

RESEARCH ARTICLE

Institutional transformation and development from an economic transition perspective: the case of Argentina

Áron Perényi*, Alexis Esposto and Jill Bamforth

Swinburne Business School, Swinburne University of Technology, Hawthorn, Australia

*Corresponding author. Email: aperenyi@swin.edu.au

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Abstract

Economic reforms and political changes often take place simultaneously. The outcomes of reforms in transitional countries depend on the sequence of these changes. Kornai developed his transition framework based on Central and Eastern Europe, and extended it to Asian nations. This article builds on Kornai's model and the institutional dialogue of economic development to construct and apply a model of transformation for Latin America. The aim is to better explain the relationship between institutional transformation and developmental outcomes over time. Our analysis utilises historical information and the views of current political leaders in Argentina. The analysis performed reflects on institutional performance, and evaluates the applicability of the proposed Latin American transition framework in practice. Based on the empirical evidence presented, we argue that economic transition is a path-dependent phenomenon, and that our model explaining the interaction of economic and political changes provides an explanation for the performance of institutional transformation in Argentina.

Keywords: János Kornai; Argentina; synchronicity; institutional transformation

1. Introduction

Institutions are central to a country's economic development (Acemoglu, 2012; North, 1990). Institutional transformation allows economic and political institutions to improve their performance in driving economic development (Aoki, 2001). In this article, we build a model of institutional transformation using conceptual perspectives of institutions, economic development and transition. We use this model to try to understand the case of Argentina, a country that has experienced persistent institutional failure for several decades, in the Latin American context.

Transformation refers to the process of change necessary to facilitate transition (Kornai, 1999, 2016a, 2016b). Kornai (2008) defines transition as a multidisciplinary field, focusing on 'socialism, capitalism, democracy, change of system' (p. x). The institutions referred to in this context are defined as the 'rules of the game' (North, 1981, 2005) that drive and stimulate economic development (Acemoglu *et al.*, 2005).

Based on Kornai's (2008) Complex Transition Framework, economic and political transitions are well understood in Central and Eastern Europe (Aslund, 2002; Berend, 2009; Gros and Steinherr, 2004; Szelényi, 2004), and Southeast and East Asia (Huang, 2000; Shimomura *et al.*, 1994). Economic and political changes in Latin America have been extensively analysed (Bertola and Ocampo, 2012; Corbo, 1998; Grassi, 1998; Karl, 1990; Pogrebinschi, 2013; Remmer, 1992) and compared to Central and Eastern Europe (Lieberman, 1994; Munck and Leff, 1997). However, despite the availability of such rich scholarly work, research on the adaptation of complex models encompassing both political and economic transformation is still lacking for Latin American nations.

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Table 1. Transition and transformation studies by region and focus

	Central Eastern Europe (CEE)	Southeast and East Asia	Latin America
Political transformation or reform	e.g. Szelényi (2004)	e.g. Emmerson (1995), Preston (2017)	Grassi (1998), Karl (1990), Pogrebinski (2013), Remmer (1992)
Economic transformation or reform	Aslund (2002), Gros and Stenherr (2004)	e.g. Shimomura <i>et al.</i> (1994), Solinger (1993)	e.g. Corbo (1998), Biglaiser (2002), Bertola and Ocampo (2012)
Complex analysis	Berend (2009), Kornai (2008), Kornai (2016b)	Huang (2000), Henderson (2015)	GAP
Comparative analysis with CEE		e.g. Meyer (1993)	Lieberman (1994), Munck and Leff (1997), Higley and Gunther (1992)

Table 1 highlights the gap in the literature in a model that can provide a combined analysis of political and economic transformations in Latin America. Our paper therefore attempts to fill this gap, by designing, validating and applying a transformation model for Argentina with possible applications elsewhere.

In this paper, two research questions are formulated based on theory, and are answered using primary and secondary data. The first question explores whether a complex transformation framework can be adapted to Argentina, building on theories of transition and institutions. We seek a model that provides a way to describe and evaluate how waves of political and economic transformations follow each other.

The second question explores how this complex transformation framework can explain the prolonged transformation experience in Argentina, which has been described as a continued history of recurrent crises whose origin is explained as an ongoing struggle over the appropriateness of economic models and management (see for example Veigel, 2009 and Biglaiser 2002).

The relatively successful outcomes of transitions were characterised by synchronicity between economic and political transformation in Central and Eastern Europe (Kornai, 2006) and a controlled delay between political and economic transformations in Southeast and East Asia (Huang, 2000). We question whether this synchronicity is present in the Argentinian setting, and whether the lack of synchronicity resulted in a prolonged and unsuccessful history of transformation.

The paper starts with a review of the literature focusing on institutions (North, 2005); economic development (Acemoglu *et al.*, 2005); and Kornai's Transition Model (2000, 2006, 2008). This is followed by a validation of the analytical framework, based on a series of focus group interviews conducted with influential politicians from Argentina. Finally, a review of economic and political developments in Argentina is provided, based on secondary data, for the second half of the 20th century (1946 to 2015) to evaluate Argentina's development. This era is divided into three time periods (political and economic volatility: 1946–1976; military control, development and democratization: 1976–1989; market reform and democratic conditions: 1989–2015). The article concludes by discussing the answers to the research questions, based on the analyses conducted.

2. Theories of institutions, development and transition

The conceptual background of the analysis is constructed based on three bodies of literature. We build on the fundamental assumption that institutions are essential to economic development (Acemoglu *et al.*, 2005), and that the state plays a key role in configuring certain components of the institutional framework (Chang, 2011), which in turn influences development. Good economic institutions are

crucial to economic development (La Porta *et al.*, 1999). Acemoglu and Robinson (2010) argue that differences in economic development across countries can be explained by the differences in their economic institutions, which are closely related to collective choices and political processes. Kornai's (2008) transition framework captures these dimensions of economic and political transformation, analysing their interaction in the transformation process.

Institutions and development

A definition of institutions is considered in the analysis to encompass economic and political transformations. Iyesaka (1954) defines institutions as a body of rules, determining which behaviours are legitimate in social interaction between members of a group. North defines institutions as 'the rules of the game in a society or, more formally ... the humanly devised constraints that shape human interaction' (1990: 3). Hodgson (2003) defines institutions as systems of established social rules that structure social interactions. March and Olsen (2008) define institutions as an enduring collection of rules and practices that are embedded in steady structures of meaning and resources, and resilient to the turnover of individuals, their particular preferences or expectations, and changing external circumstances. Gagliardi (2008), based on North (1990) and Nelson's (1994) work, classifies institutions in three categories:

- (1) institutions are the rules of the game as described by North (1990);
- (2) institutions are the players participating in the game, e.g. universities, industry groups, government agencies and hospitals as defined by Nelson (1994);
- (3) institutions are the self-enforcing equilibrium outcome of the game between the beliefs of individual players, and the organizations that alter the rules of the game (Gagliardi, 2008).

