29 percent of Republicans. This broadly corresponds to the idea that Peronists and Democrats share a similar base of support (at least in the limited sense that they have more support amongst the poor than the opposition). Table I, also shows results using educational attainment and reaches a similar conclusion.<sup>11</sup> These results echo the conclusion of a Peronist politician who declared upon looking at an electoral map, "progress complicates us, education kills us". In auxiliary tests (not reported) we tried self-reported social class and reached similar results: Peronists and Democrats seem to represent similar groups in their societies (the poor and those with low educational attainment).<sup>12</sup>

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<sup>10</sup> Within this region, 200 sampling points were selected, with approximately five individuals being interviewed in each sampling point through multi-stage probability sampling. Regions include the nation's capital, the greater Buenos Aires area, Cordoba, Rosario, Mendoza and Tucuman.

<sup>11</sup> The question asks "What is the highest educational level that you have attained?" and it provides as possible answers the (functional equivalent for each society) of "1. No formal education, 2. Incomplete primary school, 3. Complete primary school, 4. Incomplete secondary school: technical/vocational type, 5. Complete secondary school: technical/vocational type, 6. Incomplete secondary: university-preparatory type, 7. Complete secondary: university-preparatory type, 8. Some university-level education, without degree, 9. University-level education, with degree".

<sup>12</sup> The question used reads "People sometimes describe themselves as belonging to the working class, the middle class, or the upper or lower class. Would you describe yourself as belonging to the: 1. Upper class, 2. Upper middle class, 3. Lower middle class, 4. Working class, 5. Lower class"



Given our interest in the role of beliefs, it is of interest to see if these similarities extend to beliefs about the role of luck and other economic issues. The classic belief concerns the role of luck (versus effort) in the generation of income. The question usually used to capture this belief is “Why, in your opinion, are there people in this country who live in need? Here are two opinions: Which comes closest to your view? 1. They are poor because of laziness and lack of will power, 2. They are poor because society treats them unfairly”. The results are summarized in Table II. The main pattern is that the whole electorate in Argentina seems to be on the left of the political spectrum, as most people seem to believe that poverty is the result of luck (or that society treats them unfairly) rather than laziness. However, in relative terms the Peronists seem to exhibit a pattern closer to the one of the Republicans instead of the Democrats. Indeed, the biggest proportion of believers in laziness as a source of poverty takes place amongst Peronists and the Republicans. The Peronist ratio of believers in Laziness (39%) to believers in an unfair society (61%) is 0.64, whereas amongst Non-Peronists it is 20% to 80%, for a ratio of 0.25. On the other hand the percentage of believers in laziness (unfair society) amongst the Democrats is 49% (51%), whereas amongst the Republicans is much higher 75% to 25%. Focusing on the ratios of laziness to unfairness, the Democrats have a ratio of 0.96, whereas that for the Republicans is 3.

As another illustration, Table II considers the question “Generally speaking, would you say that this country is run by a few big interests looking out for themselves, or that it is run for the benefit of all the people?” with answers “1. Run by a few big interests, and 2. Run for all the people”. Again we find that the two groups in Argentina (Peronists and Non Peronists) tend to give the answer that is presumably on the left of the political spectrum (Run by a few big Interests), but the relative position of Peronists in Argentina is more like the relative position of Republicans than of Democrats.

Table III considers several beliefs that are relevant to understanding Peronists beliefs and values. They all point out in a similar direction in relative terms: the Peronists (relative to the opposition) tend to look like the republicans (relative to the Democrats). In all cases the ratio in Argentina and in the US are on the same side of 1. Take for example the idea that workers should follow instructions at work. We split answers into two groups, those answering “they should” on the one hand and those that answer either “it depends” or “they should be convinced first”. The majority of republican voters (77% of them, or in a proportion 3.35 to 1), perhaps not surprisingly, tend to answer that workers should follow instructions. Democrats have a similar position but less intense (the proportion is under 1.4 to 1). So, in relative terms, Republicans are somewhat more likely to agree with this statement. In Argentina we have the opposite absolute tendency: most people disagree with this statement, as reflected by both Peronists and Non-Peronists having ratios that are lower than one. However, the ratio for Peronists is somewhat higher than that for Non Peronists, suggesting that in relative terms, Peronists are more likely to agree with the idea that workers should follow orders than Non Peronists, which is somewhat surprising given Peronist’s affinity with labor causes, at least as detected in Peron’s speeches.

The rest of Table III investigates a number of other beliefs and values appearing in Peron's speeches. For example, he discusses competition on his speech of March 5, 1952 "Progress and individual prosperity cannot be based rationally in the harming of others because that unleashes an egoist and merciless struggle, which cancels all cooperation, destroys solidarity and ends in dissociation". The beliefs covered in the Table include those related to the role of luck versus effort in the determination of income and the role of others in affecting individual fates (already discussed), as well as those related to feminism (Jobs for Men), authoritarian views (Respect for Authority), materialism (Less Emphasis on Money), honesty (Acceptable to Cheat), competition (Competition is Harmful) and economic organization (Ownership of Business). In all cases, the answers given by Peronist voters (relative to those given by the opposition) are similar to the answers given by Republicans (relative to the Democrats).

