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## ➤ Pre-peronist Argentina and the Origins of IAPI

Shortly before assuming office in June 1946, Juan Domingo Perón had the outgoing president, General Edelmiro Farrell, sign a highly controversial decree that established the *Institute for the Promotion of Foreign Trade (Instituto Argentino para la Promoción del Intercambio)*. IAPI, as it came to be known as, took control over foreign trade and became one of the major policy tools for the incoming Peronist government.

On the import side, IAPI was supposed to secure Argentina's requirements of essential products, a rather difficult task in view of the international supply shortages during the early postwar period. On the export side, and more important still, IAPI controlled close to all of Argentina's traditional export products (grains, meat and oilseeds)<sup>1</sup>. According to the government, the new trade agency served three major goals: a) to guarantee stable prices for the producers and, hence, to minimize their risks; b) to make sure that the profits that had formerly been siphoned off by large transnational corporations such as *Bunge & Born* would hitherto remain in Argentina; and c) to secure higher prices for Argentina's producers on the world market (Lattuada 1986: 85). Since during the war the country's major customers had set up centralized procurement agencies such as the *Allied Combined Food Board* to secure their import needs, the Peronist administration sustained, it was necessary to establish a central export agency "[...] capaz de defender las cotizaciones de nuestra producción nacional, fijándolas en niveles de paridad real con la de los principales artículos que se importaban de los países consumidores"<sup>2</sup>.

Although heralded as beneficial to the nation as a whole and to agrarian producers in particular, IAPI met severe resistance in the countryside. Not only was it criticized by the "traditional oligarchy" of large landowners, as Perón's supporters claimed, but by a broad coalition of producers. What raised most criticism was the fact that the prices offered to local producers were considerably below international levels. When in 1948, to give but one example, IAPI bought wheat at about 20 pesos/100 kg, it sold this wheat for more than 60 pesos abroad. Table 1 plots the difference between IAPI's buying and selling rates for some of the more important products. Since world market prices for agricultural products reached record levels in the immediate postwar period, IAPI produced handsome profits for the state, particularly through the export monopoly for grains and oilseeds<sup>3</sup>.

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<sup>1</sup> Wool was the only major export product not under IAPI's control. For a more detailed description cf. Novick 1986.

<sup>2</sup> Quoted in Novick 1986: 36.

<sup>3</sup> IAPI's control over the meat sector was less clear-cut, cf. Martínez de Hoz 1967: 60-62. Available information on prices and processing costs suggests that IAPI's profits on beef, mutton and lamb were much smaller than those for cereals and oilseeds, cf. Woltman 1959: 206, 208-209.

**Table 1**  
**Internal and external prices for major export commodities (in pesos per quintal)**

	1935-39	1946	1947	1948	1949	1950	1951
<b>wheat</b>							
<b>IAPI<sup>a</sup></b>		15.0	17.0	20.0	23.0	23.5	30.5
<b>domestic wholesale price<sup>b</sup></b>	9.3	15.1	17.1	19.6	23.0	24.1	30.7
<b>export price<sup>c</sup></b>	8.6	21.9	45.5	63.3	45.2	27.5	40.9
<b>corn</b>							
<b>IAPI<sup>a</sup></b>		–	11.5	14.0	15.5	16.0	32.0
<b>domestic wholesale price<sup>b</sup></b>	6.2	17.2	10.8	12.8	15.1	15.8	26.7
<b>export price<sup>c</sup></b>	5.8	17.7	28.5	32.7	22.8	20.0	47.6
<b>linseed</b>							
<b>IAPI<sup>a</sup></b>		35.0	30.0	30.0	30.0	34.0	41.0
<b>domestic wholesale price<sup>b</sup></b>	14.3	34.7	30.0	30.0	30.1	34.0	42.7
<b>export price<sup>d</sup></b>	14.6	63.7	91.8	89.8	59.4	66.5	84.7

<sup>a</sup> Prices offered by IAPI during the harvest season (“vagón dársena”).

<sup>b</sup> Buenos Aires wholesale prices, unweighed annual average.

<sup>c</sup> Export prices were obtained by dividing total annual peso values of commodity exports by annual commodity export tonnage.

<sup>d</sup> During the period under review, only a small proportion of linseed was exported as seed. Exports prices for linseed are based on seed-equivalents for export products such as linseed oil, linseed cakes, etc.

SOURCE: Woltman 1959: 206-207; Malgesini and Alvarez 1982: 43 (for IAPI’s linseed prices in 1946).

From a macroeconomic perspective, there existed three outstanding reasons to create such an export monopsony. Firstly, as mentioned above, it served as a means to strengthen Argentina’s bargaining position in order to positively influence the country’s terms of trade. Secondly, it generated considerable funds that were more than welcome in view of the vast and costly reform program the Peronist government had just started to implement. Thirdly, IAPI served as a means to counteract inflationary pressures. By establishing a buffer between the internal and the external prices for agricultural commodities<sup>4</sup>, IAPI kept the internal prices for food artificially low and, as such, helped to stabilize the cost of living. This benefited, above all, Perón’s foremost political clientele: urban low wage households that had to spend a relatively large proportion of their income for food<sup>5</sup>.

<sup>4</sup> Although IAPI did not completely control domestic sales, the average wholesale price for products subjected to IAPI’s export monopoly gravitated toward the prices IAPI paid the producers; *cf.* table 1.

<sup>5</sup> According to the *Departamento Nacional de Trabajo*, an average working class family in the capital spent 55 per cent of total expenditure on food in 1944 (DES 1945: 38).

As is well known, Peronist economic policies encountered serious difficulties by the late 1940s. A stagnating export sector<sup>6</sup> generated insufficient foreign exchange to sustain the rapid industrialization process the new administration had thought to bring about. Severe foreign-exchange bottlenecks “strangled” the Argentine economy, as the Economic Commission for Latin America (ECLA) epitomized it<sup>7</sup>. With the *Plan Económico* of 1952 and the following *Second Five Year Plan*, the Peronist government modified its agricultural policies in order to stimulate export production. It now admitted: “[L]os precios que se establecieron no guardaban relación alguna con los beneficios de las industrias manufactureras [...], ni tampoco con los altos niveles vigentes en el comercio internacional de alimentos y materias primas agrícolas”<sup>8</sup>, and IAPI augmented its prices. Although the new course did produce some positive results in the countryside, its possible impact was counteracted by a growing overvaluation of the Argentine currency (Woltman 1959: 241-260).

Perón’s economic policies provoked harsh criticism not only by *antiperonistas*, but also by less politically committed scholars<sup>9</sup>. For some, these policies gave rise not only to sectoral imbalances and poor over-all growth rates between 1946 and 1955, but also to a socioeconomic structure that subsequently stifled Argentina’s development to the point that the country fell far behind Australia, Canada and other nations that until the 1930s had followed a similar growth trajectory. In this context, it is often implied that a different government, above all a conservative government, would have followed a fundamentally different strategy, i.e., a strategy based on exports and “[...] conducive to a reintegration of Argentina into the international system on the basis of a relatively open economy [...]” (Waisman 1987: 263).

