

Capitalism, Populism and Democracy: Revisiting Samuelson's Reformulation of Schumpeter

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Abstract. In the 1970s and early 1980s Paul Samuelson reformulated the conditional prediction made by Joseph Schumpeter in *Capitalism, Socialism and Democracy* by replacing socialism with populism. According to Samuelson, “populist democracy” had attained its fullest development in the Southern Cone. He viewed Argentina as the paradigmatic case that proved his theory. Samuelson's thesis was that a strong electoral demand for equality and antipathy to business had hindered sustained economic growth. At the time, Samuelson also believed the advanced Western economies could follow the same path as Argentina. The Reagan and Thatcher revolution proved him wrong. However, the emergence of populism in Europe and the US in recent years revived his hypothesis. The objective of this paper is to review and critique Samuelson's theory and to assess its relevance and usefulness today.

Keywords: Samuelson, Schumpeter, Capitalism, Socialism, Democracy

JEL Codes: B20, B30, N16

[es] Capitalismo, populismo y democracia: revisando la reformulación de Schumpeter por Samuelson

Resumen. En la década del 70^a y principios de los 80^a, Paul Samuelson reformuló la predicción formulada por Joseph Schumpeter en *Capitalismo, socialismo y democracia* reemplazando socialismo por populismo. Según Samuelson, la “democracia populista” había logrado su mayor desarrollo en el Cono Sur. Observó a la Argentina como un caso paradigmático que probaba su teoría. La tesis de Samuelson establecía que una fuerte demanda electoral de igualdad y una antipatía hacia el negocio impedía el crecimiento económico y sostenido. En aquel entonces, Samuelson también sostenía que las economías avanzadas de Occidente podrían seguir el mismo camino que la Argentina. La revolución de Reagan y de Thatcher refutaron su hipótesis. Sin embargo, la emergencia populista en Europa y Estados Unidos en años recientes parece rehabilitarla. El objetivo de este ensayo es revisar y establecer una crítica a la teoría de Samuelson y evaluar su relevancia y utilidad hoy.

Términos clave: Samuelson, Schumpeter, Capitalismo, Socialismo, Democracia

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[pt] Capitalismo, Populismo e Democracia: Revisitando a Reformulação de Samuelson de Schumpeter

Resumo. Nos anos 1970 e início dos anos 1980, Paul Samuelson reformulou a previsão condicional feita por Joseph Schumpeter em “Capitalismo, Socialismo e Democracia”, substituindo o socialismo pelo populismo. Seguindo o que Samuelson diz, a “democracia populista” havia atingido seu pleno desenvolvimento no Cone Sul. Ele considerava a Argentina como um caso paradigmático que comprovava sua teoria. A tese de Samuelson era de que uma forte demanda eleitoral de igualdade e antipatia aos negócios haviam impedido um crescimento econômico sustentado. Na época, Samuelson também acreditava que as economias avançadas do Ocidente poderiam seguir o mesmo caminho da Argentina. A revolução de Reagan e Thatcher provou que ele estava errado. No entanto, o surgimento do populismo na Europa e nos Estados Unidos nos últimos anos torna sua hipótese mais plausível. O objetivo deste artigo é revisar e criticar a teoria de Samuelson e avaliar sua relevância e utilidade hoje em dia.

Palavras-chave: Samuelson, Schumpeter, Capitalismo, Socialismo, Democracia

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1. Introduction

In several articles he wrote during the 1970s and early 1980s, Paul A. Samuelson reformulated the conditional prediction that Joseph A. Schumpeter, his teacher at Harvard, had made in *Capitalism, Socialism and Democracy* (1942). Although Samuelson's views during this period evolved, sometimes in contradictory ways, the core of his argument remained unaltered (for a thorough revision of Samuelson's evolving views on the subject see Boianovsky, 2021). His reformulation of Schumpeter consisted in replacing a) "capitalism" with the mixed economy system prevailing in most advanced Western economies, b) "socialism" with populism, and c) "Schumpeterian democracy" –a competitive struggle for votes– with "Madisonian democracy" –a system of checks and balances that protects the rights of minorities. Samuelson minimized the three factors that Schumpeter had identified as decisive in a democracy's decision to abandon the first system in favor of the second, and instead he single-mindedly focused on inequality (as subjectively perceived by voters in the context of a stagnating economy). Finally, he inverted Schumpeter's argument: capitalism would not collapse due to its success in delivering sustained GDP per capita growth but due to its failure in providing the levels of equality in income and wealth voters demanded.

Samuelson considered "populist democracy" prevailed in the Southern Cone countries and identified Argentina as the one in which this system had reached its fullest development and suffered most intensely its effects (Boianovsky, 2021, p. 12). According to Samuelson, in these countries electoral democracy had gotten ahead of economic development: an electoral demand for equality and cultural hostility to business had aborted sustained economic growth.

In the late 1970s, when the advanced Western economies were mired in stagflation, Samuelson argued that they could follow the same path as Argentina. The Reagan and Thatcher revolution proved him wrong. The fall of the Berlin Wall and Deng's reforms in China a few years later proved Schumpeter wrong (at least for now.) It is reasonable then to ask what the point of reviewing Samuelson's theory is. The answer is simple: the emergence of populism in Europe and the US in recent years and the prospects of "secular stagnation" (Gordon, 2015) makes it plausible again.

The purpose of this paper is to review and critique Samuelson's reformulation of *Capitalism, Socialism and Democracy*. Section 2 summarizes the theory Samuelson loosely articulated in several articles and papers he wrote during the 1970s and 1980s. Section 3 critiques this theory by focusing on the case of Argentine, which Samuelson considered paradigmatic. Section 4 offers some tentative conclusions.

2. Samuelson's Reformulation of Capitalism, Socialism and Democracy

In *Capitalism Socialism and Democracy*, Joseph A. Schumpeter famously predicted that capitalism would inevitably succumb to socialism. This outcome would not be due to "the weight of economic failure" but to its "very success" which would undermine "the social institutions which protect it and inevitably creates conditions in which it will not be able to live" (Schumpeter, 1942, p. 61). In Schumpeter's view, the demise of capitalism would be caused by three main factors: the bureaucratization and obsolescence of management, a general atmosphere inimical to business and businesspeople, and the unsparing hostility of intellectuals. He emphasized that he was not a socialist and was not advocating or even predicting socialism ("I do not pretend to prophesy" he wrote). He simply pointed out the logical result of "observable tendencies" and recognized that they could be altered due to "factors external to the chosen range of observation" (*ibid.*, p. 422).