In brief, the evidence from the 1990's suggests that the opposition to Peronism is on the ideological left, even though they are on higher income and educational achievement than the Peronists. If it is true that the opposition to Peron came from the conservatives, then it is plausible to conclude that Peronism has experienced less ideological change than the rest of the country.

#### V. A Model of Labor Market Exploitation based on Altruistic Preferences

The previous sections highlight the role of several elements that are non-standard in economic models. Two that are of particular interest to us are the idea that there is something more to market transactions in the labor market than just the exchange of work for money. There is also the possibility of exploitation, connected to firms owners who do not care about the welfare of their workers. The speech of August 9, 1950 is typical. Note that the part where Peron states "Workers confronted the situation but the result was several thousand men dead. The oligarchs were all home doing the 'five o' clock tea'." he says "five o'clock tea" in English, which serves to stress the contrast the fate of workers whose life is in danger while the employers are oblivious to their predicament and more preoccupied with engaging in a social practice that is the norm in England. Accordingly, the model we develop is one where there is the possibility of worker exploitation by "unkind" elites, and Peron's punishment of these elites provides increases in worker total utility through an emotional (non-material) channel.

The model in this section is an adaptation of the model in Di Tella and Dubra (2009) to labor markets. It stresses the idea that a policy that may not be optimal under "standard" models (that ignore emotions), may become optimal if workers experience anger when they are exploited, and the government knows it. In order to make our point, we introduce emotions in the form of worker anger at perceptions of insufficient firm altruism (as in Levine, 1998 and Rotemberg, 2008) in a textbook version of Salop (1979).

There are  $n$  workers, each characterized by a parameter  $x$  interpreted, as either a

- 1) "preferred variety; preferred workplace" this can represent
  - a. A taste for working in one industry over another
  - b. A cost of reconverting the workers' human capital to another industry.

2) "location parameter; how far away do I live from my workplace".

For each worker, his location is drawn from a uniform distribution on the circle of circumference 1. There are  $m$  evenly distributed firms along the circle (there are  $m$  firms, but we use  $b=1/m$  as the relevant parameter measuring concentration); firms are of one of two types, altruistic or selfish. Workers can supply either one unit of labor, or 0; this binary choice is a simplification, which is in line with the indivisibilities postulated in Hansen (1985). Individuals' gross utility of not working is  $s$ ; when they work, if they have to travel a distance  $x$  (or they are  $x$  away from their preferred job) and they receive a pay of  $w$ , their net surplus is  $w-tx-s$  (i.e. they have a transport cost of  $t$  per unit of distance traveled).

In addition to these material costs, the worker may become angry with the firm for which he works. There are several reasons why incorporating emotions in this setup makes sense. First, simple introspection tells us that we don't always do what is best from a narrowly defined "economic" perspective. Second, a large body of literature has shown in the laboratory that individuals don't always maximize the amount of money they receive (even when the choices don't involve effort), and that emotions play a significant role. This reaction has been modeled as a preference for fair outcomes (see, for example, Fehr and Schmidt, 1999), or in the above cited papers by Levine (1998) and Rotemberg (2008) who show how the introduction of a reciprocal altruism term in the utility function can explain quite well the seemingly paradoxical evidence from ultimatum games. Finally, a third motivation to include emotions in our model of the labor market is that Peron's speeches contain several direct references to the effect of Peronist policies on emotions. For example, he states:

What is the social economy? It is a change in the old system of exploitation, not like the communists want, but in a gentler form. The capitalist regime is an abuse of property. The communist solution is the suppression of property. We believe the solution is not the suppression of property but rather the suppression of the abuse of property. ... We are not involved in social ordering that will take the country into a fight but rather to calmness. June 24<sup>th</sup>, 1948.

If a worker is angry, we must subtract to his utility, a term  $\lambda(\pi+p-w)$  where  $p$  is the productivity of the worker in the firm and  $\pi$  is the profit the firm obtains from the other workers. This term is just a "spite" term: when angry, the worker dislikes the firms making a profit, and he is angrier when he contributes to those profits. What triggers anger is that the individual rejects the hypothesis that the firm is altruistic.

In this market, firms choose wage levels (i.e. it is not a competitive market)  $w$  and get in exchange a product of  $p$  per worker, so when total employment is  $E$  its profits are  $(p-w)E$ . If the firm is not altruistic, that is all there is in the firms' utility (utility = profits). If the firm is altruistic, its utility is profits plus a term that depends on the utility of the worker. The altruistic firm has a cost of  $\alpha$  if worker utility is lower than a certain level (this level is exogenous for this model, but can come from learning, adaptation,

history, etc). We call the threshold  $\tau$ ; we will set it to be the utility the worker would obtain in a “fairly competitive” labor market (see below).

