

## *As We See It*

*The problem with socialism is that eventually you run out of other people's money.*

— Margaret Thatcher

According to Angus Maddison's historic incomes database, only seven countries in the world—Belgium, Switzerland, Britain, and four former English colonies including the United States—were more prosperous than Argentina a century ago. The U.S. and Argentina were rivals. Both were riding the first wave of globalization at the turn of the 20<sup>th</sup> century. Both were young, dynamic nations with fertile farmlands and abundant natural resources.

Today, the wealth of the two countries is starkly different. According to World Bank data, the per capita gross domestic product at purchasing power parity (adjusted for inflation) in 2009 was \$46,350 for the U.S. and \$12,818 for Argentina. That ranked them 4<sup>th</sup> and 49<sup>th</sup> respectively in the world.

What brought about the startling difference in the fortunes of these two countries? There is no single answer. Some point to the fact that in settling their vast western farmland the U.S. favored small farmers while Argentina backed landlords. Short of cash, Buenos Aires found the best way to encourage settlers was to sell, in advance, large plots in areas yet to be seized from the natives. But, since good farm laborers were in short supply (immigration was more restrictive in Argentina than the U.S.) most of the new landowners simply encircled wide tracts of grassland with barbed-wire fences and turned them into pastures. In the U.S., many applicants were able to secure free land under various Homestead Acts. According to the The National Archives, 1.6 million homesteads were granted and 270,000,000 acres of federal land were privatized between 1862 and 1934—a total of 10% of all lands in the United States. The wealth stayed with the relatively few landlords in Argentina but was spread among many in the U.S.

Another difference between the two countries was that property rights in Argentina were not nearly as well defined as in the U.S. For most of Argentina's history, the role of the state as reflected in the increase in state-owned property and businesses was much greater than in the U.S. Moreover, Argentina went through several periods of dictatorship during which property rights were compromised.

Perhaps the biggest reason for the different economic paths taken by Argentina and the U.S. was Argentina's socialism versus free enterprise in the U.S. In 1916, a new president in Argentina promised *fundamental change* which appealed to the middle class. He introduced mandatory pension insurance, health insurance, and low-income housing to *stimulate* the economy. The government took control of Argentina's economy and introduced new taxes to pay for its venture. The entitlement programs grew so fast that eventually the outlays outpaced the inflow. Today, for example, the length of time one can receive unemployment insurance benefits in Argentina is unlimited. Juan Peron became president in 1946 and expanded socialism. He also incorporated the fascism he had learned from Mussolini to turn on *the rich*. Before long *the rich* became the middle class and Peron taxed them to the point where much of the middle class was destroyed.

To pay for the government's promises, Argentina's taxes are extensive. Individual income tax varies between 9% and 35%. The corporate income tax rate is 35%. There is a 1% tax on worldwide assets of Argentine companies which can, in some cases, be offset by the corporate income tax. Individuals are also taxed annually on the value of their assets worldwide. The rate starts at 0.5% for amounts in excess of U.S. \$80,263 and reaches 1.25% for amounts in excess of U.S. \$1,315,789. There is a value added tax (in effect a national sales tax) of 21%. Also included are real estate transfer taxes, excise taxes, customs duties, export duties, and local sales taxes.

During the last century, U.S. citizens attained a much better standard-of-living than the citizens of Argentina largely because the amount of socialism practiced by the two countries varied considerably. However, the two systems are coming closer in terms of economic philosophy and, therefore, may have similar growth paths in the future.

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