Until the early seventies, it seemed as if Schumpeter's pessimism about the prospects of capitalism had been unwarranted or at least exaggerated. In 1970 Paul A. Samuelson came to the rescue of his old master:

It is just twenty years since Joseph Schumpeter died. Although it is not my practice to tout profitable speculations, today I would like to suggest that Schumpeter's diagnosis of the probable decay of capitalism deserves a new reading in our own time. The general reader cannot do better than begin with his 1942 *Capitalism, Socialism and Democracy*. (Samuelson, 1970)

According to Samuelson, Schumpeter had been "wrong in his timing, so very wrong, but who can walk the streets of Princeton or Stockholm or Toronto and deny his prescience?" (Samuelson, 1971, pp. 277-278). Thirty years had passed since the publication of Schumpeter's book and Samuelson wrote with a similar time horizon in mind. He analyzed "observable tendencies" and extrapolated them. He recognized that in the post-war period the mixed economy system had been a resounding success: "the third quarter of the twentieth century outshone any epoch in the annals of economic history" (1965, p. 45). However, he was concerned about future. How sustainable was the mixed-economy system that prevailed in Western democracies in the face of increasing social pressure? He could see "new forces developing in the wealthier nations" On one hand, "new demands for greater social responsibility are being made of business" while on the other, the "old demands –ever greater productivity and higher living standards for all– continue to be strongly pressed, perhaps even more so than at any time in the past" (Samuelson, 1972, p. 176). What if governments (or voters)

placed social demands on industry that industry could not meet without sacrificing productivity or innovation?

There is a dictum attributed to Lenin to the effect that we will ruin the capitalist system by debauching its currency. That is not a highly intelligent way to hurt an economic system and advance the day of successful revolution. By contrast, there are few better ways to ruin a modern mixed economy than to insist on 40 to 70 per cent increases in money wage rates within a brief period. This, to a degree, has happened repeatedly in the unhappy economic history of Latin America. (*ibid.*, p. 176)

During the following decade, Samuelson authored articles in which he refined and developed his theory. At that time, nobody foresaw how in 1989 the Iron Curtain would crash down abruptly. After the oil shock of 1973, the advanced Western economies gradually fell into what seemed a permanent stagflation. “Has the modern evolution of capitalism, the mixed economy, run out its string of luck?” wondered Samuelson in 1976. “Is the realistic outlook for the final quarter of the century a more somber one?” (Samuelson, 1976a, p. 47). He thought his old master’s prediction no longer seemed far-fetched but not for the reasons he had envisioned.² Its failure and not its success was the problem. According to Samuelson the problem with Schumpeter’s original thesis rested on his definition of socialism:

Somewhere Schumpeter proposes a more useful broadening of the word “socialism” beyond its original connotation of state ownership of the means of production. He speaks of “an extension of the public sector at the expense of the private sector” as constituting an extension of socialism... I must repeat that Schumpeter’s thought was confused. He really did not expect the mixed economy, whose evolution he correctly perceived, to be a well functioning and stable way of running the railroad of modern social living. The fact that Schumpeter was, overall, wrong in this regard for the third quarter of the century should not blind us to the possibility that some of the malfunctionings he feared may be looming up more closely ahead in the last quarter of this century. (1980, p. 63)³

The likely successor of capitalism “is not necessarily ‘socialism’ in any of the conventional senses of the word,” Samuelson explained (Samuelson, 1981a, p. 19). He also thought that Schumpeter’s had equivocated on the definition of capitalism (Samuelson, 1981a, p. 13). Finally, he questioned Schumpeter’s optimism about capitalism’s ability to “deliver the goods.” Contrary to what Schumpeter had argued, capitalism’s success was not the problem, but rather its failure. But failure had to be redefined in non-economic terms. “If we broaden our definition of failure to go beyond the behavior of broad real aggregates of output and income, if we include failure of a market system to provide what electors deem a fair and equitable degree of equality of

income and opportunity –if we do this, we can assert with propriety and confidence that often failure of capitalism is what can be expected to result in its demise” (Samuelson, 1981a, p. 19).

In 1980 Lester Thurow, a colleague of Samuelson at MIT, published a best-seller in which he argued that the US economy had become “zero-sum game”, and its political system was unable to resolve society’s most pressing problems such as inflation, unemployment and stagnation (Thurow, 1980, pp. 8-9, 11). Samuelson dismissed this notion even before Thurow drafted his book. He considered it “a false philosophy of despair” (Samuelson, 1978, p. 233). However, he believed that stagflation was “intrinsic” to the mixed economy system and was convinced that slower growth lied ahead due for Western economies due to higher energy prices, increased laziness, and slower innovation (Samuelson, 1980, pp. 71-74). Even in a non-zero-sum game, Von Neumann and Morgenstern’s basic theorem still applied: in a democracy, the poorer 51% would use the state “to gang up” on the richest 49%. Well-intentioned policymakers’ attempts to interfere with market mechanisms could make matters worse. Samuelson believed there was no guarantee that growing electoral demands for government intervention and income redistribution would result in optimal policies and avoid “all other temptations that involve deadweight loss and distortion” (*ibid.*, p. 72). Falling into those temptations was characteristic of “populist democracy.”

It may be commendable to take from the over-rich and give to the needy poor. But in doing this, the welfare state all too often impairs the incentives of the poor to do the actions that will lessen their poverty. And the process of taking away superfluous income from the affluent classes inevitably in some degree blunts the incentives of those taxpayers to produce useful goods and services (Samuelson, 1984, p. 504). “Basically, you can’t have your cake and eat it too. Only the size of ‘deadweight losses,’ tradition and the economic power of the ‘plutocrats’ could prevent the onset of populist democracy (Samuelson, 1981a, p. 19). Following Olson (1982), Samuelson worried that the struggle between different interest groups would end up in deadweight loss for society, i.e., it could lead to a Pareto inefficiency (Samuelson, 1984, p. 504).

In Samuelson’s view, Argentina was a paradigmatic case that showed the consequences of yielding to the populist temptation. He recognized that in 1945 Argentina had not been in the same situation the Western economies found themselves circa 1980. However, he believed that what had led to populist democracy in the former was not stagflation, but “considerable” inequality under a *laissez-faire* system. In each case the proximate cause of the problem was different, but the consequences were the same: a majority of voters demanding government intervention to alter the income and wealth distribution generated by market forces and such intervention being sub-optimal. In other words, Madisonian democracy giving way to populist democracy:

John Adams and Alexander Hamilton warned against democracy. So did Edmund Burke and Thomas Babington Macaulay. Universal suffrage, they prophesied, would inevitably mean that the poorest 51 per cent of the population would pillage the property of the frugal middle classes... The deadweight loss of inefficient and unre-

² In fact, in his best-selling textbook Samuelson predicted that under an optimistic scenario (or pessimistic depending on one’s view) the GDP of the USSR could surpass that of the US by 1990 (1976b, pp. 882-883).