In what follows, and without loss of generality, we normalize  $t = 1$  and all other parameters are just “normalized by  $t$ ”. This normalization is completely general. We also assume (without loss of generality) that the number of workers is  $n=1$ .

## Equilibrium

We will analyze a signaling game, in which firms, when choosing a wage level, signal their type. An equilibrium in this setting is a triplet  $[e(w,x;\mu), w(\vartheta); \mu(w)]$  where:

- $e(\cdot)$  is an "employment" decision strategy (the same for all workers; we are looking at symmetric equilibria) as a function of wage, tastes  $x$  (or distance) and beliefs  $\mu$  (of whether the firm is altruistic or not) into  $\{0,1\}$ , where  $a=1$  means "work" and  $a=0$  means "don't work";
- $w(\cdot)$  is a function that maps types into wages (one wage for each type; the same function for all firms);
- $\mu(\cdot)$  is a function that maps wages into  $[0,1]$ , such that  $\mu(w)$  is a number that represents the probability that the worker assigns to the firm being altruistic.
- $e$  is optimal given  $x, w$  and  $\mu$ ;  $w$  is optimal given  $e$  (and other firms playing  $w$ );  $\mu$  is consistent (it is derived from Bayes' rule whenever possible).

We will focus on equilibria where beliefs are of the sort “I reject the firm is altruistic iff its wage  $w$  is such that  $w < w^*$ ” for some  $w^*$  (it may be a target wage). We are ruling out (for example) equilibria in which the worker rejects that the firm is altruistic if the firm pays a wage  $w > w^*$  (i.e. the worker comes to believe the firm is selfish even if it is paying a wage above the “target” wage; which would be of course unnatural); in standard signaling models, beliefs like these may still be part of an equilibrium, because in equilibrium one does not observe wages  $w > w^*$  and so the consistency condition (that beliefs be derived from Bayes rule) places no constraint on beliefs.

## Oligopoly

In this section we characterize the pooling equilibria in an oligopoly. Of course, there may be separating equilibria too. But we focus the analysis of pooling equilibria for four reasons.

1. The first is "analytic": we want to know whether the set of parameters for which there exists a pooling equilibrium shrinks as the number of firms decreases; since there is no anger in pooling equilibria, this would establish that the "chances" of anger appearing are larger when there is less competition.
2. The second reason for focusing on pooling equilibria is “historic”: in Peron’s speeches there is a reference to the possibility that capitalism works well in some circumstances (for example, there is a

reference to this “calmness” in the speech of May 1<sup>st</sup> 1945). This “benchmark” case, from which the local elites have departed, is represented as a pooling equilibrium.

3. The third is to avoid making choices that would need to be made, and that however we resolved them, would leave some readers unsatisfied. Take for example the following. In a separating equilibrium, workers are angry at some firms; when they are, the optimal wage by the firms is higher (than if they are not); this leads to a larger material utility for workers. This leaves us with the conundrum that selfish firms are giving to their employees a higher material utility, and yet they are angry. This begs the question: are workers (in reality, not in the model) angry because the firm is selfish, or because the firm acts in ways that harms its employees? Put differently, would you be angry at somebody you know is nasty, but is temporarily pretending to be nice (not because he is trying to change, but just to avoid some punishment)? Psychological research has not answered this question in a satisfactory manner yet.

4. The final reason is tractability: in a separating equilibrium when there are many firms the patterns of combinations of firms becomes complicated (a selfish firm surrounded by two selfish firms, or by one selfish and one altruistic, or by two altruistic, etc; similarly for an altruistic firm and its neighbors). In ex-ante terms, though, each firm does not know whether its neighbors will be of one kind or the other.

### Pooling Equilibria

Our first step is to find necessary conditions under which a wage  $w^o$  is part of a pooling equilibrium in which workers attain their target level of utility. Consider a firm who maximizes profits in a deviation from a pooling equilibrium with wage  $w^o$  (we are not including a utility cost of the deviating firm, since we assume for the time being that the equilibrium is such that workers attain their target utility level  $\tau$ ). If the firm increases its wage, workers won't be angry. In that case, labor supply is given by the sum of all (unit) supplies of workers who are closer to the deviating firm than the two workers (one to each side) who are indifferent between working for the firm we are analyzing and working for its neighbor:

$$w - s - x = w^o - s - (b - x) \Leftrightarrow S = 2x = b + w - w^o$$

Profits are then

$$(p - w)(b + w - w^o).$$

When the firm maximizes this expression, we obtain an optimal wage of

$$w = \frac{p + w^o - b}{2}$$

For the firm not to want to deviate from  $w^o$ , it must be the case that this optimal wage is lower than  $w^o$ , or equivalently

$$p - b \leq w^o \quad (1)$$

In words, if the oligopoly wage is too low, the firms are better off increasing their wage, and workers will not punish them (by getting angry). If the firm lowers its wage, consumers become angry, and labor supply is given by the condition that

$$w - s - x - \lambda(p - w) = w^o - s - (b - x) \Leftrightarrow S = b + (1 + \lambda)w - \lambda p - w^o$$