In this research, we look at institutions not from the organisational point of view, but from the rules-based and behavioural perspectives, adopting the approach of Acemoglu in contrast to Kornai. These definitions outlined above share two important common elements: diffusion and historicity (Suddaby, 2014). Diffusion means that institutions progressively 'conquer' a system. This validates Kornai's transition perspective by suggesting that transformation is a process that happens over time. Historicity means that institutions are built by actual events and people in the past, to endure over time. This aligns with Kornai's transition perspective, and also demonstrates the importance of the path dependency of institutional transformation.

Street (1987) discusses the relationship between institutions and economic development. He introduces the Latin American structuralist perspective, suggesting that the economy cannot be understood in isolation from political factors. Acemoglu *et al.* (2005) argue that institutions define the economic performance of a society, which in turn determines the future availability and distribution of resources. An equilibrium between conflicting interests is determined based on the political power of various groups in a society, who use this power to build institutions and thereby determine economic development. A triad of institutional characteristics, (1) economic institutions, (2) political power and (3) political institutions, determines economic development in interacting with each other, shaping these very institutions themselves (Acemoglu and Robinson, 2010).

Economic institutions can be understood as the 'rules of the game' of economic activity driving development (North, 1990, 1991) and can be viewed as a subset of the broader institutional environment (Hodgson, 2003). Political institutions (March and Olsen, 2008) determine *de jure* political power (Acemoglu *et al.*, 2005). Societal actors react to the outcomes of economic activity (distribution of resources) and use irregular avenues (such as street protests, revolutions, protest votes) to exercise *de facto* political power. Therefore, *de facto* political power is driven by the satisfaction of society with the distribution of resources. This framework is described by Acemoglu *et al.* (2005) in further detail. Acemoglu and Robinson (2010) conclude that inequality of income can act as a system destabiliser, and redistribution of wealth can cement a new system for extended periods of time. Therefore,

institutional transformation is driven by economic performance and in particular by the nature and change of distribution of the economic results among the stakeholder groups that exercise political power.

Kornai's Complex Transition Framework

Kornai's (2000, 2006, 2008) Transition Framework originated in an endeavour to understand the planned economic system under communist rule in Central and Eastern Europe. This developed into a comparative analysis tool, evaluating the transformation between planned economies and market economies, communist and democratic political systems.

The key concepts of the complex transition framework can be grouped into two broad categories: economic and political. The political (Kornai, 1988) and economic Kornai (2000) dimensions of the transformation process are reflected in the dimensions of system attributes. Economic factors include the concepts of economic performance, budget, foreign trade, investment and treaties, labour, prices and financial system. Political factors include system prototypes, power structures, planning and control, budget, coordination mechanisms, system changes and system challenges (Kornai, 1999). Transitions take place both in the economic and political spheres (Kornai, 2010). The alignment between the components (see Table 2) of Acemoglu's institutional economics and Kornai's Complex Transition Framework demonstrates, that despite the different applied definitions of institutions, the theories are aligned, suggesting the applicability of institutional economic theory to economic and political transformation.

Latin American development

Institutional analysis has been applied to highlight characteristics of development in the Latin American context. Friedman and Hochstetler (2002) discuss the 'third transition' in Latin American society, suggesting a rich history of waves of transitions and transitional experiences in the region. Remmer (1992) speaks of a decade of democratisation in Latin America during the 1980s, following the military regimes of the 1970s. In a shift in the development model '[i]n the 1970s and 1980s away from state intervention and towards free markets, Latin America entered a phase during which many organizations were abolished, downgraded or privatized' (Thorp, 1998: 4).

In Argentina, the military regime was initiated in 1976 when a military junta put an end to the chaotic populist regime led by Isabel Perón and continued to its catastrophic end as a result of the Falklands/Malvinas war humiliation (Cavarozzi, 1991).

Democratisation can be defined as transformation of political institutions towards participation, accountability and implementation of good society-wide practices. Economic development in Latin America has also been influenced by globalisation (CEPAL, 1950). Bertola and Ocampo (2012) in their review of development of the Latin American economy specifically focus on dimensions of the economic history of the region, in terms of market reforms, development, (in)stability, institutions, industrialisation and (in)equality. These dimensions of development, which characterise Latin America, are then aligned with the key concepts of institutional economics and Kornai's Complex Transition Framework (see Table 2). Based on this theoretical background, a framework has been sought to evaluate the historical transformation path of Argentina. This complex framework has been built using focus group interviews, as described in the following sections of the paper.

3. Adaptation of the transformation framework to Argentina

Latin American countries have often been used as examples of a prolonged transformation that has resulted in poor economic performance (Lipton *et al.*, 1990). The Argentine experience is succinctly explained by Sanz Villarroya (2009) in a macroeconomic study between 1875 and 2000 highlighting that 'the institutional framework in place was not appropriate to stimulate and guarantee the nation's

Table 2. Alignment of key themes with theory

Acemoglu's institutional economics concepts	Kornai's complex transition framework	Key aspects of Latin American development	Argentine theme groups
Political institutions	The system Political power Ideology Behaviours	Democratisation Globalisation Institutions	(1) Argentine characteristics <i>What is Argentina like?</i>
Political power (<i>de jure</i>)		Participation	(2) Politics and influence <i>How do institutions work?</i>
Political power (<i>de facto</i>)		Accountability	(3) System failures <i>Why do they not work?</i>
Economic institutions	Coordination mechanisms	Market reforms	(4) Economic transformation <i>What to change and how?</i>
Distribution of resources	Property rights, outcomes	Inequality	(5) Economic policies and performance <i>How does the economy operate?</i>
Economic performance		(In)stability Industrialisation	

economic development' (p. 336). The transferability of theories suggested by Lieberman (1994) (see Table 2) allows us to respond to the first research question in relation to deriving a transformation framework for Latin America.

Argentina in the Latin American context constitutes an interesting case for this research, given its history of economic and political transformations. Esposto and Tohmé (2009) explain that Argentina was a prime example of a wealthy ex-colonial nation at the beginning of the 20th century, however its development since then has shown divergence compared to other, more successful ex-colonial nations (c.f. Australia). Llamazares (2005: 1690) argues along similar lines, concluding that 'the Argentine institutional map has given rise to highly variable political outcomes'. He attributes this to a lack of synchronicity between formal and political institutions, which have negatively influenced its democratic performance and evolution. This failure has presented a continuous mixed record of success where social, economic and political conditions and wellbeing have not improved overtime (2005: 1691).