³ It is Samuelson who seems to be confused. As we shall see below, Schumpeter did in fact a definition of socialism that encompassed a populist system.

sponsive representative government simply decimates the total social pie that we call real gross national product. The pace of economic progress is brought to a veritable halt as the government fritters away the resources needed for producing new capital equipment and plant, and as inept regulation poisons the wellsprings of technological advance and entrepreneurial innovation. Workers are hurt along with owners of property since any rise in real wages must come primarily from the accumulation of capital and the improvement of skills and managerial techniques. At best, it is only the politicians and bureaucrats who fatten and thrive under populist democracy. (1979b, pp. 53-54)

Samuelson reformulated Schumpeter's thesis by redefining certain terms and inverting its argument. He replaced capitalism with a mixed-economy system, socialism with populism and electoral democracy with Madisonian democracy. He then argued that what would bring capitalism down would not be its success in delivering GDP growth but its failure to provide voters with the degree of equality of income and wealth they felt they deserved.

Just like Schumpeter believed democracy could survive under socialism, Samuelson believed it could survive under populism. He used the term "populist democracy" to describe this system. According to Boianovsky (2021), Samuelson borrowed it from Robert Dahl's *A Preface to Democratic Theory* (1956). In his book, Dahl contrasted "populist democracy" –in which majorities exercised unlimited power– to "Madisonian democracy," which limited the power of majorities and protected the rights of minorities with a system of checks and balances (Dahl, 1956, p. 34). In Samuelson's view there was one country in the world where "populist democracy" had achieved its fullest development and had also suffered its consequences to the fullest: Argentina. The inherent tension between economic and political power could turn a Madisonian democracy into a populist democracy:

The same gasoline that classical economists thought ran the *laissez faire* system, namely self-interest, will in the context of democracy lead to use of the state to achieve the interest of groups. It is a theorem of von Neumann's theory of games that this should be the case. Long before Marx, John Adams and Thomas Macaulay warned that giving votes to all would mean that the poorest 51% of the population would use their power to reduce the affluence of the richest 49% (1981b, p. 43) ... Social equilibrium *a la* Queen Victoria or Calvin Coolidge is unstable. If all groups but one adheres to its modes of behavior, then it pays the remaining persons to form a collusion and use the state to depart from the *laissez faire* beloved by Ludwig von Mises and Fredric Bastiat. (1980, p. 70)

The history of the world would have been quite different if in the 19th century a political leader in the advanced Western economies had followed the same policies that Perón followed in Argentina between 1946 and 1948:

If in the time of England's industrial revolution men had had the political power to try to rectify within a generation the unconscionable inequities of life, in which a privileged few live well off the sweat of the multitude, it is doubtful that the industrial revolution could ever have continued. The outcome would not have been a rational, planned economy with a Professor Tinbergen or Frisch at the helm. The outcome would have been legislated in-

creases in money wages of as much as 40% per year. The outcome might well have been like that we have seen in those Latin American countries which have reached the brink of economic development while fully or overly developed in the political sphere. (1971, p. 277)

Although Samuelson partially exonerated Perón for Argentina's secular decline, he recognized that he had unleashed forces that had provoked it:

It is nonsense to continue to blame the dictator Peron for a stagnation in the Argentinian economy which has prevailed in the decades since he lost office. But it is not nonsense to infer that the populist imperatives upon which Peron so skillfully played have a pivotal role in explaining the miracle of Argentinian stagnation. (1972, p. 176)

In Samuelson's view Argentina was the example *par excellence* of an economy whose stagnation did not result from "climate, race divisions, Malthusian poverty or technological backwardness." Its problems were of a different nature. Argentine society, "not its economy, seems to be sick. Its political system does not function in a way conducive to productivity. And these sickness in sociology and government do impair the economic health of the Argentine economy" (1984, p. 504).

At that time, late 1970s, a foreign observer with limited knowledge of their history, could assume that Argentina, Chile, and Uruguay suffered from the same malaise. The common symptoms were political instability, low economic growth, and high inflation.⁴ The table below shows the averages for the last two variables for successive 5-year periods between 1960 and 1984. Until 1974, Argentina was experiencing the fastest economic growth but still trailed the global average by almost 1% per annum. Chile under the Allende regime, which unsuccessfully tried to implant an updated version of Marxism, was the first of the three countries to flirt with hyperinflation. In 1974 its annual inflation rate exceeded 600%. Argentina took the leadership in 1975-76 and had full-fledged hyperinflation in 1989-90. Although in a lesser degree than Argentina, Uruguay also experienced inflation, stagnation, military coups, and political instability (see the Appendix for a discussion of the similarities and differences between the populist experience in the Southern Cone.)

Table 1. Inflation and Growth in The Southern Cone (1960-1984)

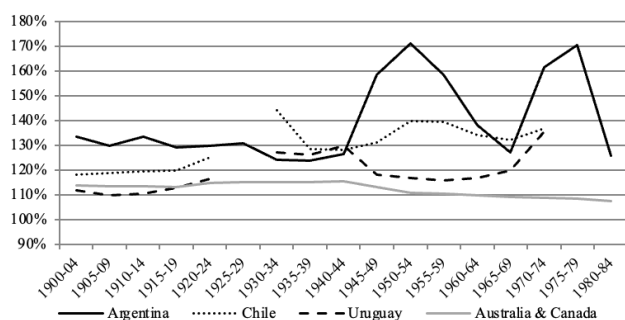
| Period | Annual inflation rate | | | GDP per capita growth | | |
|---------|-----------------------|--------|---------|-----------------------|-------|---------|
| | Argentina | Chile | Uruguay | Argentina | Chile | Uruguay |
| 1960-64 | 23.1% | 25.3% | 27.7% | 2.2% | 2.9% | 0.2% |
| 1965-69 | 22.6% | 24.4% | 73.8% | 3.8% | 2.6% | 0.7% |
| 1970-74 | 38.2% | 258.7% | 57.4% | 2.8% | -0.4% | 0.9% |
| 1975-79 | 227.7% | 140.6% | 61.0% | 0.2% | 1.9% | 4.1% |
| 1980-84 | 268.0% | 22.4% | 44.2% | -1.7% | -0.9% | -2.5% |

Source: World Bank, The Maddison Project and IMF.