The following pages do not intend to justify, little less to present the agrarian policies of the early postwar period as the only possible remedy or as “common sense”, as Fodor (1975) has argued<sup>10</sup>. What will be demonstrated, instead, is that Perón’s price policies for the export sector were not such a radical departure from the policies of his conservative predecessors, as they are commonly perceived. Indeed, in 1942 the conservative *concordancia* government tried to establish an export-taxing scheme (called *Impuesto Móvil a la Exportación*) that had more than a superficial resemblance to Perón’s IAPI.

This may seem somewhat bewildering since the *concordancia* is usually considered to have been the political expression of the landed elite, i.e., the Pampean export interests. Had not the conservatives, under the impact of the Great Depression, struggled

<sup>6</sup> For a more detailed discussion on the causes for the stagnation of exports cf. Barsky 1988: 31-112; Lewis 1994.

<sup>7</sup> ECLA blamed governmental disregard of the export sector and an incoherent strategy of import substitution that neglected the production of oil and other raw materials, of intermediate products and capital goods (CEPAL 1959: 30). For different interpretations of the crisis of the late 1940s and the economic instabilities of the following decades cf. Díaz Alejandro 1970: chapter 7; Mundlak et al 1989: 105-114.

<sup>8</sup> Biblioteca del Congreso/ Biblioteca Peronista: Ministerio de Economía de la Nación, *Memoria del Ministerio de Economía de la Nación, Desarrollo y ejecución del Plan de Gobierno 1947/51 y previsiones para 1952, Anexo Reservado* (Buenos Aires, undated): 255.

<sup>9</sup> For a rather partisan critique cf. Martínez de Hoz 1967: 44-68; for a more substantiated or balanced analysis cf. Woltman 1959: 185-260; Di Tella and Zymelman 1967: 502-504.

<sup>10</sup> For a different critique of Fodor’s position cf. Escudé 1988: 347-374.

to safeguard agricultural exports even if that meant to acquiesce to highly disadvantageous commercial agreements such as the *Roca-Runciman Treaty* with Britain? Indeed, the bilateral trade agreements of the 1930s do show a stern determination to maintain access to foreign markets. Yet, even the 1930s show another tendency, the inclination to manipulate the prices for traded goods in order to gain access to financial resources. The mechanism used was the exchange control system. Before presenting IAPI's direct precursor, the *Impuesto Móvil a la Exportación*, it is expedient to first turn to the 1930s in order to understand the pressures Argentina's governments faced in coping with economic imbalances before, during and after World War II.

### The 1930s and the Exchange Control System

Argentina's exchange control system was established in 1931, under the impact of the Great Depression<sup>11</sup>. After 1928, Argentina's export prices and the terms of trade experienced a steep decline, and the peso came under severe pressure. In September 1930, a military regime took control of the country, promising to restore what was perceived as sound economic principles by slashing government expenditure and reducing the public debt. Yet, as external conditions worsened, the Argentine authorities soon resorted to extraordinary measures. Determined to maintain the service of the foreign debt which required payments in foreign currencies<sup>12</sup>, they strenuously tried to stabilize the peso and in November 1931 they finally chose to license foreign exchange operations as a means to avoid further depreciation and capital outflows by forcefully adjusting the level of imports and payments to the available amount of foreign exchange<sup>13</sup>.

While the system introduced in late 1931 bolstered the government's ability to maintain its financial obligations abroad, it also had negative repercussions. Since demand for foreign exchange exceeded supply, the system resulted in a considerable backlog of "blocked funds" such as profit remittances of foreign companies that had been denied exchange. Moreover, in a world where major currencies entered into a cycle of competitive devaluations<sup>14</sup>, the artificially protected peso rapidly appreciated in real terms. This trend not only acted as an incentive to import but also as a disincentive to export and therefore weakened Argentina's balance-of-payments position. Since such a revaluation of the domestic currency tends to depress the price level of export commodities, it is not surprising that spokesmen of the crisis-ridden countryside soon began to rally for devaluation<sup>15</sup>.

Toward the end of 1933, facing persistent balance-of-payments difficulties and a profound malaise in the Pampean export sector, the *concordancia*, the heir of the military

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<sup>11</sup> On the effects of the Great Depression on Argentina cf. O'Connell 1984.

<sup>12</sup> Very few countries in Latin America maintained payments on foreign debt after 1931. For an evaluation of the (few) effects of default in the 1930s cf. Jorgensen and Sachs 1989.

<sup>13</sup> For a brief discussion of the policy options cf. Gerchunoff and Llach 1998: 115-116. The most thorough analysis of the Argentine exchange control system is still Prados Arrarte 1944.

<sup>14</sup> For a (positive) re-evaluation of *beggar-thy-neighbor-policies* in the 1930s cf. Eichengreen and Sachs 1985.

<sup>15</sup> Cf., for instance, *The Economist* 28.01.1933: 181.

regime, finally decided to act. Yet, instead of a simple and drastic devaluation, the financial reforms of November 1933 opted for a different strategy. In order to avoid an accumulation of “blocked” funds, they introduced a small “free” market to which all those who were neglected exchange on the “official” market could turn, albeit at prices considerably above the “official” rates. To encourage exports, the official exchange rate (that applied to the bulk of the country’s exports) was modestly devalued. Since this stimulus was considered to be insufficient in view of the prevalent low prices on the international markets, the government pledged to subsidize export products by offering guaranteed minimum prices<sup>16</sup>.

Such a system of subsidies was thought to be very costly. The expected heavy losses were to be financed, or so the reformers announced, through a new mechanism: by introducing a margin between the official selling and buying rates for foreign exchange. The government, controlling the bulk of total exchange dealings<sup>17</sup>, henceforth sold foreign currencies at a price substantially above the official buying rate (table 2). The new exchange control system thus produced substantial profits to be collected in an *Exchange Profit Fund (Fondo de Margen de Cambio)*.

**Table 2**  
**Average nominal exchange rates on the “official” and “free” market, 1933-1939**  
**(pesos per £ 1 pound sterling)**

Year	1 for exports	2 for imports	3 spread 1/2	4 “free” market
Nov. 1933	12.81	12.81	0.0%	
Dec. 1933	15.35	16.42	7.0%	21.03
1934	15.00	17.10	14.0%	19.93
1935	15.00	16.98	13.2%	18.63
1936	15.00	16.96	13.1%	17.87
1937	15.00	16.00	6.7%	16.46
1938	15.00	16.15	7.7%	19.12
1939	14.59	17.00	16.5%	19.21

SOURCE: Vázquez-Preledo 1976: 282-83.

The architects of this new scheme claimed that a simple and drastic devaluation was not a secure way to help rural producers. A sudden rise in prices might precipitate

<sup>16</sup> The financial reforms of November 1933 and the agricultural support programs are discussed in Prados Arrarte 1944: 83-104; Woltman 1959: 83-117; Gravil 1970; on the meat sector *cf.* Smith 1986: 144-160, 184-205.

<sup>17</sup> Only a small fraction of the foreign exchange earned through exports was allowed to be sold on the “free” market, the most important export categories being those destined to neighboring markets and those comprising non-traditional products. Throughout the 1930s, the volume of exchange traded in the “free” market was very small in comparison to the official market.

producers to sell too rapidly and, given a highly volatile market, cause a further decline. Therefore, they argued, it was better to instruct the newly created State Marketing Board for Grains (*Junta Reguladora de Granos/JRG*), to buy corn, wheat and linseed at a fixed minimum price and to cover the ensuing deficits with funds from the *Margen de Cambio*.

