



# Electoral fraud, the rise of Peron and demise of checks and balances in Argentina

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## ABSTRACT

The future looked bright for Argentina in the early twentieth century. It had already achieved high levels of income per capita and was moving away from authoritarian government towards a more open democracy. Unfortunately, Argentina never finished the transition. The turning point occurred in the 1930s when to stay in power, the Conservatives in the Pampas resorted to electoral fraud, which neither the legislative, executive, or judicial branches checked. The decade of unchecked electoral fraud led to the support for Juan Peron and subsequently to political and economic instability.

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## 1. Introduction

Institutions matter and are instrumental for achieving sustained economic growth. In this paper we argue that beliefs, an informal norm, matter as much as the formal rule of law. In short in many instances they are complements. Adherence to the rule of law, particularly within a legitimate system of checks and balances is the exception rather than the norm for most countries. The development of the rule of law entails solving a coordination problem in which the actors refrain from acting in their short-run interests, particularly during crises.<sup>1</sup> Here is where belief systems can buttress the formal institutions from crumbling during times of crises. Either authoritarian or democratic governments can establish adequate protection of property rights under the rule of law so as to foster economic growth but the difference is in the legitimacy and beliefs in the system. The conventional wisdom has been that longer run economic growth and higher income per capita tends to induce a transition from autocratic regimes to democracy (Lipset, 1959; North, 1995). More recently Acemoglu et al. (2008) have argued that “critical historical junctures” are more important determinants than income for whether a country makes a transition to democracy.<sup>2</sup> Those countries that managed to consolidate democracy while weathering a crisis along the way added to the likelihood that they would stay on the path of a legitimate system of checks and balances that maintains secure property rights.

Many scholars, e.g., North (1995) stress the importance for long-run economic growth on restraining governments from becoming confiscatory. As Weingast (1997, p. 261) notes: “...citizens in stable democracies not only must value democracy but also must be willing to take costly action to defend democratic institutions against potential violations”. In this paper we

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<sup>1</sup> We found Weingast (1997) particularly insightful for highlighting the difficulty in establishing the rule of law.

<sup>2</sup> The authors do not find a relationship between GDP/P and democracy once controlling for individual country fixed effects. They argue that their evidence is consistent with countries having “critical historical junctures” some of which lead to prosperity while others lead to relative poverty. We believe this to be the case for Argentina and we place the critical juncture in the 1930s, which in turn led to the rise of Peron and his populist policies.

present a case study of the erosion of the budding beliefs in checks and balances in Argentina, a country that was in the top ten of GDP per capita countries in the early twentieth century and began a long-run decline from the mid-20th century which continues today.<sup>3</sup> In many ways our article is the mirror image of the analyses started with *North and Weingast (1989)* and followed by *Stasavage (2003)* and more recently by *Bogart and Richardson (2008)*.<sup>4</sup> In the *North and Weingast* analysis, the Glorious Revolution set in motion a system of checks and balances while in our analysis the fraudulent elections in Argentina in the 1930s eroded an emerging set of checks and balances and gave rise to “the tyranny of democracy”.<sup>5</sup> The lesson from our study for emerging democracies today is that adherence to a system of checks and balances requires more than a constitution; it also requires the cultivation of a belief structure in which both the elites and citizens refrain from short-run opportunistic behavior. More recently *North (2004)* places particular emphasis on the importance of a belief structure to buttress the formal institutions in a country.

In Argentina, beginning in the late 19th Century, there was a concerted push for electoral reforms with success coming for the secret ballot in 1912 (*Crawley, 1984; Halperin Donghi, 1995; Pucciarelli, 1986; Rock, 1975; Yablon, 2003*).<sup>6</sup> We view the post 1914–1930 period as a **potential** transition to a sustained democratic regime with open and reasonably honest elections, along with an independent Supreme Court: in short Argentina was on the road to becoming a legitimate democracy with checks and balances and high economic growth. The introduction of open elections allowed the Radical Party, a party with wide support from the middle class in the cities and rural tenants, to control the presidency, and the lower house of Congress (*Rock, 1975*). We consider this a significant milestone on the way to legitimate democracy from the former authoritarian conservative rule. In the next sixteen years with some bumps in the road, Argentina maintained its high standard of living while it was in transition to an open democratic system with a *de jure* and *de facto* independent court. Importantly, the formal institutions bolstered the beliefs by the lower and middle class that they were part of the process of government.