⁴ Brazil shared only two of these symptoms: political instability and high inflation.

According to Samuelson, in the Southern Cone, development of electoral democracy had outpaced economic development. Or using Dahl's definition, populist democracy had gotten ahead of Madisonian democracy. Samuelson's hypothesis is supported by the data. The V-Dem index of electoral democracy (IED) serves as proxy for the former while the index of liberal democracy (ILD) for the latter. The ratio IED/ILD measures the supremacy of "populist democracy" over Madisonian democracy. The chart below compares its evolution from 1900 until 1984 using data only for the years in which a legitimately elected president governed in each country. At least for this period, the ratio is a good indicator of the prevalence of populism.⁵ In the case of Argentina it reached its maximum values in 1945-55 and 1973-75, when Perón was in power. In the case of Chile, during the presidency of Salvador Allende (followed closely by Ibañez del Campo in the 1950s). In contrast on average Uruguay consistently exhibited a lower ratio reflecting a stronger democratic tradition. The average for Australia and Canada is provided as a benchmark.

Graphic 1. Supremacy of Populist Democracy over Madisonian Democracy (1900-84) (Ratio of IED/ILD)



Source: V-Dem Institute.

Note: Only years in which electoral democracy was present are used to calculate the period average.

According to Samuelson, in Argentina, Chile and Uruguay a strong electoral demand for equality combined with a deep-rooted antipathy to business had aborted capital accumulation, which in turn had led to stagnation. In Samuelson's view, populist policymakers in these countries had attempted to rectify "the inevitable inequities of life" within a generation by massive income and wealth redistribution:

The southernmost countries of Latin America have fallen most markedly below their post-war potentials for development. The reasons do not seem to be narrowly economic. We cannot explain what has happened by appeal to Malthus's law of diminishing returns. There has been no exogenous shift in world demands peculiarly unfavorable to that region of the world. Their sickness, Schumpeter would claim, is political and sociological rather than economic. It has to do with the breakdown of social consensus. It has to do with the workings out of the logic of populist democracy. (1980, p. 69)

Under the guise of social justice, Perón had replaced a well-functioning capitalist system that had generated important levels of prosperity with a system in which the state (or he) made all the important decisions concerning the allocation and remuneration of economic resources.

At the Mexico City conference in 1980, Samuelson wondered if it was too farfetched "as we try to peer into the decades just ahead and do so against the backdrop of the 1970's era of worldwide stagflation, to fear that many of our mixed economies will begin to suffer from their own version of the Argentinian sickness? (1980, p. 68)." At the time Samuelson saw Pinochet's imposition of monetarism as the "fascist solution" to the problem posed by "populist democracy." He also believed the same type of political regime would be necessary for monetarism "to succeed in fighting stagflation in the U.S. and in the U.K" (Boianovsky, 2021, p. 4).

Even after the fall of the Berlin Wall, Samuelson remained convinced of his thesis that the political instability of capitalism arose out of its inability to provide what "electors deem a fair and equitable degree of equality of income and opportunity" (1981a, p. 19). In 1997 he wrote an outline for a conference he planned to give in Buenos Aires in which he repeated his argument of how income and wealth inequality generated electoral demands that thwarted Argentina's growth after World War II:

There was a history of considerable inequality of wealth between rich landowners and uneducated urban populations. Democracy, as elsewhere in Latin America, evolved in a *populist* direction... by promising the lower-income majority programs that would interfere with the verdicts of competitive markets. (cited by Boianovsky 2021, p. 25)

3. A Critique of Samuelson's Thesis

The Reagan and Thatcher revolutions dealt a big blow to Samuelson's thesis. A year before Reagan's election Samuelson had predicted that "middle class backlash and taxpayer revolts will not achieve restoration of Herbert Spencer's *laissez faire*" (1978, p. 53). After the fact he considered it as a "rational and not an irrational reaction to America's inflation and stagnation during the 1970s" (Samuelson, 1981a, p. 10). Then came the fall of the Berlin Wall and Deng's reforms in China. It seemed then that Schumpeter's prediction –both in its original form and as reformulated by Samuelson– had to be discarded. What collapsed was not capitalism, but socialism. For the advanced Western economies, the Argentine scenario Samuelson had fretted about for over a decade seemed as far-fetched as the impending collapse of capitalism. Even in Argentina a Peronist president embraced free markets! Samuelson was also wrong about monetarism and Chile. He predicted that Pinochet regime (or what he described as a system as "Chicago economics imposed by force") would never evolve into a democracy: "History records no known case where fascism succeeds even on its own economic terms for any sustained period. Alas, such systems cannot evolve into normal democracies... dictators dare not ease up on repression (1980, p. 76)."⁶

⁵ Both the IED and the IDL reflect subjective assessments. In recent decades, the assessments are more questionable. For example, in 2020 the IDL increased in Argentina and decreased in Chile and Uruguay, which does not seem an accurate reflection of reality.

⁶ Treisman (2020) found that since 1800 only approximately up to one third of transitions from authoritarianism to democracy originated in

As it turns out, Chile did indeed evolve into a democracy and not due to a revolution but to a decision made by the dictator himself (under pressure from other members of the *Junta*.) And the governments that Chilean voters democratically elected after 1990 did not give up on Chicago economics (partly due to the electoral system imposed by Pinochet.) As a result, Chile became the most economically advanced democracy in Latin America. The gains were not limited to the economy. Institutional quality improved and poverty levels fell. Samuelson later recognized these facts and “hailed Chile’s “excellent recovery from its socialistic venture and ensuing military fascism” (Boianovsky, 2021, p. 28).