In 2014, *The Economist* (2014) sought a response to this 'lost century' of Argentina. This makes Argentina unique when compared with other Latin American nations, as no other Latin American nation can show such a large development deficit over individual periods of development in the 20th century (Llamazares, 2005). Further detail on Argentina, its development throughout the 20th century and a comparison of its performance to other countries in the Latin American region are provided by Bertola and Ocampo (2012).

An exploratory analysis of transformation in Argentina

This part of the study employs a qualitative research methodology to explore and reflect upon current knowledge of the domain (Zikmund *et al.*, 2013). The use of focus groups and a semi-structured script facilitates the extraction of rich, detailed and in-depth information from a carefully selected group of key stakeholders (Babbie, 2007). Influential politicians (members of parliament) and government officials (henceforth referred to as politicians) were asked for their views of Argentina's possibilities and prospects of transformation. Those selected were all members of a multi-party NGO platform that

visited Australia in 2017 to receive training on evidence-based policy making. The focus group method enabled the researchers to collect balanced statements from participants of different political parties and groups on the same subject matter.

The 16 Argentine respondents were divided into three groups. All participated in five one-hour focus group sessions during their visit to Australia in February 2017. The focus group sessions covered five key topics:

- (1) the need for transformation in Argentina;
- (2) barriers to transformation in Argentina;
- (3) possibilities and strategies to overcome barriers to transformation;
- (4) sector-specific considerations of development;
- (5) opportunities for Argentina to learn from Australia.

The focus group sessions were transcribed, translated into English and subjected to thematic analysis by two researchers independently. The results were collated to reflect accurately the views expressed by the respondents. The results were subsequently compared with factors extracted from the literature (see [Table 2](#)) in order to review and construct a transition model for Argentina.

The researchers extracted 28 themes from the thematic analysis, which were grouped into six key thematic groups:

- (1) Argentine institutional characteristics: the Argentinian institutional environment in terms of political culture, distribution of power, history, traditions, particularly in relation to Peronism, culture and trust.
- (2) Politics and influence: how Argentinian institutions work, and the aspects that drive politics and influence, such as values, power groups and ways of exercising power.
- (3) Systemic failures: institutional deficit, the role of people in it, and the malfunctions experienced (e.g. corruption).
- (4) Changes and transformation-related themes: experiences with change and transformation, in particular privatisation and education, and failed reforms.
- (5) Economic policies and performance: focusing on economic aspects such as pricing, inflation and deficit, foreign businesses, international opportunities, various industries and economic planning.
- (6) Best practice examples: unsurprisingly given the facilitation of the visit by the Australian Government, Australia was present in almost every response. In addition, the US, France, Scandinavian countries and South Korea were also mentioned as examples.

Alignment of results with theory

The thematic groups identified from the interviews were then aligned with Kornai's Transition Framework and the Latin American Development Model in order to articulate an adopted framework for analysing the history of transformations in Argentina. The findings are displayed in [Table 2](#).

In each area, specific quotes from the respondents were extracted to provide evidence of key themes (italicised in the following subsections) that relate to Kornai's Complex Transition Framework, institutional economics theory and Latin American development concepts.

Argentine characteristics – what is Argentina like?

Institutions in the country are defined by Argentina's *colonial history* – 'because Spaniards exercised power, we always seek the boss'. In response to this colonial history however, 'there have been bad experiences generated [leading to] rejection [of colonial structures] in society'. The country has an '83-year-old democratic tradition', but the approach to democracy is 'also a generational issue'. The need for democratic conditions is recognised: 'we clarify and when we want to reform the institutions

it is obvious that we need a democratic context to carry out all these types of reforms', and is seen as a necessary means for productive consensus.

Religion and the Catholic Church also strongly shape Argentine institutions: 'Catholic religion is one of the reasons that can explain what is happening right now', which are viewed as examples of good practice and stability: 'some institutions existed thousands of years without reform, like the church, and they still work'.

One of the strongest influences on Argentine political institutions in the 20th century was *Peronism*: 'Peronism in our country has created ... complex and confusing times'. The impact of Peronism was contradictory: 'Peronism and opportunism cause [the country] to fall behind', but at the same time, 'Peronists can jointly govern with socialist leaders', suggesting that it is a consensus-driven perspective.

The country is not homogeneous, there are large *regional differences*: 'ours is a tremendously heterogeneous country' and 'some provinces advance more, and others do not'. The *views and opinions* of the people are as diverse as the country itself. In terms of politics: 'political opinions can be very different, generating conflict', and in terms of societal roles, 'experts and politicians have a different perspective on things'. The respondents identified 'two competing models: closed country and open country'. There is a *desire for a public discussion* of the options: 'the community is asking for more', in a fairer way: 'certain people can get away with anything, others get criticised for everyday matters'. There is also a widely shared interest in learning from best practices: 'we have sometimes taken certain models, as when we set up the regulatory entities when privatising public services and they have been well designed. The problem is that there has not been political consensus to maintain certain rules.'

Argentina is seen as a country with a positive political *values*. Values drive politicians where '[politicians] must have a spine [i.e. backbone] to face the difficult discussions', and 'have to take responsibility for the next generation and discuss issues'. Otherwise they take the risk that the 'terrible attitude towards [the] public service' will continue, challenging the 'status of public office'. Other respondents argue that: 'we are more accustomed [to] agreements than the rules, and therefore there are no incentives to comply with the law. This gives the feeling that if you do not comply with the law you end up having the highest benefit.' Therefore, politicians choose a particular professional path: 'we make politics first because we are interested in generating changes and living better and when we see certain models or certain policies that allow a society to live better, we are interested in adopting them.' The responding politicians identified the following as the most important political values, 'power', 'trust', 'justice', 'truth', 'common good', 'solidarity', 'consensus' and 'belief in democracy and economic development', which are driven by 'discussion as an important way of reaching consensus'.

Politics and influence – how do institutions work?

In the respondents' view, the political system operates in a *top-down* fashion: 'central power is important' and there is a 'lack of bottom-up change'. As one respondent described it:

I give an example ... in my province. I had to lead the Chamber of Senators and set up a set of forums on different topics to propose legislative reforms for the better functioning of education and health. ... the governor received us, she heard us and then the Minister of Government called me. He told me that we wanted to undermine the authority and we wanted to take away the power from the governor.