Regrettably Argentina was unable to solidify the political transition to a democratic regime with checks and balances. The ineptitude of the aging President Yrigoyen in the face of the drop into the Great Depression led to a military coup, which restored the Conservatives to power.<sup>7</sup> From 1930 to 1940, Argentina departed from open legitimate elections. To stay in power during the emergency period of the Great Depression the Conservatives resorted to electoral fraud in key provinces. Despite receiving high marks for their economic policies during the Great Depression, the electoral fraud perpetuated by the Conservatives along with the silence of the Supreme Court eroded the nascent foundations of a political belief system which might have brought about a true system of checks and balances. The Supreme Court openly approved the military coup of 1930 and countenanced electoral fraud throughout most of the 1930s.<sup>8</sup> In short, it was the confluence of the Great Depression, a military coup, electoral fraud, and the countenance of electoral fraud by the Supreme Court and the Executive which paved the way for the populist policies and institutional reforms of Juan Peron.<sup>9</sup>

Once elected, the Peronists impeached four of its five Supreme Court justices on the grounds of their behavior in the 1930s as well as the thwarting of the “populist will”. From Peron and continuing today, the result has been political and economic instability<sup>10</sup>. Stop and go policies characterized the post-Peron years. *Prados de la Escosura and Sanz-Villarroya (2004)* most convincingly tie instability in property rights to the relative decline in Argentine long-run economic growth. They point to the late 1940s as the turning point in property rights instability for Argentina. We agree with numerous scholars that the instability of property rights originated with the Presidency of Juan Peron but argue that a very plausible counterfactual is that Juan Peron would never have been elected had it not been for the electoral fraud perpetrated by the Conservatives in the 1930s. This

<sup>3</sup> From 1890 to 1950 Argentina ranked between 7th and 13th. From 1900 to 1948, Argentina had 15 years in the top ten. These rankings are in GDP per capita in 1990 purchasing power parity. If we adjust by real prices calculated in the Penn World Table 6, Argentina ranked 37th in 2000. Australia and Canada, to whom Argentina is frequently compared, fared much better. Australia was in the top ten from 1890 to 1980 and reached its nadir at 14th in 1990. It now stands in 8th place. Canada started slower than Australia and Argentina, not reaching the top ten until 1910. Except for the Great Depression, Canadians remained in the top ten (*Maddison, 1995* and own calculations, Penn World Table 6.0).

<sup>4</sup> The main distinction between *North and Weingast (1989)* and *Stasavage (2003)* is whether the rise of Parliament following the Glorious Revolution was sufficient for establishing credible commitment. *Stasavage* argues that it was the extended supremacy of the Whig Party. *Bogart and Richardson* argue that legislation securing property rights increased over the 18th century in response to demand side forces. The importance of these articles for our story is that checks and balances need to be created but then even more importantly sustained over a relatively long period of time. Great Britain managed to do this while Argentina fell by the wayside.

<sup>5</sup> For an excellent analysis of the early establishment of credible commitment in Argentina within an autocratic political environment in Argentina following 1862 see *Saiegh (2008)*.

<sup>6</sup> For an analysis of the evolution of suffrage institutions in the new world, see *Engerman and Sokoloff (2005)*. Of the South American countries, Argentina was the first to adopt the secret ballot, perhaps setting the example which other countries followed.

<sup>7</sup> Undoubtedly the world collapse of commodity prices played a role but this an insufficient condition because there was an earlier agricultural collapse in 1920 which did not topple the Argentine government. Most analysts argue it was the ineptitude of the aging President Yrigoyen which prompted the coup. For analyses of this period of Argentine history see (*Halperin Donghi, 2004; Ansaldi et. al., 1995; Botana et. al., 1997; Peralta Ramos, 1992; Pereira, 1983; Potash, 1969; Rouquie, 1983; Sanguinetti, 1975 and Schilizzi Moreno, 1973*).

<sup>8</sup> The Court may also have felt that the emergency of the Great Depression warranted a departure from the Constitution. In the U.S. in *Home Building and Loan vs Blaisdell* decided by the Supreme Court in 1934, the court ruled the emergency conditions warranted a temporary departure from the contract clause. The decision allowed the state of Minnesota to issue a moratorium on foreclosures. See *Alston (1984)*.

<sup>9</sup> There is an abundant literature on the proximate origins and consequences of Peronism, see (*Brennan, 1998; Ciria, 1983; Crawley, 1984; Di Tella, 1998; Elizagaray, 1985; Fayt, 1967; Ferrero, 1976; Germani, 1973; Gerchunoff, 1989; Halperin Donghi, 1975; Halperin Donghi, 1994; Horowitz, 1990; Jones, et. al., 2002; Kenworthy, 1975; Little, 1973; Matsushita, 1983; Murmis and Portantiero, 1972; O'Donnell, 1973; Rock, 1985; Romero, 1988; Sabato, 1988; Smith, 1972; Smith, 1974; Torre, 1990; Torre, 1989; Torre, 1988 and Waisman, 1987*).

<sup>10</sup> *Spiller and Tommasi (2004)* argue that the political institutions in Argentina, especially since 1947 have lead directly to volatility of economic policy. They report that Argentina's economic policy from 1970–1990 ranked as the 7th most volatile out of 106 countries.

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