4. Populism and Inequality

Samuelson’s game theory argument was logically flawless but inadequate to explain current or past populist waves. Economic theory is a powerful tool, but it cannot capture several important dimensions of populism (for a review of the literature on the subject see Ocampo, 2019.) Which does not mean that his writings on the subject are worthless or irrelevant. Samuelson pioneered the economic analysis of populism. As pointed out by Boianovsky (2021), his emphasis on the political consequences of inequality in a democratic setting anticipated the median-voter theorem (see Romer, 1975 and Meltzer and Richard, 1981).⁷

However, Samuelson did not explore the full implications of his argument. If inequality was the main cause of populism, it should have grown and developed more rapidly in countries such as Mexico or Brazil, not in Argentina, a country that had the largest and most educated middle class in Latin America. When it comes to populism what matters is not absolute inequality between rich and poor as Samuelson argued, but the inequality felt by the middle class, the largest block of voters in most democracies with some degree of development (and where the median voter resides.) An analysis of the evidence from OECD countries suggests that when the middle class feels closer to the poor than to the rich, it forges an alliance with the former to vote in favor of redistributive policies (Lupu and Pontusson, 2011).⁸ This problem was particularly acute in countries such as Argentina that had become very prosperous in a short period of time. As Huntington explained in his classic treatise, “not only does social and economic modernization produce political instability, but the degree of instability is related to the rate of modernization” (Huntington, 1968, p. 45).

By focusing on inequality, Samuelson distanced himself from Schumpeter, whose argument about the demise of capitalism was “by no means wholly eco-

nomie” (Schumpeter, 1942, p. 384).⁹ Schumpeter had not considered inequality as a key factor that would drive a society to embrace socialism because he saw no reason to believe that “the distribution of incomes or the dispersion about our average would in 1978 be significantly different from what it was in 1928” (ibid., pp. 65-66). However, he recognized that fostering “the association of inequality of any kind with ‘injustice’” was an important “element in the psychic pattern of the unsuccessful and in the arsenal of the politician who uses him” (ibid., p. 254).

5. Collective Narcissism and Populism

Samuelson ignored another key factor that must be incorporated into any explanation of populism: extreme nationalism. Schumpeter had recognized its importance when he observed “to exalt national unity into a moral precept spells acceptance of one of the most important principles of fascism” (Schumpeter, 1942, p. 352) The same can be said about populism. Samuelson never even considered this as a factor in his theory of the rise of “populist democracy.” Which is surprising, given that in his best-selling economics textbook he described Perón as a fascist dictator and explained that “fascist movements are always highly nationalistic” (Samuelson, 1976b, p. 870).

According to Gellner (1983), nationalism can be considered as an ideology, a feeling and/or a movement. The last two derive from the first. The ideology holds as a basic tenet the congruence between political and national unity. When this congruence is fulfilled, the electorate feels satisfaction and pride. When it breaks down, nationalist feeling emerges, translating into voter frustration and anger. A nationalist movement embraces nationalist ideology and is fueled and driven by nationalist sentiments.

The emotional and psychological basis of nationalism is collective narcissism, a concept originally introduced by Freud (1921) and later developed by Adorno (1963) and Fromm (1964, 1973). In recent decades social scientists have incorporated collective narcissism in their theories of populism (see for example Marchlewska et al (2018), Golec de Zavala and Keenan, 2021, and Golec de Zavala and Lantos, 2020). As Fromm explained, collective narcissism is one of “the most important sources of human aggression, and yet this, like all other forms of defensive aggression, is a reaction to an attack on vital interests” (Fromm, 1973, p. 205).

Samuelson was right when he argued that Argentina’s “populist democracy” offered a cautionary tale to the US and other advanced democracies in the West, but it was not the one he derived from his emphasis on inequality and his erroneous interpretation of Argentine history. The common thread that links Trumpism with 1940s Peronism is threatened collective narcissism (see Federico and Golec de Zavala, 2018.)

a deliberate decision by incumbents. However, the percentage has declined in recent decades.

⁷ According to this theorem a widening gap between the income level of the median and the average voter will lead to higher taxes and income redistribution.

⁸ Income redistribution alone does not necessarily imply or generate populism (although populism always entails some form of income or wealth redistribution).

⁹ It is true that Samuelson recognized the importance of sociological factors, but he did not incorporate them into his theory.

6. The Rise of Populism in Argentina

Argentina plays a significant role in Samuelson's reformulation of *Capitalism, Socialism and Democracy*. However, Samuelson's over-simplified interpretation of Argentine history seems like an attempt to fit the facts to his theory. When Perón rose to power in 1943, Argentina was the richest country in Latin America, had by far the largest and best educated middle class in the region, its economy was close to full employment and real wage levels were higher than in 1939. It is true that growing inequality in the distribution of economic and political power contributed to Perón's electoral success. Between 1933 and 1943, the top 1% increased its share in national income from 17% to 26%. This rise in inequality was not due to the concentration of land ownership in the hands of a few oligarchs as described in the typical narrative. In fact, it is what Lewis and Kuznets would have predicted in a rapidly industrializing economy.

Samuelson failed to consider some key facts about Argentina. First, populist democracy in Argentina is inextricably linked to Perón and Peronism. Except under Menem during the 1990s, the Peronist party has been the "enabler" of populism.¹⁰ Second, the Argentine variant of populism was significantly different from those that emerged in Chile and Uruguay: it was more virulent and persistent and also inseparably linked to Peronism. As the editor of the leading financial weekly in Argentina explained in response to the first of Samuelson's articles, "the fact is that on any careful analysis, Argentina is still crippled by the economic, social and political consequences of the Perón regime (*The Review of the River Plate*, 1971, p. 509)." This is as true today as it was in 1971. Third, as Waisman (1989a, 1989b) has argued, Peronism was the reaction of an autonomous state elite—the army—to the dislocations produced by the Great Depression, the emergence of the communist threat and the geopolitical realignments generated by WWII. This reaction was initially not channeled through democratic institutions but through a military coup in which Perón played a key role.

The objective of Perón and the officers who followed him was to neutralize two threats to Argentina that they perceived as imminent and existential: a communist revolution and US growing hegemony in South America.¹¹ Extreme nationalism, an admiration for Hitler and Mussolini, and a euro-centric conception of international affairs, fed this erroneous diagnosis. Regarding the first threat, despite the warnings of "vociferous intellectuals," communism was not a threat to the status quo (Weil, 1944, p. 7).¹² As to the second threat, it mostly had been provoked by Argentina's policy of openly confronting the US, particularly after December 7, 1941. For several

years Argentina was the only country in Latin America that refused to break relations with Nazi Germany. The military regime confronted the United States even after it was obvious it would emerge victorious from WWII. This policy was "pure folly" and imposed heavy costs on the Argentine economy (Escudé, 2006, p. 2). However, confronting the *yanquis*—and their alliance with Brazil—was the *raison d'être* of the June 1943 coup. The rise of Peronism owes more to wounded national pride than to income inequality. Although Perón's anti-American policy was very costly to Argentina it was extremely popular.¹³

Fourth, in Argentina "populist democracy" did not emerge out of electoral demands for redistribution. Perón reversed the course taken by European fascism and took Argentina from authoritarianism to electoral democracy. He was more powerful in the former than in the latter.¹⁴ How did this come about? After Germany's surrender in April 1945, the days of the military regime were counted. Perón decided to take a political gamble and run for president. Once the military regime announced upcoming elections, Perón took advantage of his influence to prop up his presidential candidacy. He covered himself with the mantle of social justice, actively resorted to government financed clientelism and handouts to labor unions and, more importantly, strident nationalism.