Political power holders include 'unions', 'political parties' and other 'independent levels of government', 'cities', the 'judicial system' and 'industry/sectorial representation'. Political parties in particular are strongly involved with exercising power in the public administration system, making, for example, highly political appointments: 'for example, [of] 5 members, [and] the appointment of the president is made by the government, the official executive power, but in the same process one or two opposition directors are appointed.'

Ways of *exercising power* were described as ‘demagoguery’ in politics and media. This has led to ‘political opportunism’, where ‘there is an impression of an institutional façade (social council), but participants deal under the table’ and ‘mandatory rules of consultation are not always followed’. ‘Politicians are opportunistic instead of taking an ideological position’, and ‘power is used [as a] means of not accepting debate (e.g. in Congress)’. The respondents emphasised their position on the matter: ‘we believe in democracy, but sometimes it does not work’; the stability of the system arising from the political culture of centralisation: ‘there is no coup because of the change of political culture’, and ‘the system of strong presidentialism is determined in the constitution’. This is often attributed to flaws in the design of the political system: ‘Normally there are control organisations, but sometimes they do not have the necessary autonomy to act independently.’

System failures – Why don’t they work?

The respondents emphasised that, in their view, there is an *institutional deficit* in Argentina. This manifests as inadequate functioning of economic and political institutions, and is marked by ‘great ideas ... from the president’; ‘well designed institutions that do not work well’ and ‘the government [not giving] people good solutions to follow’. For example, the federal political structure is seen as not functioning as a consequence of the regulation: ‘The issue [of] federalism in Argentina is very questioned [i.e. questionable] because yes, we have a written constitution. Sometimes it is not applicable in reality and so we do not respect federalism.’ Other specialised institutions faced similar functional challenges: ‘we had an institution in charge of statistics, but it was not respected and they played around with the data to suit the government.’ Military intervention also caused system wide disruptions: ‘We have had many years of military repression, thousands of dead people and disappeared [people and] appropriation of property.’ Political power was seen as manipulating institutional parameters whether democratically inclined or not: ‘Institutions are locked into past frameworks’ and ‘newly elected governments, remove laws made by previous parties.’

Some respondents held the view that it is not the institutions that are inadequate, but rather the *people* working in them: ‘what we have to worry about is the personal and professional quality of people in institutions’; ‘institutions don’t have to be reformed, because they are well created, but they are managed by people’; ‘there is an institutional deficit, but we do not need to change everything, we need better people’ and the ‘quality of people is essential, and if [those people in public service] are corrupt and useless, they do not serve [the people]’. This issue is not only present in public service: ‘for example, many students never complete their education, despite being able to participate.’

A specific aspect of institutional inadequacy identified by the respondents was the lack of *transparency and corruption*: ‘it is a shame that there is no transparency [of policy decision making]’, and ‘corruption always existed and was not possible to remove’. The corruption of government officials is a problem: ‘government officials may forget to disclose “gifts” from businessmen’, which the general public have got used to: ‘there is an issue with the insensitivity of public towards corruption’ leading to a broader acceptance toleration: ‘there is a tolerance of corruption in the expansive part of the economic cycle’.

Transformation – What to change and how?

The respondents gave some recommendations as to what is or could be changed in order to improve the situation. Regarding the *scope of reforms* respondents noted that: ‘not all institutions need total reform’ and ‘under current legislation, there is no incentive to change the system’, because ‘in expansion, people do not care about change’, therefore ‘as politicians, we need to have the same vision of development’.

They described the nature of *reforms and change* as a ‘fundamentally short-term view in Argentina’, where ‘change comes in waves’. As ‘there is a tendency to be conservative [when considering changes]’ ‘the solution to change has to be done gradually, otherwise the transformation will not be carried out’ and ‘reforms are needed because there is a lot of duplication in the government’. One respondent went so far as to say: ‘My opinion is that public policies that have been implemented have definitely not

served the people.’ The impact of *failed reforms* were widely known, such as ‘damage from speculative finance’, an ‘incomplete railway system’, ‘privatisation of railways’ or ‘privatisation due to government budget deficit’. Respondents’ views on the *education* system noted: ‘education is important for reform’ with the ‘most prestigious universities ... [being] ... dominated by professional careers such as medicine, engineering, sciences and not the arts, for example.’

Economic policies and performance – how does the economy operate?

This thematic group focused on economic institutions, performance and outcomes. *Economic cycles and fluctuations* were a common observation, with the economy of Argentina viewed favourably when compared with other areas: ‘there is an ageing society but not as much as Europe’, ‘there is poverty but not as much as Asia’, ‘some say there is a curse of having natural resources’. Economic downturn was seen as potentially useful, as ‘economic recession encourages societal change’. Unfortunately, the cycles create a vulnerable economic system: ‘having to fund government funding deficits puts the central bank in a difficult situation’, and ‘there is a complicated macroeconomic imbalance, involving unemployment and inflation’.

Investment in *certain industries* was seen as risky from the perspectives of competition and sovereignty: ‘competition will impact our industries in mining and energy generation’, and ‘the commodity business is managed by multinationals, not the countries’. Despite ‘there ... [being] ... a system of protectionism, nevertheless some industries are suffering a lot’. Further threats to economic stability were identified in terms of *prices and the financial system*: ‘market prices may not always be reflected in pricing of government services.’ Currency exchange was seen as particularly problematic: ‘the instability of currency exchange caused inflation’, ‘exchange control resulted in money laundering with inflationary effects’ while ‘private banks are interested in making the country safe for investors’. Argentine businesses also suffered due to ‘difficulty securing international finance’, ‘market prices not always be[ing] reflected in pricing of government services’, ‘private banks [being] interested in making the country safe for investors’, and ‘exchange control that resulted in money laundering with inflationary effects’.

Domestic distrust of *foreign companies* was reflected in the following respondent statement: ‘these foreign companies don’t respect local laws and institutions’, leading to a biased evaluation of *international opportunities* in the areas of ‘dam building’, ‘animal and plant technology’, ‘green technology’ and ‘education’. It was felt by respondents that this bias could be alleviated by appropriate *economic planning* arrangements: a ‘need for long-term planning to connect to the world’: a ‘lack of planning [is] damaging productive culture’.

Sources of best practice – Where do they get their ideas?

The USA, France and Scandinavia have been identified as sources of best practice. In particular, ‘Anglo-Saxon and Scandinavian countries are more ethical, and perform better’, and therefore provide an example for system-level best practice to address the systemic failures in the Argentine economy identified earlier. South Korea has also been mentioned as a strong example of successful development policies. Australia – as a source of best practices – was excluded from the analysis because the location of the study caused Australia to be mentioned disproportionately frequently.