The new system also had a definite advantage for the administration, although this aspect was rather downplayed at the time. The *Margen de Cambio* served to compensate the government for the additional costs in its payments abroad following the devaluation of the national currency. Hence, the government could continue full payments of its obligations abroad without additional strains to the budget (Prados Arrarte 1944: 83-104).

Table 3 depicts the revenues and the expenditures of the *Exchange Profit Fund* in the 1930s. In view of the preceding paragraphs, two surprising points emerge. Firstly, total income surpassed expenditure by a wide margin, leaving a positive balance of roughly 210 million pesos by the end of 1939. Secondly, very little was actually used to bolster agriculture. Of the 578 million pesos entering the Fund until 1939, only 89 million, less than 16 per cent, were used for agricultural defense. What happened?

**Table 3**  
**Revenues and expenditures of the Exchange Profit Fund, 1933-39 (in million current pesos)**

revenue		expenditure					net	
year		exchange losses			agricultural defense	other	total expenditure	additions to fund
		1	2	3				
1933	6.1	0.0	0.4	0.0	0.1	0.0	0.5	5.6
1934	113.1	2.7	19.6	1.5	10.6	0.2	34.5	78.5
1935	118.1	3.9	31.0	23.7	5.4	0.2	64.2	53.9
1936	88.4	0.0	27.3	5.0	1.7	0.2	34.2	54.2
1937	64.8	99.5	18.9	3.9	12.6	0.3	135.2	-70.4
1938	73.0	0.0	16.8	2.8	11.5	0.4	31.5	41.5
1939	113.9	0.0	17.8	2.4	46.9	0.5	67.6	46.3
TOTAL	577.4	106.1	131.8	39.3	88.8	1.8	367.8	209.6

Exchange losses on: 1: repatriation of external debt.  
2: foreign debt service.  
3: government expenditure abroad

SOURCE: Business Conditions in Argentina No. 233 (January 1942): 2.

Contrary to what was anticipated in November 1933, the policy of guaranteed minimum prices did not require much money until the late 1930s. Shortly after the new policy was implemented, international prices started to rise again and soon stood above the minimum prices offered by the State marketing board. Prolonged, severe droughts in the United States and mediocre harvests elsewhere allowed a recuperation of Argentina's export prices. Until the agrarian year of 1938/39, when a world overproduction let

Argentine wheat prices drop to very low levels and provoked the Grain Board to buy large amounts at minimum prices at a considerable loss, these policies required very few of the available funds (Woltman 1959: 104-116).

Besides offering minimum prices, there certainly existed other initiatives worthy of public resources, such as the much announced project to construct a national system of grain elevators, a measure considered crucial for any effort to secure agriculture's long-term international competitiveness<sup>18</sup>. However, since very few of the resources gained by the *Margen de Cambio* were made available, these projects had to be scaled down for lack of funds. Hence, although the *concordancia* struggled hard to maintain access to foreign markets through a host of bilateral trade agreements such as the infamous *Roca-Runciman Treaty*, their efforts to strengthen Argentina's international competitiveness remained rather limited in view of the considerable resources taxed out of the country's international trade.

As table 3 indicates, the main function of the *Exchange Profit Fund* in the 1930s was not so much the defense of agriculture, but rather the alleviation of budget strains. Seventy-five per cent of total expenditure served to compensate for exchange losses on government transactions. The conservative administrations reckoned all payments abroad at the former gold parity and exacted the difference between that amount and the current buying rate for foreign exchange from the fund. This procedure was applied even to debts incurred after the depreciation of the peso (Woltman 1959: 125). It was also applied to the massive debt conversion scheme of 1937<sup>19</sup> when the *concordancia* "repatriated" parts of the national debt denominated in US-dollars in order to strengthen Argentina's payments position vis-à-vis the United States<sup>20</sup>.

Yet, this was not the only way the government employed the *Margen de Cambio*. It also made use of the positive balance. Whereas during the early years, the surplus was used to build up a reserve stock consisting of gold, foreign exchange or easily convertible securities<sup>21</sup>, towards the late 1930s it largely served to meet the government's requirements for cash. Because the local money market proved to be unwilling to absorb sufficient amounts of government bonds to cover budget deficits, the finance minister turned to the *Exchange Profit Fund* for their disposal, thereby increasingly immobilizing the Fund's holdings. By 1938, liquid reserves were so low that they proved to be insufficient to finance the Grain Board's wheat program<sup>22</sup>. By late 1939, liquid reserves were down to less than 12 million pesos against a total of 200 million in government bonds (table 4).

<sup>18</sup> The grain elevator project is discussed in Lewis 1990: 84-129, 508f; Woltman 1959: 121-125; Malgesini 1986: chapters C and H.

<sup>19</sup> The 1937 "repatriation" of dollar-denominated debt produced "exchange losses" of nearly 100 million pesos financed by exchange profit funds (table 3).

<sup>20</sup> Because of the growing bilateralization of Argentina's foreign trade after 1930, it became increasingly difficult to compensate the perpetual deficits in the trade and payments balance with the United States. Hence, the Argentine government tried to strengthen the payments position by reducing fiscal obligations in the USA. The occasion to do so arose in 1937, after a very favorable export performance; cf. Prados Arrarte 1944: 268-272, 337.

<sup>21</sup> In 1936, close to 168 million (91 per cent of the total balance) were held in gold, foreign exchange or convertible securities which formed an important part of the government's general holdings of foreign exchange used to counter adverse balance-of-payments shocks.

<sup>22</sup> The JRG therefore had to turn to the *Banco de la Nación* for credits.

**Table 4**  
**The Composition of the Balance of the Exchange Profit Fund, end of 1939**  
*(in million current pesos)*

Treasury notes securing loans to the Wine Regulating Board	45.2
Argentine Treasury Notes	3.9
Advances to the General Treasury	150.7
Gold and foreign exchange	3.9
Cash	8.0
<b>TOTAL<sup>a</sup></b>	<b>211.7</b>

<sup>a</sup> Including interests

SOURCE: D.S.C.D. 1940, vol. IV: 751.

Against this background, it is not surprising that agrarian circles soon lost enthusiasm about the *concordancia's* exchange rate policies. Instead of offering assistance, the *Margen de Cambio* served as an export tax, agrarian interest groups charged and demanded a return to a unified exchange rate<sup>23</sup>. Years later, one of the main architects of the reforms introduced in November 1933, Federico Pinedo, concurred with this critique when he confessed: “El alza internacional de los precios dejó libre para el Estado esa diferencia de cambio que, perpetuada –cuando ya no tenían razón de ser–, actuó como un pesado tributo a costa de los agrarios [...]” (Pinedo 1961: 114).

Such a *mea culpa*, however, was easily done decades after the events. At the time, the governing coalition certainly showed no sign of abandoning such an easy source for liquid funds. As an informed foreign observer stated: “It would be unadulterated wishful thinking to assert that the Argentine authorities would sacrifice the resources of the exchange margin even in the most favorable circumstances [...] in the foreseeable future” (Salera 1941: 249, n17). Indeed, when toward the end of the 1930s international prices again turned against Argentina’s exports and called for a wheat support program, the government, in order to keep financially afloat, raised its own profit margin by increasing the spread between buying and selling rates that had narrowed in the preceding years following favorable international conditions (table 2)<sup>24</sup>.