In that case, profits are

$$(p - w)(b + (1 + \lambda)w - \lambda p - w^o).$$

For the firm not to want to deviate and offer the optimal wage in this deviation,

$$w = \frac{w^o - b + p(1 + 2\lambda)}{2(1 + \lambda)} \Rightarrow \pi = \frac{(b - w^o + p)^2}{4(1 + \lambda)}$$

it must be the case that profits in the equilibrium are larger than these deviation profits. Formally,

$$(p - w^o)b \geq \frac{(b - w^o + p)^2}{4(1 + \lambda)} \Rightarrow w^o \leq p - b[1 + 2\lambda - 2\sqrt{\lambda(1 + \lambda)}] \quad (2)$$

Notice that when  $\lambda = 0$  (the standard Salop case), we obtain

$$w^o = p - b$$

An additional restriction is that for a given  $\tau$ , as we decrease the number of firms the wage must also increase to achieve the target utility. Worker utility (in a pooling equilibrium with wage  $w^o$ ) is the number of firms,  $1/b$ , times the total utility of workers hired by each firm (the 2 is because each firm hires workers to both sides):

$$\frac{2}{b} \int_0^{\frac{b}{2}} (w^o - s - x) dx = w^o - s - \frac{b}{4}$$

This utility is larger than  $\tau$  if and only if

$$w^o - s - \frac{b}{4} \geq \tau \Leftrightarrow w^o \geq \tau + s + \frac{b}{4} \quad (3)$$

We now present one important result: as competition decreases (enough), anger is more likely. The following proposition shows that as competition decreases, a pooling equilibrium is less likely. But since

pooling equilibria have no anger, and separating equilibria do (in expected terms there will be some selfish firms), when pooling equilibria disappear, anger appears.

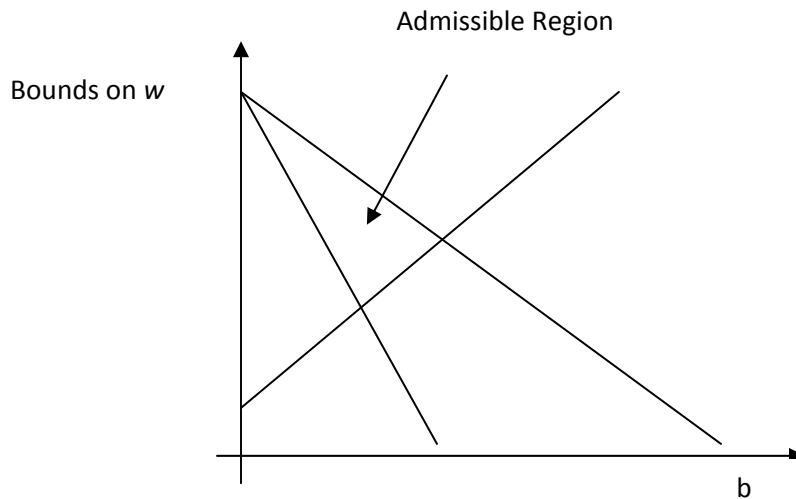
**Proposition 1.** There is a critical  $n^*$  such that for all  $n' > n \geq n^*$ , the set of pooling wages is smaller when there are  $n$  firms than when there are  $n'$ . That is, as competition decreases, anger is more likely.

**Proof.** Define  $b^*$  so that equations (3) and (1) hold with equality and are equated:

$$\tau + s + \frac{b^*}{4} = p - b^* \Leftrightarrow b^* = \frac{4}{5}(p - s - \tau)$$

Let  $n^* = 1/b^*$ . For  $b^* > b$  the set of equilibrium wages is increasing in  $b$  (decreasing in  $n$ ) because: equation (3) is not binding; the slope of (2) is smaller (in absolute value), than the slope of (1). QED

The plot below illustrates the three constraints on  $w^o$  imposed by equations 1-3. The wage  $w^o$  must lie between the two loci with negative slopes (the flatter one is equation 2 and the steeper, 1) which arise from the firms' incentives not to deviate. The wage must also lie above the positively sloped constraint (equation 3 that arises from the condition that fewer firms imply higher wages if workers are to obtain their target utilities).



Next we present another relevant result, connecting the productivity of firms, the rise in anger, and the possible subsequent regulation. This result provides a potential explanation for why people in less developed countries don't like capitalism. If productivity is lower and more volatile in LDCs, that would explain why capitalists and capitalism are not popular.

**Proposition 2.** When productivity decreases, or when it becomes more volatile, anger is more likely.

**Proof.** When productivity decreases, the two loci of equations (2) and (1) move downwards by the amount of the decrease in productivity. Since equation (3) is unchanged, the set of pooling equilibrium wages shrinks.

A larger volatility in productivities makes it more likely that a low (pooling breaking) cost will happen, and then the selfish firms will reveal themselves as such and anger will arise. QED

An interesting point to note is that higher variability in productivity in LDCs could be the consequence of higher regulations to begin with: firms in sectors with a comparative advantage could have higher worker productivities while firms in protected sectors, lower productivities (even considering government regulations to protect them). In a sense, then, Peronism by introducing distortions generates anger towards capitalists, and perpetuates the beliefs that Peronism fostered.