Construction of a transformation framework for Argentina

The six theme groups imply a particular embedded application of theory within the Argentine context. Transformation was linked to reforms and change, which were driven by dissatisfaction over system failures, which in turn impacted politics, influence and the economic characteristics of Argentina. Economic policies and performance were shown to be linked to policies, currency and international economic connections. The primary link to these was through politics and influence, and to some extent the Argentine context. System failures were also a key driver, through a negative influence on strong economic cycles. Sources of best practice to help compensate for system failures, and

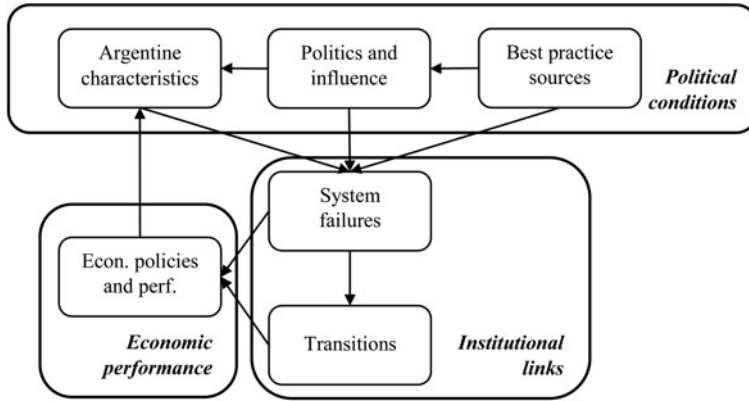


Figure 1. The Argentine transformation model

economic policies and performance, were identified by the respondents. Ultimately, Argentine characteristics are shaped by politics and influence and economic policies and performance. Figure 1 shows the key concepts emerging from the thematic analysis and the links identified between them. The factors were assigned into three groups: political conditions; economic performance and institutional links.

The group's political conditions consisted of three thematic groups: Argentine characteristics; politics and influence; and best practice sources. Political conditions align with political institutions and political power (*de facto* and *de jure*), system characteristics, globalisation, ideology and participant behaviours such as democratisation, participation and accountability. Economic performance was identified as the primary outcome of transformation arising from economic outcomes, industrialisation, (in)stability and inequality. Institutional links were connected to the political environment and economic outcomes. Institutional links comprised of economic and political institutions, such as property rights, coordination mechanisms and market reforms. This framework was then used to evaluate the transformation experiences of Argentina in second half of the 20th century, using historical data.

4. Argentina's transformation experience and performance in the second half of the 20th century

The key milestones in the development of Argentina can be defined by internal and external events impacting the operations of the socio-economic system. *The Economist* (2014) provides a comprehensive overview of Argentina's political history in the 20th century (see Figure 2).

As shown by the pattern of economic growth in Figure 3, at the brink of an economic downturn in 1943, there was a military coup and the political scene was taken over by Juan Domingo Perón, who was elected president in 1946. The next decade brought mixed economic results and the regime fell in 1955. As a result, instead of presidents being elected, the country's political cycle was dominated by a series of military coups with the last two occurring in 1962 and in 1966. In 1973, Perón was re-elected for the third time as president; he passed away in 1974, which destabilised the regime resulting in the final military coup of the 20th century in Argentina in 1976.

The loss of economic stability in the 1970s was only partially due to the shift in political leadership. It was also impacted by the first global oil crisis. The military regime was brought down after wavering economic performance (and repeated oil crises), by the loss of the Falkland Islands in 1982, and President Alfonsín's being elected to power in 1983. His regime however has not brought economic stability to the country, with hyperinflation occurring in 1989. President Carlos Menem followed, and became known for his economic reform attempts, including cleaning up social security,

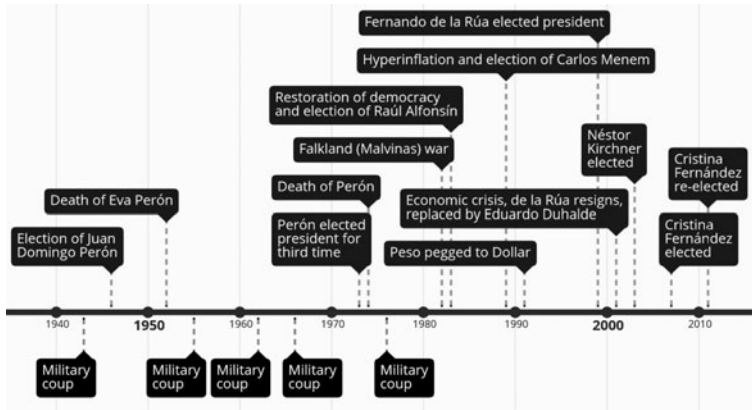


Figure 2. Political milestones in Argentina's development history in the second half of the 20th century
 Source: Based on *The Economist* (2014: 19).

employment, taxes and trying to do away with corruption, while maintaining a socially responsible (and economically controlling) state. One of the reforms implemented in 1991 was the pegging of the peso to the US dollar – an attempt to raise confidence and establish stability in the economy.

Unfortunately, this had an adverse long-term effect on Argentina. The economic downturn hit Argentina hard in 1999, after almost a decade of heavy inflation. President La Rúa was elected at this time but resigned in 2001 as the country deteriorated, handing over the presidency to Duhalde in 2001 (Teubal, 2004).

Based on this brief historic timeline and the work of Bertola and Ocampo (2012), three major periods have been identified in Argentina's development history in the second half of the 20th century: (1) political and economic volatility (1946–1976); (2) the fall of military control, state-led economic development and democratisation (1977–1989); and (3) market reform and state-led anti-crisis efforts under democratic conditions (1990–2015). The current era of government reforms and economic liberalisation (2016 onwards) is excluded from this analysis, as insufficient time has passed for its effects to be felt. Comparative data on the economic, political and institutional characteristics of Argentina available from before the middle of the 20th century are limited. Therefore, the analysis in this paper is restricted to the time period from 1946 onwards, and a comparison of the first three periods.

Political and economic volatility (1946–1976)

This period was characterised by the rise of Peronism, which plays a major role in politics to this very day. This is because Perón adopted the policy of accelerated egalitarianism with unfortunate economic consequences (Smithies, 1965). Within years, salaries grew by 60% which in the long term proved disastrous, given the poor performance of Argentina's terms of trade (Gerchunoff and Fajgelbaum, 2005).