Whereas the 1930s certainly did not witness the massive overvaluations later administrations tolerated in their effort to remodel the economy<sup>25</sup>, the *concordancia's*

<sup>23</sup> Cf., for instance, the declarations of the *Confederación de Asociaciones Rurales de Buenos Aires y La Pampa* (CARBAP 1946: 531-536).

<sup>24</sup> After 1933, improving export conditions ameliorated the scarcity of foreign exchange, leading to a significant appreciation of the peso in the “free” market despite various efforts of the Central Bank to counteract this upsurge. The “official” market reflected this trend: the government felt compelled to lower the foreign exchange rate for imports to stay significantly below the “free” market rate. Hence, the spread between buying and selling rates diminished until 1938 when a new export and foreign exchange crisis struck.

<sup>25</sup> The massive overvaluation during the Peronist era is reflected in the “black market premium” which averaged 200 per cent in 1946-1955, according to Mundlak et al. 1989: 106.



exchange rate management discriminated against the agricultural export sector and, together with rising tariff and non-tariff barriers protecting non-traded goods, contributed to a deterioration of agriculture's internal terms of trade. Relative to other sectors, prices for agriculture performed worse than external price movements would have led to suspect (table 5)<sup>26</sup>.

**Table 5**  
**Internal and external terms of trade (*Index 1925-29 = 100*)**

year	internal tot <sup>a</sup>	external tot		ratio of internal to external tot × 100	
		A	B	A	B
1925/29	100	100	100	100	100
1930/34	66	67	76	99	87
1935/39	76	85	98	89	78
1940/44	47	67	98	70	48
1945/46	56	83	105	67	53
1947/49	61	106	126	58	48

<sup>a</sup> based on average wholesale prices 1926-29 = 100 since relevant data for 1925 are not available.

internal tot = index of agricultural wholesale prices divided by index of non-agricultural wholesale prices.

external tot = index of external export prices divided by index of external import prices.

External tot (A) based on ECLA/DNEC.

External tot (B) based on ECLA.

SOURCE: Díaz Alejandro 1970: 88-90, calculated to base 1925/29 = 100.

## World War II and the Grain Trade

During the 1930s guaranteed minimum prices had not been an overly costly policy and had only demanded a fraction of the *Exchange Profit Fund*. World War II, however, brought serious problems. Due to war-related dislocations of international trade flows and a severe scarcity of shipping space, Argentina's exports of bulky commodities such as corn were sharply reduced (table 6). Agrarian policies responded by trying to induce a shift in export production toward meat and other more profitable products, but this proved to be a difficult and complex task. Under the given circumstances, the government had little choice but to purchase surplus stocks at fixed minimum prices to

<sup>26</sup> The ratio of internal to external terms of trade is used as a proxy to measure the net impact of all government policies which modify price signals received from international markets, *cf.* Díaz Alejandro 1970: 88-91. Since the available data on Argentina's external terms of trade vary widely, table 5 presents two different series (A and B). The ratio between the internal and the external terms of trade expressed in the last two columns suggest that government policies discriminated significantly against agriculture at least since 1935/39. For similar results *cf.* Díaz Alejandro 1970: 90 and O'Connell 1984: 200-202.

avoid a collapse of the large grain-producing sector<sup>27</sup>. Until the end of the war, about 50 million tons were marketed through the Grain Board<sup>28</sup>.

**Table 6**  
**Argentina's agricultural exports 1935/39-1945 (in million tons)**

	1935-39 <sup>a</sup>	1940	1941	1942	1943	1944	1945
Agriculture (without livestock)	12.40	7.78	4.28	3.30	3.32	4.13	4.64

<sup>a</sup> average per year.

SOURCE: Anuario de comercio exterior, various issues.

During the early war years, current expenditure related to the agricultural support program not only surpassed the liquid resources of the *Exchange Profit Fund* but threatened to destabilize the country's financial institutions when the Grain Board had to turn to the banking sector for large credits to cover its operational deficits<sup>29</sup>. The situation looked particularly grim for corn: Argentina produced up to 10.4 million tons of corn per annum, much of which, for lack of storage, rotted away or was used as fuel in power plants and factories<sup>30</sup>. Hence, between 1939 and 1942 the state marketing of corn produced huge losses (table 7).

**Table 7**  
**Government purchases of grains 1938/39-1944/45. Financial results<sup>a</sup>**  
**(in million pesos)**

Harvests	corn	wheat	linseed	sunflower	barley	end-year total
1938/39	–	–96.7	–	–	–	–96.7
1939/40	–150.1			–	–	–150.1
1940/41	–166.4	22.1 <sup>b</sup>	–12.2 <sup>b</sup>	2.0	–21.1	–175.6
1941/42	–80.8	–9.2	13.2	14.9	–	–61.9
1942/43	–	27.8	23.3	–	–	51.1
1943/44	36.0	91.4	–6.2	–	–	121.2
1944/45	46.2	64.0	–4.7	–	–	105.5
TOTAL	–315.1	99.4	13.4	16.9	–21.1	–206.5

<sup>a</sup> Difference between the value of stocks bought and sold by December 1945.

<sup>b</sup> Incl. small amounts of the 1939/40 harvest.

– no purchases.

SOURCE: Schuck 1947: 57; Malgesini and Alvarez 1982: 52.

<sup>27</sup> On the effects of the war cf. Cramer 1999; Malgesini and Alvarez 1982; Egoroff 1945.

<sup>28</sup> For the volumes of JRG operations cf. Malgesini and Alvarez 1982: 47; Woltman 1959: 165-167.

<sup>29</sup> It has to be emphasized that the JRG's *cash requirements* during harvest seasons were *far* higher than the deficits listed in table 7. On the financial strains during the early war years cf. Cramer 1999: 59-61, 236-243.

<sup>30</sup> On the use of grains as a substitute for fuels cf. Malgesini and Alvarez 1982.

For various reasons, however, these strains subsided after 1942. Export volumes increased, albeit at a painfully slow pace, when the Allied naval forces gradually gained control in the Atlantic warfare<sup>31</sup>. More important, a considerable reduction in the cultivation of export crops diminished output and, hence, excess surplus. The acreage of the major export crops (corn, wheat and linseed) declined 30 per cent between 1939/40 and 1944/5 while severe droughts further diminished output in 1943 and 1945<sup>32</sup>. At the same time, domestic demand increased as farmers turned to feeding grains in their effort to intensify the production of meat<sup>33</sup>.

Yet, government losses also decreased because the Grain Board progressively turned into a trade monopoly that was able to shift its losses to domestic consumers and others. From late 1940 onward, the industries producing flour were forced to buy their supplies from the Grain Board at rates considerably above the minimum prices paid to the producers<sup>34</sup>. In November 1941, the government closed the *Mercado de Cereales a Término* and established that what little was left of Argentina's export trade in wheat and linseed was henceforth reserved to the Grain Board<sup>35</sup>. By acquiring an export monopoly, the Grain Board could fully reap the substantial margin between the domestic minimum prices and the international price levels for linseed<sup>36</sup> and wheat<sup>37</sup>. Hence, already some time before IAPI the government increasingly took over the marketing of grains first to avoid and then to recuperate the heavy losses accumulated during the early years of the war (table 7).