The next result illustrates another obvious feature of the rise in anger: when for some exogenous reason workers become “captive” of one particular firm, anger is more likely. The mechanism is as one would expect: when worker's labor elasticity of supply decreases, local monopolies have an incentive to lower wages. The temptation may be large enough that an anger-triggering wage decrease may be profitable. In countries with concentrated industries, like Argentina, and with little inter-industry mobility, workers do not have mobility and so elasticity of supply is lower.

We model this increase in captivity by changing the cost of reconverting to another industry, while keeping rival's wages fixed. The reason for this assumption is simple: if it is suddenly harder for workers employed in firm  $i$  to work in firm  $i-1$  or  $i+1$ , those firms will keep their wages fixed: if they didn't wish to attract the marginal worker before the change in re-conversion costs, they don't want to after, so there is no incentive to raise wages; if firm  $i-1$  didn't want to lower its wage before the change in costs, they don't want to do so after, since the incentives of the marginal worker working for them haven't changed. As will become transparent in the proof, an equivalent way of modeling this is assuming that the two neighbors of the firm being analyzed move farther away, as if there had been a decrease in the number of firms.

**Proposition 3.** Assume that for a given parameter configuration, there is a pooling equilibrium with a wage of  $w^o$ . If the cost of re-converting to firms  $i-1$  or  $i+1$  increases from 1 to  $t > 1$ , but the cost to firm  $i$  remains constant, the firm's incentives to decrease its wage increase. There is a threshold  $t^*$  such that if  $t \geq t^*$  firm  $i$  lowers its wage and workers become angry.

**Proof.** When the cost of converting to firms  $i-1$  and  $i+1$  increases to  $t$ , the supply faced by firm  $i$  (after an anger triggering decrease in wage) and its profits, are

$$S = 2 \frac{w - w^o + (w - p)\lambda + bt}{t + 1} \Rightarrow \pi = (p - w)2 \frac{w - w^o + (w - p)\lambda + bt}{t + 1}$$



and the optimal wage and profit are

$$w = \frac{p + w + 2p\lambda - bt}{2(\lambda + 1)} \Rightarrow \pi = \frac{(p - w^o + bt)^2}{2(\lambda + 1)(t + 1)}$$

Notice that in the equation for the optimal wage, an increase in  $t$  is equivalent to an increase in  $b$ : a fall in the number of firms. For large enough  $t$ , these profits exceed the oligopoly profit, and the firm lowers its wage its price, causing anger. QED

In the above proposition we have assumed that workers continue to make inferences based on the equilibrium prior to the shock. Although one could argue that a new equilibrium (one with fewer firms, or with higher  $t$ ) should be the benchmark, we believe that keeping the old equilibrium beliefs is also plausible. In addition, the case of fewer firms also leads to more anger, as established by Proposition 1.

The previous proposition may be particularly relevant for the rise of Peronism and Peronist beliefs. In a time of rising speed of technological change, the cost of re-converting to other industries also rises. Hence, we may view the ascent of Peron as a consequence of the increasing exploitation by firms that had gained more power over their workers.

Any wage  $w^o$  in the range determined by equations (2) and (1) can be part of a pooling equilibrium if we choose  $\tau$  or  $\alpha$  appropriately. Note that if the firm is altruistic and it lowers its wage enough, there could be a utility cost of providing workers with a very low level of utility. Since we found necessary conditions, we focused only on the incentives of the selfish firm. When we want to build an equilibrium with a wage  $w^o$  within the range we have just identified, we need to take into account this utility cost for the altruistic firm. But choosing  $\tau$  or  $\alpha$  low enough, any one of these wages is part of an equilibrium. We do not elaborate, because the construction is simple.

### **A brief discussion of policies in this model.**

In this model there are three channels through which regulation (setting minimum wages and making a transfer to the firm) affects welfare. First, there is the standard channel: a minimum wage larger than market wages, but still below productivity increases total welfare by attracting workers to the firm (to produce something worth  $p$  at a cost in terms of lost leisure and transportation cost of less than  $p$ ). A second, quite direct and simple, channel is through the reduction in anger: since an increase in wages lowers firms' profits, and total anger depends on the size of profits, a rise in wages reduces anger and increases welfare. Finally, any channel that reduces anger (whether it increases wages or not) induces workers to start working, and that further increases welfare. The second channel does not depend on individuals changing behavior; this third channel arises because workers re-optimize. Imagine for example a policy that keeps wages at their pre-policy levels, but "expropriates" the profits from the firm (through a fine for example). In that case, in the standard model, welfare would be unchanged. In the

current model welfare increases for two reasons: first, each worker who was employed is happier, but some who were not working will now enter the workforce and become available at the fined firm.