Table 3 contains an overview of Argentina's economic indicators available from this time period. It shows declining GDP growth. In the first half of the period the industrial sector and foreign trade grew. There was increased openness in the country. In the second half of this period foreign trade openness slowed. There was a sharp decline in foreign direct investment (FDI) in the first half of the 1960s that stabilised at a relatively low level by the end of the period. Some increase in accumulation was evident as a result of a growing trend in gross capital formation.

In general, this period was characterised by heavy industrialisation, the development of export capability and the wavering of political freedoms. At the same time there was growing investment in physical capital and declining investment in human capital. The role of the government in the economy is

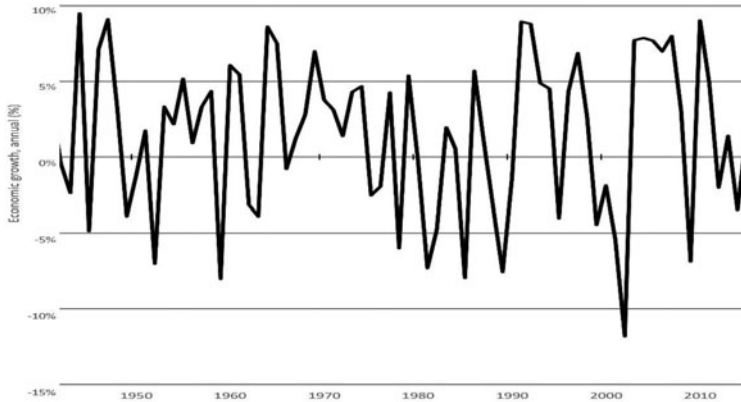


Figure 3. Economic growth in Argentina in the second half of the 20th century
 Source: Maddison Project Database (Bolt *et al.*, 2018).

difficult to ascertain based on these indicators – did the government play a developmental role or was it just using funds inefficiently?

During this time period, political conditions declined, as manifested by the coups. The stagnant investment in education, accompanied by a growth in debt-financed military expenditure, suggested that political conditions were not ideal, and that there was a stagnation in institutional links. Economic performance on the other hand improved, GDP grew and industrial production developed, while public debt was kept low.

In terms of the institutional model of economic development (Nelson, 1994; North, 1990), the institutions in Argentine society capable of asserting influence (military, government) in this time frame resulted in a centralised, strictly governed system, emphasising income growth to pacify the remaining stakeholders and maintain the status quo. This created an equilibrium that was based on transfer and contradictory interests, where the balance was maintained by central force (Gagliardi, 2008). As long as the equality of income was maintained relatively well, the system was stable, however as the economy no longer allowed for the equalising compensatory approach, collapse was imminent (Acemoglu and Robinson, 2010).

The fall of military control, state-led economic development and democratisation (1976–1989)

Democratisation through the reduction of military influence has not brought positive changes in economic performance to Argentina, as illustrated by Table 4. Although GDP per capita grew slowly (at current prices), real growth rates were negative for most of this period, with 1989 industry value added closing at a record low of –8.84%. The value added by agriculture grew, while industry shrank. Only international trade kept up a continuous positive trend, in large part due to the expansion of exports. Education spending shrank and income inequality increased. Government debt grew quickly, resulting in a halving of military spending and perhaps surprisingly, a halving of gross capital formation. Foreign investment grew indicating a greater openness to globalisation.

Argentina's institutional performance in terms of corruption (as measured by the Corruption Perception Index) strongly improved between 1980 and 1992, from 49 to 59 (Transparency International, 2018). This is surprising, given all the other socio-economic indicators suggest a poor performance for this time period. This highlights the negative impact of Argentina's institutional performance on economic and institutional development. Perhaps an explanation for this unexpected phenomenon could be that at government level, Argentina somehow managed to reduce certain kinds

Table 3. Argentina's selected socio-economic indicators between 1946–1976

	1946–50 average	1951–55 average	1956–60 average	1946–60 change	1961–5 average	1966–70 average	1971–5 average	1976	1961–76 change
	<i>Maddison/FED St Luis data</i>				<i>World Bank data</i>				
GDP per capita (current US\$)	\$872	\$871	\$946	+\$125	\$1,108	\$1,220	\$1,938	\$1,933	+\$784
GDP per capita (growth p.a.)	2.86%	1.08%	1.33%	-1.04%	2.39%	2.51%	1.41%	-3.54%	-7.28%
Agriculture value added (% of GDP)	18.42	18.19	16.52	-3.27	12.9	9.76	10.12	8.15	-4.75
Industry value added (% of GDP)	30.66	30.93	32.57	+2.44	48.4	46.74	45.72	50.89	+2.48
Trade (% of GDP)	15.89	11.96	19.51	+4.01	13.09	11.83	12.99	15.1	-0.11
Import (% of GDP)					6.76	5.30	6.28	5.92	-1.68
Export (% of GDP)					6.33	6.53	6.71	9.18	1.57
Net FDI received (% of GNI)					0.05	0.07	0.07	0.06	0.01
Gross capital formation (% of GDP)					22.53	22.38	24.12	30.73	7.25
Government spending on education (% of DGP)						1.46	1.87	1.17	-0.29
Military exp. (% of GDP)					1.47	1.22	1.38	2.8	+1.63
	13.04	14.22	13.16	+1.48					

(Continued)

Table 3. (Continued.)

	1946–50 average	1951–55 average	1956–60 average	1946–60 change	1961–5 average	1966–70 average	1971–5 average	1976	1961–76 change
	<i>Maddison/FED St Luis data</i>				<i>World Bank data</i>				
Government expenditure (% of GDP)									
External debt (% of GNI)						19.39	15.73	18.56	-0.82
Debt service (% of GNI)						3.68	2.9	3.2	-0.48

Source: Data sourced from the World Bank (2018) database, The Federal Reserve (2018) of St Louis ALFRED database and the Maddison Database (Smits, Woltjer and Ma 2009; Bolt *et al.* 2018).