<sup>31</sup> After 1943, the frequency of Allied, particularly British, ships calling in Argentine harbors increased significantly despite the US boycott; for details *cf.* Cramer 1999: 367; *cf.* table 6.

<sup>32</sup> For acreage and output figures *cf.* Cramer 1999: 361f.

<sup>33</sup> Availability of low cost feed helped to more than triplicate the production of pork, *cf.* Vázquez-Presedo 1988: 82.

<sup>34</sup> For the early regulatory decrees (No. 77.549/ 20.11.1940; No. 79.720/ 12.12.1940; No. 94.834/ 01.07.1941; No. 105.816/ 14.11.1941) *cf.* Diario de Sesiones de la Cámara de Diputados (D.S.C.D.) 1942, Vol. VI: 203-207.

<sup>35</sup> The November 1941 decree sparked considerable protests in export circles, *cf.* *Boletín Oficial de la Bolsa de Comercio* 01.12.1941: 933-934.

<sup>36</sup> While the JRG bought linseed at 9.25 pesos/quintal ("vagón dársena") and, from September 1943 onward, at 12.00 pesos, the average export price was 11.10 (1941); 17.77 (1942) and 24.40 pesos/quintal (1943). Soon the linseed monopoly therefore prompted protests from the producers (*La Prensa*, 28.01.1942: 8). In view of these prices differentials, it may seem surprising that the JRG recorded losses on its linseed operations after 1943 (table 7). This, however, was due to very peculiar circumstances. Because of general supply problems during the war and the US embargo, Argentina's internal supply with fuel oil became so precarious that the government restricted linseed exports and reserved an increasing proportion of its holdings to be processed and sold as a substitute for fuel oil. Linseed oil, however, was an extremely costly substitute, and the JRG proved unable to shift all the substitution costs to the private sector (Cramer 1999: 182-184, 284-290; Egoroff 1945: 24-25).

<sup>37</sup> Of the total wheat produced during 1940-1944, about 42 per cent was exported. After 1942, the export prices were substantially above the JRG's price. Another 30 per cent was milled for domestic consumption at a 33 per cent premium over the JRG's price, and 8 per cent is estimated to have been used as seed. Hence, about 20 per cent of the 1940-44 wheat crop was a source for potential loss (Woltman 1959: 167-169). Corn was subjected to the JRG's export monopoly later, in April 1945, when external demand revived (*Boletín Oficial de la Bolsa de Comercio*, 07.15.1945: 570-575).

## The Meat Trade and the *Impuesto Móvil a la Exportación*

Whereas domestic prices for export grains suffered a severe decline during World War II, the prices for meat turned upwards as the British authorities increasingly turned to Argentina for vital supplies of meat needed to feed the civilian population and the armed forces<sup>38</sup>. Although these price increases were less pronounced than the average inflationary trend for non-agricultural commodities (table 8)<sup>39</sup>, by 1942 Argentine consumers and also the government looked with a certain apprehension upon the meat sector.

**Table 8**  
**Wholesale prices for different product groups, 1940-46**  
*(annual variation in %)*

	grains and linseed	meat	total agriculture	non-agriculture <sup>a</sup>
1940	-9.0	5.0	-3.0	9.0
1941	-11.0	9.5	-2.1	11.9
1942	1.2	27.8	11.6	23.8
1943	18.3	-1.4	8.5	6.0
1944	1.0	6.9	3.5	7.5
1945	33.7	0.6	16.8	6.4
1946	97.7	13.5	59.0	6.6

<sup>a</sup> without imported products.

SOURCE: Díaz Alejandro 1970: 438; Vázquez-Presedo 1988: 358.

Since meat made up a substantial fraction of the calories consumed by an average household, any increase in the domestic price level had a considerable impact on the cost of living. “Carne para el exterior y hambre para el interior”, complained, for instance, the Socialist *La Vanguardia* (26.10.1941: 4), giving vent to widespread dissatisfaction. According to official statistics monitoring the cost of living, by mid 1942 an average working class family in the capital had to spend 48 per cent more on meat than in 1939. In some of the provinces, the situation looked worse.

The Argentine public reacted very nervously to any sudden price increase for basic consumption goods, since these provoked fears that the war might bring back the inflation and disastrous reductions of real wages that had been associated with World War I. Moreover, the political impact of rising meat prices was magnified by the fact that

<sup>38</sup> Argentina’s exports of beef and hides were maintained at the prewar level, but exports of pork, mutton, dairy products and eggs expanded substantially. Because of the scarcity of shipping, the volume of these exports was greatly reduced by de-boning and other processes. Hence, conventional volume statistics (measuring shipments in tons) tend to underestimate the export performance. For a brief analysis of the livestock sector cf. Egoroff 1945: 25-42.

<sup>39</sup> The war afforded a close to total protection to local industries.

the producers, the *estancieros* and largely foreign-owned packing industries, commanded little sympathy in the popular arena. Their presumably rising profits were bound to be viewed as illegitimate profiteering from war conditions.

Widespread public discontent with the government's disability to protect consumers added fuel to a legitimacy crisis of dangerous proportions for the ruling *concordancia*. When some municipalities encouraged the consumption of horsemeat to alleviate shortage, they provoked a public outcry. The government decreed maximum prices. When these showed little effect, it turned to the organized *estancieros*, requiring the *Argentine Corporation of Meat Producers* to offer low-cost meat by selling directly to the public<sup>40</sup>.

Although the conservatives certainly preferred to deal with the matter in accordance with the nation's influential cattlemen, rising popular discontent pushed them to look for more forceful ways to control the price of meat. In May 1942, the government sent a bill to congress proposing a new kind of export tax, the *Impuesto Móvil a la Exportación*, promising to insulate the domestic price level from external upward pressures. Producers and packers were to receive "reasonable" prices calculated to be 20 per cent above the prewar (1937/9) average to take into account rising production costs. Should international prices move beyond this level, the government was to collect the difference<sup>41</sup>.

As table 9 indicates, by May 1942 the average prices for beef, by far the most important category, and also for mutton were already significantly above the level considered "reasonable" by the government<sup>42</sup>. Hence, the *Impuesto Móvil* threatened to tax away a considerable part of the increases registered after 1937/39<sup>43</sup>.

**Table 9**  
**The planned *Impuesto Móvil a la Exportación* and the average prices for meat in May 1942 (in pesos)**

<b>Meat: Unit:</b>	<b>beef<sup>a</sup> per kg</b>	<b>novillo/estancia<sup>b</sup> per kg</b>	<b>mutton<sup>a</sup> per head</b>	<b>pork<sup>a</sup> per kg</b>
1. 1937/39 average	0.241	0.265	8.35	0.398
2. 1937/39 average plus 20%	0.289	0.318	10.02	0.478
3. Actual prices of May 1942	0.355	0.373	16.62	0.444

<sup>a</sup> Average price paid by the packing-houses.

<sup>b</sup> Average price paid for "novillos" bought at estancias (kg/life weight).

SOURCE: BCRA. Oficina de Investigaciones Económicas, Suplemento estadístico de la Revista Económica, various years.

<sup>40</sup> For a detailed analysis of consumption patterns, the cost of living, public reactions and policies to fight inflation between 1939 and 1943 *cf.* Cramer 1999: 208-226.