Intuition and some simple calculations show that in this model the appeal of fines to the firms and other “populist” policies increases relative to their appeal in a setting where anger plays no role (that is  $\lambda = 0$ ). To illustrate, imagine that a policy with wage  $w$  and transfer  $T > 0$  to the firm is slightly better in terms of total welfare (in a standard model with no anger) to the policy  $(w, T = 0)$ . In the model with anger, when consumers are angry, the second policy that “beats on the firm” is preferred, since it reduces the amount of anger. This is an example of a policy that looks bad in a standard model (a bad “populist” policy), but that is potentially welfare enhancing when emotions are taken into account. Although we don’t claim that all of the bad Argentine policies are driven by attention to emotions, we believe that there is at least some truth to the idea that policies that are bad for long run material growth may be optimal when workers (or consumers more generally) are angry at certain business sectors.

## VI. Conclusions

A central observation in Argentina’s relative decline is that it was accompanied by a strong reduction in private investment: from the formidable rates of capital accumulation pre-1913 financed primarily by foreigners to the dismal later performance. Diaz Alejandro (1970) and Taylor (1994) have emphasized the low savings rate and the high relative price of capital goods pre 1960. In this study we have focused on the possibility that the decline in investment is connected to the country’s populist tradition, which helped spread interventionist policies and fueled political instability. In particular, we have tried to identify the nature of Peronist policies and the elements that made them so attractive, even when there was a clear associated material cost.

Argentina’s relative decline becomes visible in the 1930’s and appears to accelerate in the 1970’s. These two periods coincide with political instability: 1930 is the year of the first of several military coups and marks the beginning of the “infamous” decade that would set the stage for the first Peron administration; while the 1970’s is marked by the armed conflict involving left wing guerrillas and the military (and paramilitary) forces which led to the military coup of 1976. Indeed, following Peron’s ascent to the labor secretary in 1943, Peronism has been the preeminent political force in the country, leading many to assume that no government could succeed without its explicit support. One reason for its enduring legacy is that Peron’s interventionist policies were in tune with the times: after the 1930’s, the increased presence of the State the economy was the norm, both in Argentina and in other countries. But there are other factors that have made Peronist policies attractive to voters for such a long period of time, even if they have contributed to its relative material decline. In this paper we focus on three elements that help us throw light on the nature of Peronist policies and their enduring significance.

First, we study some beliefs and values about the economic system present in Peron's speeches during the period 1943-55. We emphasize that Peron appears to be concerned with the income generating process, and note that he insists on the possibility that it is influenced by "others" and of there being "exploitation". Indeed, whereas economists have emphasized the role of luck versus individual effort in the determination of income and how beliefs about their relative impact can affect economic system (see for example, Piketty, 1995), it seems that Peron is focused on the influence of actors (elites, foreigners) and how they can corrupt authorities and change the income of Argentines (as in Di Tella and MacCulloch, 2009). This provides one possible explanation for why the process of learning in policymaking might be less rational than the one described in Buera, *et al* (2010), in particular because it is affected by attempts to understand/discover the intentions of different political actors (which by their very nature are hard to verify). In Peron's speeches, there are also a number of references to the idea that labor relations can have non-monetary dimensions and the speeches connect exploitation to this "non-material" dimension. This (trivially) explains why markets that are interpreted (and regulated) in this way may perform poorly (from a material standpoint).

Second, we study survey data for the 1990's on the beliefs of Peronist and Non Peronist voters in Argentina and Democrat and Republican voters in the US. While Peronist have low income and education relative to the opposition (so that they look like the US Democrats), their beliefs and values suggest that Peronists are the Argentine equivalent of the Republicans. For example, whereas all respondents in Argentina tend to believe that the poor are unlucky rather than lazy, Peronists (just like Republicans in the US) are somewhat more inclined than the opposition (e.g., Non-Peronists) to believe that the poor are Lazy. In other words, while the opposition to Peron during 1943-55 came from the conservatives, the opposition to Peronism in the 1990's comes from the left of the ideological spectrum. It is worth reiterating that in both periods, the Peronists seem to have lower income and educational achievement than the opposition. This suggests, at the very least, that the Peronists are changing less in terms of political ideology than the opposition.

Finally, given that these beliefs are non-standard (for economists), we present a model formalizing the possibility that they are sub-optimal from a narrow material perspective, but that they may be associated with improved well-being (for example, they reduce anger at aspects of economic organization). In particular, we present a formal model of "exploitation" in the labor market where agents derive pleasure from treating well (badly) those that have behaved well (badly) towards them. Firms are of two types: one is a standard firm which might "exploit" the worker by paying him/her the minimum possible wage, whereas the other type of firm "cares" for the worker. Even with few "altruistic" firms, the equilibrium might involve no exploitation, as long as there is sufficient amount of competition. With monopsony power, the "good" equilibria break down and there is scope for regulation (of the kind proposed by Peron in his speeches) that generates first order welfare gains (beyond Harberger triangles). We note that a firm might be exploiting workers even if it is paying the same wage than other firms, as long as workers believe this firm is doing it out of "unkindness" (formalized as reciprocal altruism).