Table 4. Argentina's selected socio-economic indicators between 1976–1989

	1976–80 average	1981–5 average	1986–9 average	1989	1976–89 change
GDP per cap (current US\$)	\$2,283	\$2,949	\$3,372	\$2,375	+\$443
GDP per cap (growth p.a.)	1.42%	−3.94%	−1.31%	−8.84%	−5.3%
Agriculture value added (% of GDP)	7.58	8.14	8.62	9.62	+1.46
Industry value added (% of GDP)	46	40.4	39.01	42.35	−8.55
Trade (% of GDP)	14.15	15.05	16.33	19.64	+4.54
Import (% of GDP)	6.36	6.15	6.67	6.58	+0.66
Export (% of GDP)	7.8	8.9	9.66	13.06	+3.88
Net FDI received (% of GNI)	0.05	0.05	0.15	0.30	+0.24
Government spending on education (% of DGP)	1.97	1.79	1.2	1.05	−0.12
Gross capital formation (% of GDP)	28.12	20.58	17.79	15.51	−15.21
External debt (% of GNI)	25.87	55.09	61.85	93.33	74.77
Debt service (% of GNI)	4.24	7.21	5.82	6.25	3.05
Military exp. (% of GDP)	3.16	2.67	2.15	1.88	−0.92
Gini coefficient	40.8		44.5	45.3	+4.5

Source: Data sourced from the World Bank (2018) database and UNDP (2016).

of informational asymmetries among agents, who were the source of various kinds of corrupt behaviours (Tirole, 1994).

The indicators in stage 2 suggest greatly improved political conditions, accompanied by a steady and unfortunate decline of economic conditions, growing public debt and increasing income inequality. Institutional links also declined, indicated by a drop in education spending, slowing GDP growth and continued low levels of FDI (see for example Esposto and Tohmé, 2009; Fridman, 2010; Sanz-Villaroya, 2005, 2009).

As a consequence of the transition initiated by the systemic challenges (Kornai, 1999) of the previous period, political (Kornai, 1988) and economic (Kornai, 2000) changes transpired. These adjustments however, instead of improving on the poor outcomes of the systemic issues, basically resulted in a further deterioration of socio-economic performance. This inspired a spiral of further changes (Kornai, 2010) in the following time period.

Market reform and state-led anti-crisis efforts under democratic conditions (1989–2015)

This time period brought a turnaround in the country's economic performance. On average, the economy grew, and so did trade, mostly due to the growth of imports, as shown in Table 5. The proportion of services expanded as part of GDP at the expense of both agriculture and industry, but at the same time foreign investment stayed away. The government increased its spending on education, kept debt levels mostly at a manageable level, further reduced military spending and has continued to reduce income inequality within the population.

Argentina's political conditions slowly declined despite democratic governance (see Table 6). Government effectiveness, rule of law and regulatory quality all fell by the end of the period.

Table 5. Argentina's selected socio-economic indicators between 1990-2015

	1990–99 average	2000–9 average	2010–15 average	2015	1990–2015 change
GDP per cap (current US\$)	\$7,044	\$6,027	\$12,444	\$13,467	+\$9,148
GDP per cap (growth p.a.)	3.2%	1.49%	1.88%	1.62%	+5.41%
Agriculture value added (% of GDP)	5.99	8.3	7.5	6.04	-2.08
Industry value added (% of GDP)	30.18	31.83	29.13	28.06	-7.96
Trade (% of GDP)	18.72	36.4	30.22	22.86	+7.87
Import (% of GDP)	9.72	15.27	14.61	11.85	+7.22
Export (% of GDP)	9	21.13	15.61	11.01	+0.65
Net FDI received (% of GNI)	0.07	0.05	0.02	-0.01	-0.13
Government spending on education (% of DGP)	3.34	4.32	5.27	5.33	1.59
Gross capital formation (% of GDP)	17.77	16.83	17.34	16.89	+2.89
External debt (% of GNI)	39.88	76.37	28.21	30.24	-15.98
Debt service (% of GNI)	4.43	6.62	3.1	3.11	-1.47
Military exp. (% of GDP)	1.35	0.94	0.82	0.86	-0.59
Gini coefficient	47.9	49.9	43.12	42.7	-4.1

Source: Data sourced from the World Bank (2018) database.

Control for corruption and the Corruption Perception Index both show a slight but gradual growth of corruption in the country. While indicators do not suggest a perceived improvement of regulatory quality (as illustrated by the improvement of the World Governance Indicators), the tax system and business start-up administration was effectively simplified (demonstrated by the Doing Business Indicators). Favourable trends were reflected in improved institutional links. All other institutional characteristics suggest unfavourable trends.

The era of the 'third transition' (Friedman and Hochstetler, 2002) brought about substantial political changes in Argentina, addressing market reforms, industrialisation and the legacy of government-led development of the previous time periods (Bertola and Ocampo, 2012). Unfortunately however, economic changes (Kornai, 2000) were slow to follow political changes (Kornai, 1988), reducing the credibility of the democratic advances, and further destabilising the system through economic polarisation (Acemoglu and Robinson 2001).

Sequence and synchronicity of transformation

As the second research question aimed to validate a transition framework for Argentina, we constructed the framework building on theory and exploratory research to describe Argentina's historical transitions in terms of political conditions, institutional links and economic performance. Kornai's transition theory suggests that a coordinated sequencing between political and economic transitions is necessary for successful economic development outcomes. This assumption is validated by the feedback loop between politics, institutional development and economic performance in Acemoglu's institutional economic development model. Looking at the three time periods investigated, there seems to be negative feedback between economic performance and political conditions in Argentina. [Table 7](#)

Table 6. Institutional performance indicators in Argentina between 1990–2015

		1990–9 average	2000–9 average	2010–5 average	2015	1990–2015 change
World Governance Indicators	Voice and Accountability	0.35	0.35	0.34	0.41	+0.02
	Political Stability and Absence of Violence/Terrorism	−0.01	−0.21	0.04	0.01	−0.01
	Government Effectiveness	0.27	−0.11	−0.17	−0.08	−0.24
	Regulatory Quality	0.54	−0.61	−0.89	−0.91	−1.43
	Rule of Law	0.03	−0.62	−0.7	−0.77	−0.85
	Control of Corruption	−0.11	−0.39	−0.45	−0.55	−0.44
Corruption Perception Index (value of 100)		35	29	32	32	−2
Doing Business Indicators	Number of different tax payments		24	9	9	−53
	Total tax rate (% of profit)		107	119	137	+30
	Time to pay taxes (hours)		453	415	405	−47
	Time to enforce contracts (days)		590	637	660	+70
	Time to start a business (days)		29	25	25	−5
	Procedures required to start a business (number)		13	14	14	+1
Political rights (out of a total score of 40)			32	32	31	+7
Civil liberties (out of a total score of 60)			47	49	49	+8

Source: Data sourced from The World Bank (2018), Transparency International (2018), Kaufmann et al. (2010) and Freedom House (2018).