His campaign counted on two powerful allies: the Catholic Church and the US Government. The former viewed with sympathy a movement that followed Catholic "social doctrine" and proposed to adopt a "third way" equally distant from communism and liberal democracy. As to the US State Department, it unwittingly helped Perón, whom it considered its worst enemy in the Americas. Spruille Braden, who after the end of WWII was appointed US ambassador in Argentina, tried to interfere publicly in domestic political affairs. According to his British counterpart, Braden came to Buenos Aires "with the fixed idea that he had been elected by Providence" to overthrow Perón and the military regime (Kelly, 1953, p. 307). Braden's conduct during his brief stint in Argentina was completely counterproductive. Perón used the slogan "Braden or Perón" to significant effect during his campaign. He tapped a deep-rooted resentment against the US, which for many Argentines was the main threat to their country's greatness. Perón's landslide election in February 1946 was a foregone conclusion (*ibid.*, p. 311.)

Francis Herron, an American journalist that visited Argentina in 1942, also noted the natives' extreme national pride, a strong belief in their superiority vis-à-vis the rest of Latin America, and a profound dislike of the United States.¹⁵ These feelings subsist today despite

¹⁰ Since 1955, the Radical Party, which until the emergence of Peronism, was the largest in the country also attempted briefly and unsuccessfully to implement a "well-mannered" type of populism.

¹¹ A subsidiary objective was to prevent free elections from taking place.

¹² Weil was a wealthy German-Argentine who in his youth had been a hard-core communist sympathizer and in the 1920s served as the Komintern's agent and liaison in Latin America. After a brief stint as advisor to the Finance Minister of Argentina he settled in the US. Weil was the main financial sponsor of the Frankfurt School.

¹³ Given the level of foreign direct investment, the democratic nature of its government and the convictions of most political leaders, in 1939 Argentina was the natural ally of the Allied Powers in South America. Instead, by embracing a false neutrality it left a space that was quickly filled by Brazil under the guidance of Souza Aranha. In 1940, US FDI in Argentina was 60% higher than in Brazil, and by 1955 it was 60% lower (Díaz Alejandro, 1970, p. 266).

¹⁴ It is an interesting contrast with Pinochet.

¹⁵ During the first half of the 20th century governing elites perceived the US as a threat to Argentine superiority.

Argentina's failure. In the annual *Latinobarometro* surveys since 2000, on average, the country exhibits the strongest negative view of the United States among eighteen Latin American countries.¹⁶ National pride and anti-Americanism figured prominently in Peron's rhetoric and dictated his economic and foreign policies from 1943 until 1953. Increasingly frustrated collective narcissism is still a powerful political force in Argentina. During their twelve years in power, the Kirchners followed an antagonistic foreign policy and fostered an anti-American feeling.

Samuelson agreed with Schumpeter that a general atmosphere inimical to business and businesspeople was a key factor in undermining capitalism. Perón tapped to his advantage a cultural bias against capitalism that, as Herron's observations prove, preceded him:

Argentine society depends upon governmental paternalism. Government, not individuals or individual enterprise, creates the great utilities of the nation, influences the educational system, and directs the development of the country. Enterprise in the Argentine is something which the people believe must be "fomented" by government... Foreign capital is regarded as predatory, and whether it be of English, United States or German origin it is not popular... In a country where individual enterprise is uncommon and where success is difficult to achieve, wealth can most easily be obtained by a quick stroke at the expense of others. Hence a capitalist is not esteemed. He is considered to be a schemer, an opportunist, at times even a thief. A capitalist is not admired; he is more hated than admired. A capitalist is not regarded as one who promotes civilization; he is thought of as a plunderer. If he does good, it is regarded as a simulation, and the good he does is presumed to be for the ulterior purpose of placing himself in a position so that he can make another profitable deal at the expense of others. This conception of the capitalist has been inherited from the Spanish colonial system. (1943, p. 155-156)

Finally, the one factor that Schumpeter emphasized but Samuelson neglected—the influence of hostile intellectuals—was also present in Argentina. Perón imbibed a strain of illiberalism that combined nationalism, Catholicism and authoritarianism and had gained strength in the 1920s and 1930s (see Ocampo 2020a and 2020b).

7. Populism and Socialism

By combining insights from history, economics and sociology, Schumpeter provided a better—though still incomplete—explanation of what happened in Argentina after 1945 than Samuelson. In fact, Argentina is the only country that proved him right. This statement does not require any definitional alteration. In a postscript to *Capitalism, Socialism and Democracy*, Schumpeter defined socialism as "that organization of society in which the means of production are controlled, and the decisions on how and what to produce and on who is to get what, are made by public authority instead of by

privately-owned and privately-managed firm" (Schumpeter, 1942, p. 421). Below is a summary description of the Peronist economic system by officials at the US Embassy in Buenos Aires:

During the past ten years Argentina has become a clear-cut case of a managed economy. The Government itself comprises by far the outstanding power group and has developed an elaborate system for implementing its plans for guiding industrial or other economic developments into desired paths... The large landowners, who once constituted the principal economic and political pressure group of Argentina, are no longer of much influence, although they have not been disturbed in the ownership of their properties. The Government itself; and the bureaucracy which composes it has replaced them as the prevailing. There is close government control of many types of economic activity; and the official rather than the landlord or the businessperson is at the helm. (Department of State, 1955, pp. 3,51)

Peronism fits well into Schumpeter's definition of socialism. And Samuelson's "populist democracy" can be considered a variant of "socialist democracy." Although Schumpeter did not explicitly anticipate populism, he was close. In fact, when arguing against the postulate of voting rationality, he cited, in support of his thesis, the writings of Gustave Le Bon, whom he considered "first effective exponent of the psychology of crowds" (p. 257). According to Schumpeter, Le Bon had shown "the realities of human behavior when under the influence of agglomeration—in particular the sudden disappearance, in a state of excitement, of moral restraints and civilized modes of thinking and feeling, the sudden eruption of primitive impulses, infantilisms and criminal propensities—he made us face gruesome facts that everybody knew but nobody wished to see and he thereby dealt a serious blow to the picture of man's nature which underlies the classical doctrine of democracy and democratic folklore about revolutions."