Appendix 1: Peron's Speeches quoted in the text

***“Cuidaremos el factor brazo y haremos una Argentina de hombres libres”, 15 de octubre de 1944.***  
*Buenos Aires, 1944, Secretaría de Trabajo y Previsión, Difusión y Propaganda.*

***“Las reivindicaciones logradas por los trabajadores argentinos no podrán ser destruidas”, 1 de Mayo de 1945.***  
*Buenos Aires, 1945, sin datos de imprenta.*

***Discurso pronunciado en el Congreso de la Nación, 21 de Octubre de 1946,*** *Habla Perón*, *Subsecretaría de Informes, Buenos Aires.*

***Discurso pronunciado en el Congreso de la Nación, al declarar inaugurado el período de sesiones, 1 de Mayo de 1947,*** *Los Mensajes de Perón, Serie Azul y Blanca, Mundo Peronista Ed., Buenos Aires, 1952.*

***Manifestaciones del general Perón ante los representantes patronales de la Producción, Industria y Comercio de la Nación, 24 de Junio de 1948,*** *Habla Perón*, *Subsecretaría de Informes, Buenos Aires.*

***“Perón, leal amigo de los trabajadores del campo”, 5 de Marzo de 1950,*** *Subsecretaría de Informaciones de la Presidencia de la Nación.*

***Discurso pronunciado en el Congreso de la Nación, al declarar inaugurado el período de sesiones, 1 de Mayo de 1950,*** *Los Mensajes de Perón, Serie Azul y Blanca, Mundo Peronista Ed., Buenos Aires, 1952.*

***“Economía y sindicalismo justicialista”, 24 de Mayo de 1950,*** *sin datos de fecha de publicación ni de imprenta.*

***“La CGT escucha a Perón”, 9 de Agosto de 1950,*** *sin datos ni de fecha ni de imprenta.*

***“Una etapa más en la ejecución de la doctrina peronista en el orden económico”, 7 de Febrero de 1950,*** *Subsecretaría de informes de la presidencia de la Nación.*

***“Perón habla sobre la organización económica del país”, 12 de Mayo de 1950,*** *sin datos ni de fecha ni de imprenta.*

***“Perón y Eva hablan en el Día de los Trabajadores”, 1 de Mayo de 1951,*** *Presidencia de la Nación, Subsecretaría de Informaciones.*

***Discurso pronunciado el 5 de marzo de 1952,*** *sin datos de imprenta ni de fecha.*

***Discurso pronunciado en el Congreso de la Nación, al declarar inaugurado el período de sesiones, 1 de Mayo de 1952,*** *Los Mensajes de Perón, Serie Azul y Blanca, Mundo Peronista Ed., Buenos Aires, 1952.*

## Appendix 2: Definitions of Variables used (form the World Values Survey)

*Poor are Lazy* refers to the question: “Why, in your opinion, are there people in this country who live in need? Here are two opinions: Which comes closest to your view? 1. They are poor because of laziness and lack of will power, 2. They are poor because society treats them unfairly”. Group 1 is that answering option 1, while Group 2 is that answering option 2.

*Run by a few big Interests* refers to the question: “Generally speaking, would you say that this country is run by a few big interests looking out for themselves, or that it is run for the benefit of all the people? 1. Run by a few big interests, 2. Run for all the people”. Group 1 is that answering option 1, while Group 2 is that answering option 2.

*Workers Should Follow Instructions* refers to the question: “People have different ideas about following instructions at work. Some say that one should follow one's superior's instructions even when one does not fully agree with them. Others say that one should follow one's superior's instructions only when one is convinced that they are right. With which of these two opinions do you agree? 1. Should follow instructions, 2. Depends, 3. Must be convinced first.” Group 1 is that answering option 1, while Group 2 is that answering options 2 and 3.

*Jobs for Men* refers to the question “Do you agree or disagree with the following statements? When jobs are scarce, men should have more right to a job than women. 1. Agree, Neither Agree nor Disagree, 3. Disagree”. Group 1 is that answering option 1, while Group 2 is that answering option 3.

*More Respect for Authority* refers to the question: “I'm going to read out a list of various changes in our way of life that might take place in the near future. Please tell me for each one, if it were to happen, whether you think it would be a good thing, a bad thing, or don't you mind? Greater respect for authority. 1. Good, 2. Don't mind, 3. Bad”. Group 1 is that answering option 1, while Group 2 is that answering option 3.

*Less Emphasis on Money* refers to the question: “I'm going to read out a list of various changes in our way of life that might take place in the near future. Please tell me for each one, if it were to happen, whether you think it would be a good thing, a bad thing, or don't you mind? Less emphasis on money. 1. Good, 2. Don't mind, 3. Bad”. Group 1 is that answering option 1, while Group 2 is that answering option 3.