<sup>41</sup> D.S.C.D. 1942 Vol. I: 541-542, Proyecto de ley, May 29.

<sup>42</sup> Only pork had shown a lesser increase, because the production of pork benefited, more than any other category, from the availability of inexpensive surplus grains for feed.

<sup>43</sup> The export unit price for meat actually rose from 0,498 pesos in 1937/39 to 0,800 pesos per kg in 1942 (Anuario estadístico, various years). Yet, these figures are misleading since meat was de-boned and processed during the war to reduce shipping volume. Therefore, table 9 does not use export unit prices to calculate the possible impact of the proposed tax but the average prices paid by the packing industries. For a contemporary assessment based on livestock auction prices *cf.* Trevisan 1942.

Technically, it was not too difficult to tax meat exports. The government did not trade in animal products as it did in grains, but became directly involved when Argentina's exportable surplus of meat was subjected to bulk negotiations with the United Kingdom after the beginning of the war. Since each agreement specified quantities and prices of products to be delivered, the government was able to rigidly control the prices of animal products destined for exports. It also was able to watch over the distribution of profits among producers and packers since the Argentine Meat Board fixed minimum prices to be paid by the *frigoríficos* for export animals of various grades and types (Egoroff 1945: 29; Woltman 1959: 158).

Whereas the immediate target of the proposed tax was meat, the *Impuesto Móvil* was to be applied to other traditional export products as soon as their prices moved beyond a pre-established limit<sup>44</sup>. Once "reasonable" prices for exports were established, the government argued, domestic prices would automatically follow: "[U]na vez establecido para cada producto el nivel razonable que conviene permitir como máximo, bastaría con que el Estado absorba el excedente para que los precios internos no sobrepasen este nivel" (Diario de sesiones de la Cámara de Diputados (D.S.C.D.) 1942, Vol. I: 541). Hence, the conservative government had devised a tax mechanism similar to the one employed later by IAPI. For reasons discussed below, however, it was unable to carry it out.

## Public Finances, Monetary Expansion and Tax Reform

While the cost of living certainly was an important issue, this was not the only motive behind the *Impuesto Móvil*. There existed other, less severe means to protect consumers such as a smaller tax on meat combined with export restrictions and subsidies for domestic consumption<sup>45</sup>. No less important was the fact that the government was in urgent need to increase revenues.

For public finances, World War II brought serious problems. Import duties, still the single most important source of federal income, declined when imports dried up due to trade dislocations brought about by the war and the US boycott against neutral Argentina<sup>46</sup>. For the same reason, the *Margen de Cambio* produced less revenue after 1940<sup>47</sup>. Although efforts to cut expenditures at first showed some effect, after 1940 the

<sup>44</sup> Non-traditional export products which had hitherto been encouraged by preferential exchange rates were to be exempted as long as their sales abroad did not show a negative impact on the cost of living in Argentina (D.S.C.D. 1942, Vol. I: 541-542).

<sup>45</sup> For alternative schemes advocated by different groups in congress *cf.* D.S.C.D. 1942, Vol. I: 145-147, May 29; D.S.C.D. 1942, Vol. I: 579-581, June 3; D.S.C.D. 1942, Vol. II: 130-131, June 24. Some critics pointed to the export tax the Yrigoyen government had established after World War I as a less severe means; *cf.*, for instance, Trevisan 1942.

<sup>46</sup> The literature on Argentina's foreign policy during World War II and the ensuing conflict with the United States is vast; *cf.*, for instance, Escudé 1988; Rapoport 1983; Newton 1992; on the economic effects *cf.* Cramer 1999: 165-204.

<sup>47</sup> With 201 million pesos, the Fund's annual revenues reached a peak in 1940 after the government had increased the spread between buying and selling rates for foreign exchange in 1939 and again in 1940. After 1940 these revenues declined rapidly, reaching a low in 1944 with 43 million; for further data *cf.* Woltman 1959: 168.

gap between revenues and expenditures widened again. Even more alarming was the rapidly increasing level of the floating debt (table 10).

**Table 10**  
**Federal budget<sup>a</sup> and floating debt, 1939-45 (in million current pesos)**

	expenditures	budget receipts	current deficit	floating debt
1939	1,460.6	1,015.2	445.4	391.5
1940	1,316.6	963.8	352.8	687.2
1941	1,367.1	910.4	456.7	943.5
1942	1,526.1	1,001.7	524.4	1,130.2
1943	1,761.3	1,024.5	736.8	1,550.8
1944	2,411.2	1,404.6	1,006.6	2,069.8
1945	2,759.3	1,491.2	1,268.1	2,484.9

<sup>a</sup> These budget data do not include the operational results of the Grain Board and other semi-autonomous institutions

SOURCE: Rennie 1947: 73; for the floating debt: Contaduría 1939-1946.

Public finances, the Argentine Central Bank warned, showed a serious and, in the long run, unsustainable deficit. While the monetary authorities stressed that deficit spending had had a positive impact in 1940/41 when it helped the Argentine economy adapt to the external shock brought about by the war, by 1942 they advocated a return to fiscal discipline. With growing concern, they pointed to a rapidly increasing money supply (table 11) that sooner or later would be difficult to control. They conceded that this development was only partially due to public deficits (BCRA 1941: 1; 1942: 8; 1944: 10). Monetary expansion was also, and to an increasing degree, a reflection of external factors. After 1940, Argentina's balance of payments showed a mounting surplus<sup>48</sup> that translated into a rapid accumulation of the country's gold and foreign exchange reserves and into monetary expansion<sup>49</sup>. Yet, while acknowledging external forces, the Central Bank argued that public policy should avoid adding further stimulus to this process: "Y siendo el déficit fiscal uno de los factores controlables, allí debiera dirigirse de preferencia el esfuerzo"<sup>50</sup>. Moreover, a reduction of public deficits was necessary for the Central Bank to make full use of the monetary tools at its disposal<sup>51</sup>.

<sup>48</sup> A steep decline in imports was the main reason for these surpluses; cf. Cramer 1999: 110, 171-180, 237-238, 268. On the particular problem of "blocked" Sterling balances cf. Fodor 1986. In this context, it is interesting to note that the proceeds from the *Impuesto Móvil* were to be earmarked to initiate a debt-conversion scheme by which the *concordancia* tried to make use of the accumulating Sterling balances to "repatriate" a part of the foreign debt held in the UK; cf. D.S.C.D. 1942, Vol. I: 540-541, Proyecto de Ley, May 29.

<sup>49</sup> On the impact of rapidly accumulating reserves in Latin America in 1939-45 cf. Triffin 1945.

<sup>50</sup> BCRA 1942: 8; cf. also Prebisch's analysis in BCRA 1972: 412-416.