Schumpeter knew the limitations of his theory. A few months before his death, he wrote in a letter that "if I had to write this book over again, I would have to add several other factors that have of late impressed me as proof positive that our society is developing toward socialism at an increasing speed" (cited by Swedberg, 1992, pp. 358-359).

8. Schumpeter: An Intellectual Forefather of Peronism?

Ironically, even though Argentina under Perón came closest to proving *Capitalism, Socialism and Democracy* right, it did so by applying the ideas that Schumpeter preached in the last years of his life (see Solterer, 1950 and Waters, 1961 and Swedberg, 1992).¹⁷ In Schumpeter's view, neither bolshevism nor democratic socialism offered an answer to the problems of the postwar era. Instead, particularly in Catholic countries where the

¹⁶ Anti US sentiment in Argentina is higher than in Colombia, Dominican Republic, Guatemala, Mexico and Panamá, countries that at some points were attacked and/or occupied by the US military.

¹⁷ Interestingly, Peronist "intellectuals" and policymakers have never acknowledged any influence by Schumpeter. Perón himself claimed to have been inspired not only by "Christian socialism" but also by the policies of Franklin D. Roosevelt and the ideas of Harold Laski.

Vatican's influence was strong –such as Argentina and many other countries in Latin America– he recommended the “third way” between *laissez-faire* and socialism offered by corporatism (McGrath, 2007, p. 427).

At a conference he gave in Montreal in 1945, Schumpeter argued that “corporatism of association would eliminate the most serious of the obstacles to peaceable cooperation between worker and owner” (cited by Swedberg, 1991, p. 405). Four years later, in a postscript to *Capitalism, Socialism and Democracy*, he proposed a “reorganization of society on the lines of the encyclical *Quadragesimo anno*, though presumably possible only in Catholic societies or in societies where the position of the Catholic Church is sufficiently strong, no doubt provides an alternative to socialism that would avoid the ‘omnipotent state’” (Schumpeter, 1942, p. 422).

Issued by Pope Pius XI in 1931, when fascism still enjoyed some respectability, *Quadragesimo Anno* condemned both communism and capitalism and proposed a “third way.” This document updated Catholic Social Doctrine (CSD), first developed by Leo XIII in *Rerum Novarum* published in 1891. In the economic sphere, Pius XI advocated the type of corporatism that Mussolini had successfully implemented in Italy.¹⁸ According to Schumpeter, *Quadragesimo Anno* “recognizes all the facts of the modern economy. And, while bringing a remedy to the present disorganization, it shows us the functions of private initiative in a new framework. The corporate principle organizes but it does not regiment. It is opposed to all social systems with a centralizing tendency and to all bureaucratic regimentation; it is, in fact, the only means of rendering the latter impossible.” Schumpeter explained that “the corporate principle organizes but does not regiment. It is opposed to all systems with a centralizing tendency and to all bureaucratic regimentation.” Corporatism was not simply “the vision of an ideal” he clarified. The Pope, he wrote, “was showing us a practical method to solve practical problems which, through the impotence of economic liberalism to solve them, call for the intervention of political power” (Swedberg, 1991, p. 404). In *History of Economic Analysis* (1954) Schumpeter did not spend more than one paragraph on CSD.

Perón always emphasized the strong connection between Peronism and CSD. In fact, he considered his “doctrine” as “the Christian social doctrine, which is the only one that has known how to unite the material with the moral in extraordinary harmony. He has known how to put the body in agreement with the soul, and in societies he has known how to harmonize the dominant with the dominated” (Perón, 1947, p. 65). More importantly, the Catholic Church's hierarchy openly supported Peron in the 1946 presidential elections and has remained a political ally of peronism (Zanatta, 1999, pp. 241-256).¹⁹

It is unclear whether Schumpeter considered Peronism as a practical implementation of *Quadragesimo Anno*. He never specified whether any country had im-

plemented Pius' recommendations. However, it is hard to imagine he would have approved of Peron's political methods or many aspects of his economic and foreign policies. In *Capitalism, Socialism and Democracy* he noted that “democratic phraseology has been instrumental in fostering the association of inequality of any kind with ‘injustice’ which is so important an element in the psychic pattern of the unsuccessful and in the arsenal of the politician who uses him” (Schumpeter, 1942, p. 254). It is more likely he had his compatriot Engelbert Dolfuss or Portugal's Salazar in mind, i.e., a “benevolent” non-demagogic authoritarian system.²⁰

Schumpeter failed to realize that corporatism was not a viable alternative to democratic capitalism but instead would accelerate the decline of both capitalism and liberal democracy. Since his death, he would have had plenty of opportunity to assess the disastrous effects of Perón's policies. Interestingly, Samuelson never delved into this aspect of Schumpeter's thought in the many articles he wrote about the subject.

9. Conclusion

In the 1970s, when the Western democracies were mired in stagflation, Samuelson reformulated Schumpeter's prediction about the demise of capitalism by redefining socialism as populism. Samuelson believed the latter system had attained its maximum development in Latin America, more particularly in the Southern Cone. In his view, Argentina was the most extreme example of the populist paradigm, but Chile and Uruguay also suffered from the same disease. Samuelson feared the advanced Western democracies could follow Argentina's path as electoral demands for redistribution generated dead-weight losses.

Due to his limited knowledge and understanding of Argentine history, Samuelson based his analysis on mistaken assumptions and reached the wrong conclusions. First, he incorrectly identified “considerable inequality” of income and wealth as the key factor that explained the rise of Perón. Other more determining factors were at work, such as elite fragmentation and threatened collective narcissism. Samuelson also relativized Perón's responsibility for Argentina's trajectory since 1945. There is no doubt that Peronist revolution had a decisive impact on the evolution of the Argentine economy in the second half of the 20th century. Peronism not only degraded the country's institutional fabric, but it also depreciated its civic culture, setting off a vicious cycle of stagflation, political instability, and frustration. Which brings us to Samuelson's third mistake: equating Argentina's “populist democracy” with that of Chile and Uruguay. The evidence suggests there is something different about the Argentine case that made populism not only more virulent but also path-dependent and that something is Peronism.