*Acceptable to Cheat* refers to the question: “Please tell me for each of the following statements whether you think it can always be justified, never be justified, or something in between, using this card. Cheating on taxes if you have a chance (scale 1 to 10 is shown with Never Justifiable below 1 and Always Justifiable below 10)”. Group 1 is that answering options 1 and 2, while Group 2 is those answering options 3, 4, 5, 6, 7, 8, 9 10.

*Competition Good* refers to the question: Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between. A scale is shown with a 1 to 10 scale with the words “Competition is good. It stimulates people to work hard and develop new ideas” below 1 and “Competition is harmful. It brings out the worst in people” below 10.

Table I: The Education and Income of Peronists and Democrats

|   | <b>Peronists</b> | <b>Non Peronists</b> |  | <b>Democrats</b> | <b>Republicans</b> |
|---|------------------|----------------------|--|------------------|--------------------|
| Percentage of group answering Family income is in Lowest 5 of 10 categories | 69               | 59                   |  | 42               | 29                 |
|   |                  |                      |  |                  |                    |
| Percentage of group answering education is in Lowest 6 of 9 categories      | 88               | 69                   |  | 56               | 47                 |

Note: Peronist (Non-Peronist) is the sub-sample of Argentines that declare an intention to vote for the Peronist Party (Any party that is not the Peronist Party). Democrats (Republicans) is the sub-sample of Americans declaring an intention to vote for the Democrat (Republican) Party. Family Income is the respondent's answer to a question about total family income. Education is the respondent's educational achievement.

Table II: The Beliefs of Peronists and Democrats: Luck vs Effort

|                            | <b>Peronists</b> | <b>Non Peronists</b> |  | <b>Democrats</b> | <b>Republicans</b> |
|----------------------------|------------------|----------------------|--|------------------|--------------------|
| Laziness                   | 39               | 20                   |  | 49               | 75                 |
| Unfair Society             | 61               | 80                   |  | 51               | 25                 |
| Ratio                      | 0.64             | 0.25                 |  | 0.96             | 3                  |
|                            |                  |                      |  |                  |                    |
|                            | <b>Peronists</b> | <b>Non Peronists</b> |  | <b>Democrats</b> | <b>Republicans</b> |
| Run by a few big Interests | 71               | 95                   |  | 76               | 68                 |
| Run for all                | 29               | 5                    |  | 24               | 32                 |
| Ratio                      | 2.4              | 19                   |  | 3.2              | 2.1                |

Note: (1) Peronist (Non-Peronist) is the sub-sample of Argentines that declare an intention to vote for the Peronist Party (Any party that is not the Peronist Party). Democrats (Republicans) is the sub-sample of Americans declaring an intention to vote for the Democrat (Republican) Party. (2) "Laziness" is the fraction of these groups answering "They are poor because of laziness and lack of willpower" to the question "Why in your opinion are there people in this country who live in need?", whereas "Unfair Society" is the group answering "They are poor because society treats them unfairly". (3) "Run by a few big interests" is the group giving that answer to the question "Generally speaking, would you say that this country is run by a few big interests looking out for themselves, or that it is run for the benefit of all the people?"

Table III: Beliefs in Argentina and the US: Peronists look like Republicans

|                                    | Argentina<br><b>Ratio</b><br>(Peronist/Non-Peronist) | United States<br><b>Ratio</b><br>(Republican/Democrat) |
|------------------------------------|--|--|
| Poor are Lazy                      | <b>2.6</b> =0.64/0.25<br>0.64=39/61; 0.25=20/80      | <b>3.1</b> =3/0.96<br>3=75/25; 0.96=49/51              |
| Workers should follow instructions | <b>1.6</b><br>=0.81/0.51; 45/55;34/66                | <b>2.4</b><br>=3.35/1.4, 77/23;58/42                   |
| Run by few big interests           | <b>0.1</b><br>=2.4/19; 71/29;95/5                    | <b>0.7</b><br>=2.1/3.2, 68/32;76/24                    |
| Jobs for Men instead of women      | <b>2.1</b><br>=0.59/0.28, 34/58;20/71                | <b>1.3</b><br>=0.37/0.3, 23/63;21/71                   |
| More respect for authority         | <b>4.4</b><br>=15/3.4, 75/5;54/16                    | <b>2.2</b><br>=28/12, 84/3;75/6                        |
| More importance of money           | <b>0.5</b><br>=3.3/6.5; 66/20;72/11                  | <b>0.8</b><br>=9.6/11, 67/7;70/6                       |
| Acceptable to cheat                | <b>1.9</b><br>=4.9/2.6, 83/17;72/28                  | <b>1.2</b><br>=6.1/4.9, 86/14;83/17                    |
| Competition good                   | <b>1.2</b><br>=1.2/1, 55/45;50/50                    | <b>2.1</b><br>=2.7/1.3, 73/27;57/43                    |

Note: Note: (1) Peronist (Non-Peronist) is the sub-sample of Argentines that declare an intention to vote for the Peronist Party (Any party that is not the Peronist Party). Democrats (Republicans) is the sub-sample of Americans declaring an intention to vote for the Democrat (Republican) Party. (2) Definitions of beliefs in the appendix.



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