Table 7. Synthesis of institutional conditions, economic performance and links

	Political conditions	Economic performance	Institutional links
<i>Period 1:</i> Political and economic volatility (1946–1976)	Volatility and coups, Peronism	Good, growing exports, strong industry, high military spending, low debt	Mediocre spending on education, high capital formation, low foreign investment, low debt
	Declined	Improved	Stagnant
<i>Period 2:</i> The fall of military control, state-led economic development and democratisation (1976–1989)	Improved institutions, rising inequality	Poor, growing trade, de-industrialisation, reducing military spending, growing debt	Low education spending, severely dropping capital formation, low foreign investment
	Improved	Declined	Declined
<i>Period 3:</i> Market reform and state led anti-crisis efforts under democratic conditions (1989–2015)	Institutional deficit, reducing inequality, initiatives for reforms	Mediocre, growing imports, de-industrialisation, poor competitiveness, reducing debt	Increased education spending, stagnant capital formation, rising foreign investment
	Declined	Stagnant	Improved

provides an overview of the synthesis of political conditions, economic performance and the institutional links between them.

Political conditions are counter-cyclic to economic performance, so that improving institutional conditions coincides with a decline in economic performance. In Argentina this pattern was reversed. Looking at the linkages, initially, poor political conditions resulted in increased investment and sustained a high industry performance. This in turn laid the foundation of economic growth in the subsequent period. Poor political conditions (or poor economic performance) raised public awareness, leading to an improvement in institutional links, which in turn provided better economic performance. On the other hand, poor institutional links led to poor economic performance, which resulted in public dissatisfaction and an improvement in political conditions.

Figure 4 provides an overview of the trajectory of transitions and outcomes across political conditions, economic performance and institutional linking factors. This was developed by aligning the Argentine transitional framework (Figure 1) with a summary of our historical analysis (Table 7). In period 1, economic performance improved, possibly due to factors arising from prior periods, or current global conditions. As political conditions deteriorated, this resulted in a deterioration and stagnation of institutional links. This declining of political conditions and stagnation of institutional links led to a decline in the economy during period 2.

This deterioration in economic performance however invoked public interest in the political conditions, which subsequently improved, leading to improved economic performance in period 3. Unfortunately, the poor institutional links of period 2 led to the further decline in economic performance in period 3. These two opposing effects aggregated as stagnant economic performance in period 3.

This sequence of events demonstrates how economic and political institutions drive economic development (Acemoglu and Robinson, 2010), and in particular how the lack of synchronicity (Kornai, 2010) between political (Kornai, 1998) and economic (Kornai, 2000) changes results in a development gap and a myriad of institutional deficiencies (Acemoglu *et al.*, 2005).

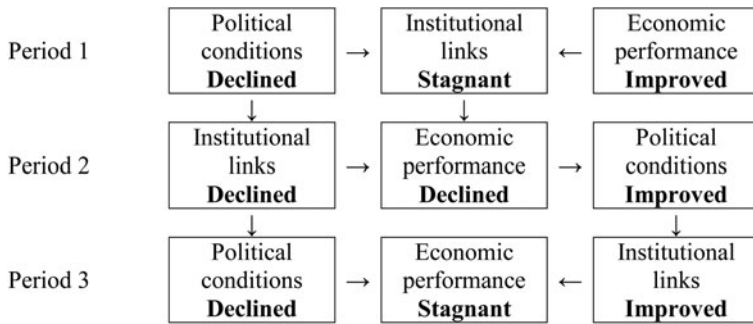


Figure 4. Argentine transformation trajectory in the second half of the 20th century

5. Conclusions and recommendations

This research has explored two research questions: (1) How can a transformation framework be adapted to Argentina in the Latin American context? (2) How can this transformation framework explain the prolonged transformation experience in Argentina?


In response to the first research question, an analysis of statements made by respondents from the Argentine political elite allowed us to describe a transformation framework. The themes emerging from the focus group interviews were matched with corresponding theoretical concepts, and then aligned with institutional economic theory, Kornai's transition framework and the Latin American development concepts. The resultant transformation framework consisted of political conditions, economic performance and institutional links. Using this framework, it can be seen that political conditions influenced institutional links, which in turn drove economic performance. Economic performance had direct feedback on political conditions, indirectly influencing institutional links.

To address the second research question about the application of this transformation framework to Argentina, we utilised secondary, historical data. We demonstrated a lack of synchronicity in changing political conditions and economic performance due to the unique institutional links connecting political conditions to economic performance. When people only care about political conditions when the economy is not performing well, deteriorating political conditions are likely to destroy institutional links, which in turn will negatively impact economic performance. Economic performance therefore is influenced by a dual legacy of political conditions and institutional links. Even if political conditions fall under public scrutiny and are improved, the damaged institutional links take time to regenerate, therefore economic performance takes longer to improve. This can create an asynchronous fluctuation between political conditions, institutional links and economic performance, with only one area performing well, while the other two perform poorly. This results in a volatile economic and political development trajectory of the country.

The results carry implications for Acemoglu's institutional economics theory, Kornai's Complex Transition Framework and the Latin American development concepts. The transition trajectory shown in Figure 4 confirms the applicability of the logic of Acemoglu's model to Argentina, with the additional condition that institutional links have a feedback effect between the economic performance and political conditions parts in the model. Political conditions affect institutional links, which in turn enable a change in economic performance. However, depending on the speed at which the institutional links accumulate, political conditions may react negatively to changing economic conditions, destabilising the transformation of the system. This can result in an asynchronous fluctuation of political conditions and economic performance which is facilitated by the delay caused by the change of institutional links. This is a contribution to the way the links between components of Acemoglu's model are explained, and provides an avenue for statistical testing of time lags and causality.

The results also carry implications for Kornai's complex transition model. Previous experiences in Central and Eastern Europe, and Southeast and East Asia have shown that economic performance is driven either by political performance, or institutional links created by a very conservative but strategically driven approach to institutional reforms, resulting in transition. In Argentina however, the asynchronous change of political conditions, institutional links and economic performance has resulted in an economic development lag, which can have a destabilising effect on the transformation. Therefore, it can be concluded, that some synchronicity between political conditions, institutional links and economic performance are necessary for a long-term, steady transformation and development.

In this sense, creating a persistent 'memory' of institutional links and civil participation in these institutions may resolve the fluctuation issue and drive a more consistent transformation and development path. However, such change in social and political culture is difficult to drive top-down, which seems to have been the usual way change has been done in Argentina. Encouraging evidence-based policy making, improving transparency and fighting corruption in the public sector should increase the trust of individuals in their political system and provide support for the types of institutional links that need to be left in place for a positive economic effect. This suggests that long-term economic performance may be achieved by better educating citizens to recognise the importance of building institutional links without immediate benefits.

Author ORCID.  Áron Perényi, 0000-0003-2606-9738.

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