<sup>51</sup> As long as the government was using domestic savings to the extent it did in order to finance public deficits, the Central Bank felt unable to use its *papeles de absorción*, a potentially powerful tool to

**Table 11**  
**Money supply and inflation, 1939-1946 (annual variation in %)**

	Money supply		wholesale	consumer prices <sup>b</sup>		
	M1	M3	prices <sup>a</sup>	capital	Córdoba	Catamarca
1939	0.4	3.1	2.6	1.5	–	–
1940	8.7	2.7	6.6	2.2	0.1	10.2
1941	29.5	13.3	9.6	2.6	7.2	9.7
1942	15.4	13.2	25.5	5.7	9.3	–0.3
1943	17.6	15.1	10.1	1.1	10.5	7.5
1944	24.5	20.1	8.2	–0.3	14.9	15.6
1945	20.8	17.4	9.0	19.8	–	–
1946	32.0	26.1	15.8	17.6	–	–

<sup>a</sup> Average Buenos Aires wholesale prices for all product categories, including imported goods.

<sup>b</sup> Variations in the cost of living for a working class family in the capital, Córdoba and Catamarca.

<sup>c</sup> Real growth of GDP (1960 prices).

– not available.

SOURCE: IEERAL 1986: 159 (M1, M3); Vázquez-Preledo 1988: 358 (wholesale prices, consumer prices in the capital); DES 1945 (consumer prices in the provinces).

Faced with growing deficits and a rapidly increasing floating debt, the *concordancia* had already in 1941 proposed a series of tax measures including a reform of the income tax (Ministerio de Hacienda 1942). In 1942, the administration restated its intention to increase taxation and added a new bill to its legislative program, the *Impuesto Móvil a la Exportación*.

All of the tax bills sparked massive protests in business quarters throughout the Republic, yet none was so controversial as the proposed tax on exports. Despite intense campaigning of both large and small business groups, finance minister Carlos Alberto Acevedo seemed to muster sufficient support for his tax reform program in congress – except for the *Impuesto Móvil*. His critics were quick to point to the fate of the *Margen de Cambio* that instead of serving the export sector had been used to satisfy the government's incessantly growing fiscal needs, and none of Acevedo's fellow conservatives dared to openly defend him in this issue. Of all factions in congress, only the small Socialist Party welcomed the bill. In the public arena, socialists, trade unions, and some popular newspapers such as *Crítica* came out to support the conservative minister. But this unusual alliance was unlikely to push congress into action. Without formally rejecting it, the legislature obviously preferred to kill the proposed export tax by simply neglecting it while positively acting on other taxation issues<sup>52</sup>. Yet, before

counteract monetary expansion. For further details cf. BCRA 1942: 20-21; 1943: 11-16; 1944: 8-12; Ministerio de Hacienda 1945: 20-33.

<sup>52</sup> Other bills proposing a new excess profit tax and a reform of the income and inheritance taxes were favorably treated in the congressional finance committee.



Acevedo could subject any of his reform bills to a final vote, in June 1943 a military coup d'état ended the conservative reign<sup>53</sup>.

### **Military Rule, the Revival of International Trade, and the Emergence of IAPI**

The new military rulers forcefully set out to tackle the economic problems the *concordancia* had left behind. They promised to severely control government spending, yet in order to curb public deficits, they also and swiftly implemented a set of tax reforms that largely rested on Acevedo's program. In contrast to the *concordancia*, the military could simply govern by decree. However, even the military shied away from the *Impuesto Móvil*<sup>54</sup>. To control the cost of living, they relied on the rigid enforcement of maximum prices and on specific export restrictions that aimed to safeguard the domestic supply of meat and other essential products<sup>55</sup>. While these efforts claimed a remarkable success in the capital, their effects were less visible in the provinces<sup>56</sup>.

However, the real test for the new government's stance toward the export sector came in 1945 when world trade revived and international prices for Argentina's agricultural commodities, particularly for grains and linseed, began to rise notably. All over the countryside, producers rallied for a liberalization of the grain and linseed trade that would allow them to sell on the open market instead of the Grain Board. After months of intense campaigning, they seemed to succeed. In August 1945, a decree announced that the subsequent harvests could be sold on the open market. Excellent market prospects, it explained, had removed the principal reason for government intervention.

This move toward a liberalization of trade, however, was reversed as early as November 1945. Just before the wheat harvest began, the government decreed that the new crop had to be sold to the Grain Board at 15 pesos per quintal. The new basic price was 67 per cent above the previous one, yet considerably below the international level and therefore sparked widespread protests among producers. Consumers, on the other hand, had to fear rising food prices, a development the military tried to prevent by pledging to subsidize the domestic milling industries at a rate of 5 pesos per quintal (Cramer 1999: 315-317; Woltman 1959: 176-177; Martínez de Hoz 1967: 37).

A few months later it became obvious that wheat was no exception. Close to all of Argentina's export products were subjected to the newly established IAPI<sup>57</sup> after recording a massive price upsurge in late 1945 and early 1946. Between November 1945

<sup>53</sup> For details on the taxation projects and the political response, cf. Cramer 1999: 238-254.

<sup>54</sup> Instead of the *Impuesto Móvil*, they chose to subject exports, like other products, to a small sales tax. For details on the tax reforms of 1943 cf. Cramer 1999: 265-267.

<sup>55</sup> For details on the export restrictions and other measures to safeguard the quantity and quality of the domestic meat supply cf. Smith 1986: 214-215; Egoroff 1945: 30; La Prensa 28.06.1944: 9, 14.08.1944: 8.

<sup>56</sup> Cf. consumer prices for 1943 and 1944 in table 11. Their success in the capital was partly due to a rigid rent reduction scheme for low cost housing implemented after June 1943. For a more detailed analysis of the cost of living cf. Cramer 1999: 212; 261-263.

<sup>57</sup> Despite high international prices, corn was added to IAPI's export monopoly later, in early 1947, presumably because the exportable surplus in 1946 was very small.

and June 1946, when IAPI started its operations, agricultural wholesale prices, led by grains and oilseeds, had increased 65 per cent on average<sup>58</sup>.

By 1945, inflation or, more precisely, the cost of living had developed into one of the major preoccupations for domestic policy. Even in the capital where a combination of rigidly enforced maximum prices and rent controls had been able to ward off inflationary pressures after June 1943, consumer prices now defied the military command and increased nearly 20 per cent in 1945 (table 11). Rapidly rising export prices now further fueled the inflationary process while the possibilities to import and, hence, to replenish the domestic market with consumer and capital goods, with intermediate products and raw materials, remained severely limited in the immediate postwar years. Given this scenario, was it not “common sense” to try to control the inflationary process by setting a ceiling to export prices, as already the conservative government had tried to do with the *Impuesto Móvil a la Exportación*?

“El problema fundamental que se plantea al país en el orden económico es el de la inflación,” the Argentine Central Bank warned in early 1946 and urged the government to adopt a thorough stabilization program. Yet, the monetary authorities did not endorse the government’s price ceilings. Their analysis presented the current upsurge in the price for grains and oilseeds as a means to redress previous imbalances and distortions vis-à-vis meat and non-agricultural products. Alluding to the wheat decree of November 1945 they argued:

Los productores de la agricultura tienen hoy amplias posibilidades de colocación y, si el alza de precios [...] se mantiene y llega a los agricultores, el equilibrio [económico, G.C.] tenderá a restablecerse. Esta posibilidad no debiera ser trabada por consideraciones relacionadas con el mantenimiento de bajos precios en los artículos de primera necesidad, pues [...] el costo de tal política no tendría que hacerse recaer exclusivamente sobre los productores del sector agrícola<sup>59</sup>.

The Central Bank did have a point. After years of extremely low prices, Argentina’s grain sector showed severe strains<sup>60</sup>. Moreover, despite the massive upsurge in wholesale prices, by 1946 *relative* prices, i.e., the internal terms of trade for grains and linseed, had just recuperated the prewar position and were still considerably below pre-depression levels (table 12). There existed other means to control inflation, the Central Bank insisted and called for a broadly conceived program containing an array of both fiscal and monetary policies combined with certain regulatory measures such as price and wage controls or subsidies. The Central Bank’s recommendations, however, found little enthusiasm in government circles. Although they were not confined to fiscal orthodoxy, they hinged upon a considerable retrenchment of government expenditures and budgetary deficits<sup>61</sup>.

<sup>58</sup> For monthly data cf. Vázquez-Presedo 1988: 358.

<sup>59</sup> BCRA 1945: 8, 9-10. This report was published in early 1946, at a time when the Central Bank had already undergone a political “purge”. Raúl Prebisch and some of his close collaborators had been dismissed in October 1943.

<sup>60</sup> BCRA 1945: 8; Lewis 1994; Lewis 1990.

<sup>61</sup> Cf. BCRA recommendations in: Ministerio de Hacienda 1945; BCRA 1945: 4-10.

**Table 12**  
**Wholesale prices and internal terms of trade for different product groups**  
*(Index 1926-1929 = 100)*

	grains and linseed		meat		total agriculture	
	wholesale	internal tot	wholesale	internal tot	wholesale	internal tot
1926-29	100.0	100.0	100.0	100.0	100.0	100.0
1930-34	64.4	64.1	77.9	77.8	65.8	65.6
1935-39	84.3	74.6	86.0	76.2	85.6	75.7
1940-44	70.0	38.4	118.1	63.2	86.9	47.2
1945	102.1	39.5	138.1	53.4	113.5	43.9
1946	201.9	77.0	156.6	59.7	180.4	68.8
1947	174.6	63.1	191.2	69.2	179.6	65.0
1948	189.4	58.2	201.8	62.0	200.8	61.7
1949	211.2	51.1	230.1	55.6	228.6	55.3

internal terms of trade = index of wholesale prices for respective product group divided by index of non-agricultural wholesale prices.

SOURCE: Díaz Alejandro 1970: 438, 458-459, calculated to base 1926/29 =100.

Instead of declining, as the regime had promised, public spending had soared after 1943. Despite a considerable growth in budget receipts following the tax reforms of 1943, government deficits increased rapidly, reaching 85 per cent of total receipts in 1945 (table 10). The single most important factor for this upsurge was military expenditure. Already under conservative rule, Argentina's armed forces had demanded an increasing proportion of the budget. While in 1939, 17.8 per cent of total outlays had been spent on the armed forces, by 1942 it were 26.3 per cent. During the following years, military expenditure grew even more rapidly with the deterioration of Argentina's foreign relations. The armed forces, moreover, felt few fiscal constraints. The increasingly isolated Farrell-Perón regime had little choice but to carefully cultivate the goodwill of the military officers through generous policies if it wanted to stay in government<sup>62</sup>. Hence, by 1945 military expenditure claimed 43.9 per cent of total outlays while the floating debt reached dangerous levels<sup>63</sup>. Given this scenario, the Central Bank rightly questioned why agricultural producers should bear the brunt of anti-inflationary policies.

While the military regime showed no sign of fiscal retrenchment, the incoming Peronist government inaugurated in June 1946 not only maintained a high level of military spending<sup>64</sup> but also turned to implement vast reform programs<sup>65</sup>. The

<sup>62</sup> On armaments, military expenditure, and the political difficulties of the Farrell-Perón regime in 1945 *cf.* Potash 1969: chapters 8 and 9; Cramer 1999: 294-298.

<sup>63</sup> For data on relative proportion of military spending *cf.* Rennie 1947: 55.

<sup>64</sup> In absolute terms, military spending continued to be high although it claimed a smaller percentage of the (rapidly growing) budget; for details *cf.* Rouquié 1986: 72-83; Potash 1980.

<sup>65</sup> For a concise discussion of economic policies after 1946 *cf.* Gerchunoff 1989: 59-85; his interpretation of agricultural prices during the early Peronist government, however, remains unconvincing; *cf.* Díaz Alejandro 1989: 86-88.

nationalization of the British-owned railways and other utilities, the massive expansion of cheap credits to accelerate industrial growth as well as generous wage policies and expanding social benefits demanded large funds. A consolidation of Peronist rule required, moreover, to control the cost of living effectively enough to allow for a definite improvement of real wages. Although Perón had been able to build up impressive support in working class *barrios* throughout the country in 1945, his political base was far from secure in June 1946<sup>66</sup>. The Peronists therefore were even less prone to liberalize Argentina's export trade and renounce an easy means to tax exports and to restrain domestic food prices.

## Conclusions

If not the only, IAPI is commonly viewed as one of the major sins Juan Domingo Perón committed in the realm of economic policy making, and many critics since then have asked why his government chose to set prices that acted as a major disincentive for the production of export commodities precisely at a time when external conditions for Argentina's exports were improving.

IAPI was one of the central mechanisms to implement a massive redistribution of income that benefited industrialists and urban consumers, particularly the urban working class, and rested on funds channeled out of the agricultural export sector and on a thorough distortion of prices. Whereas Peronist redistributive strategies at first showed impressive results in terms of (urban) employment, real wages and industrial growth, they produced serious imbalances that soon led to economic crises.

A conservative government would have certainly felt less compelled to redistribute income in favor of the working class, yet also the *concordancia* had searched for new means to tax the country's foreign trade. In the 1930s and after establishing a quasi-monopoly for foreign exchange, they introduced the *Margen de Cambio* that – against the publicly stated intentions – served predominantly fiscal needs. In 1942, they tried to enact an export tax that rested on a price mechanism very similar to IAPI. The *Impuesto Móvil a la Exportación* proposed to protect domestic consumers and increase government revenue.

Admittedly, the conservatives may not have been able to get this bill through congress even if they had stayed in office. Yet, to tax exports and control the domestic price of export commodities, the government did not have to rely on the passage of the *Impuesto Móvil*. It had other means at its disposal, most obviously in the grain trade. During the war, cereals and linseed exports were increasingly subjected to a trade monopoly that enabled the Grain Board to set differential prices. Given the sudden and steep price increases in the immediate postwar period, the government's fiscal situation and the previous conservative record, it is plausible to assume that even the *concordancia* would have chosen *not* to forsake the state export monopoly so soon.

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<sup>66</sup> The consolidation of Peronism is analyzed in: Torre and de Riz 1993: 243-253; Torre 1990: 187-254; Waldmann 1981: 230-235.

If one may argue, somewhat pointedly, that IAPI was indeed a “conservative invention”, doesn’t this suggest that the state trade monopsony and the price policies pursued were the natural policy option for Argentina? It is important to note that not only subsequent scholarship but also contemporary critics saw other options<sup>67</sup>. The Argentine Central Bank, to name but one authoritative voice, suggested different strategies to cope with Argentina’s economic difficulties. Yet, political contingencies made these alternative strategies a very difficult option to follow.

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<sup>67</sup> For a discussion of Peronist economic policies and an evaluation of alternative strategies to achieve redistributive goals cf. Mundlak et al. 1989: 105-110.

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