Schumpeter's unadulterated theory provides a better –though also incomplete explanation of what happened in Argentina in the postwar era. Ironically, Argentina proved

¹⁸ However, in another encyclical –*Non abbiamo bisogno*– the Pope condemned fascism for its “pagan worship of the State.” Mussolini was an atheist, but he maintained a relatively amicable relationship with the Vatican.

¹⁹ The relationship between Perón and the Church would later deteriorate and lead to his ouster in 1955.

²⁰ His fellow Austrian Ludwig von Mises had briefly served as economic advisor to Dolfuss.

him right by following his recommendations: adopting “third way” corporatism and Catholic social doctrine.

Until recently, it seemed as if Samuelson’s reformulation of *Capitalism, Socialism and Democracy* would meet the same fate as the original (Argentina being the only exception.) The resurgence of populism in Europe and North America in the 21st century suggests that it may not, but in a unique way from the one envisioned by Samuelson or Schumpeter. Despite its incompleteness and mistaken prediction, the logic of Samuelson’s analysis of the welfare state and of populist democracy has value. He deserves credit for pioneering the economic analysis of populism.

Argentina’s case may seem too exceptional and too idiosyncratic culturally and historically to offer any

guidance to the world’s democracies. But it does. First, threatened collective narcissism is a powerful political force that can be harnessed by an opportunistic, unscrupulous, and charismatic politician. Second, a Madisonian democracy –however imperfect– cannot remain immune to the temptations of populism if the right to vote is restricted in the face of economic stagnation and growing inequality. Third, what matters is not absolute inequality but how equidistant from rich and poor the middle class perceives itself. Finally, structural problems require structural solutions. The costless, simplistic, and arbitrary solution proposed by populism, be it of the right-wing or left-wing variety, can only contribute to increase collective frustration and trigger an intractable vicious cycle.

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Appendix: Argentina as a unique case of Populist Democracy

Chile and Uruguay are Different from Argentina. Although Argentina proved one of Samuelson's arguments it refuted another. Shortly after the conference Samuelson gave in Mexico City in 1980, Argentina, as well as most other countries in South America, gradually returned to democracy. In the Southern Cone Argentina led the way in 1983, Uruguay followed two years later and Chile in 1990. Except for the latter, which under the Pinochet regime successfully pushed for structural reforms, the 1980s were a "lost decade" characterized by high inflation and negative economic growth.

In Argentina's first elections since 1973, a center-left coalition led by Raul Alfonsín soundly defeated the Peronist party raising hopes that the country would be able to overcome the legacy of populist democracy and military regimes. However, the new administration adopted the same economic policies that under Peronism had led to the stagnation of the Argentine economy: protectionism, fiscal profligacy and nominal wage increases divorced from productivity.²¹ The inevitable consequence of this policy mix was growing inflation. By mid-1985 consumer prices were increasing at 30.5% a month.

Alfonsín changed tack and launched the Austral Plan, a hybrid stabilization plan that combined heterodox and orthodox measures. A change in expectations led to an initial success but by October 1987 the monthly inflation had exceeded 20%. The absence of structural reforms and growing fiscal deficits in a context political weakness pushed Argentina into a full-fledged hyperinflation for the first time in its history.

In the 1989 election, a Peronist candidate, Carlos Menem, won by a landslide having campaigned on a classic populist platform. To everybody's surprise Menem he embraced free markets and privatizations. In January 1991, he appointed Harvard trained economist Domingo Cavallo as economy minister.

A few months later, Cavallo launched the Convertibility Plan, which established a fixed parity between the peso and the dollar and prohibited the Central Bank from financing the treasury. The plan also contemplated the deregulation of the economy, lower tariffs, and the privatization of all state-owned companies. During the 1990s it seemed as if the Southern Cone had finally escaped from the populist curse: all three countries achieved high economic growth and relatively low inflation under democratic government.

| | Annual Inflation | | | Annual GDP per capita growth | | |
|---------|------------------|-------|---------|------------------------------|-------|---------|
| | Argentina | Chile | Uruguay | Argentina | Chile | Uruguay |
| 1981-90 | 787.0% | 20.5% | 62.5% | -2.4% | 1.5% | -0.1% |
| 1991-99 | 22.3% | 9.5% | 38.1% | 3.2% | 4.5% | 2.5% |

Source: IMF World Economic Outlook.

The turnaround for Argentina was notable: from 1992 until 2000, it had one of the lowest inflation rates in the world and its economy boomed. More importantly, a Peronist government was responsible for these results. However, the bonanza did not last. By the end of the decade an appreciating peso, cumulative fiscal imbalances at the provincial level, a heavy debt load and the effect of several international crises had undermined investors' confidence in the convertibility of the peso. In December 2001, the IMF withdrew its financial support triggering a massive economic and political crisis. President De la Rúa and Cavallo resigned, and a new government controlled by the Peronist party repealed the Convertibility law, devalued the peso, and defaulted on Argentina's public debt. During 2002 GDP contracted by 11.7%, the worst recession since 1914.

In early 2002, thanks to China's extraordinary economic growth, a new commodity super-cycle was underway. The sharp rise in the price of soybean and its by-products, which accounted for a third of the country's exports, supported Argentina's recovery and, thanks to export taxes, also increased treasury revenues. Néstor Kirchner, a Peronist, became president in 2003 but despite traditional populist rhetoric, he initially maintained fiscal and current account surpluses. However, by the end of his mandate, he, and his wife Cristina Fernández, who succeeded him in December 2007, convinced themselves, just like Perón had in 1946 and 1973, that agricultural commodity prices would remain high forever. Populism came back vigorously. After several years of net fiscal surpluses, an anomaly in Argentina's history, the Kirchners increased primary expenditures from 13% to 24% of GDP. Social programs and subsidies to urban consumers accounted for most of the increase in public spending. The classic Peronist recipe of redistributive fiscal profligacy and monetary expansion lasted until mid 2012, when commodity prices started to decline.

Since the beginning of the 21st century, Chile has been Latin America's "poster child" of successful free market reforms. Thanks to Central Bank independence and disciplined fiscal policy Chile has enjoyed the highest credit rating in the region. Unfortunately, there is a significant risk that the political crisis that started in October 2019 may end up undermining the "Chilean miracle", particularly if an upcoming referendum favors a constitutional reform. In Uruguay successive governments have consistently maintained a primary fiscal surplus (even those of a leftist ideology).²² Uruguay's Central Bank has also remained independent from the Executive branch and follows the sole statutory mandate of price stability. As a result, Uruguay is rated investment grade and has been able to tap international bond markets at very favorable spreads.

The divergence of Argentina's path from that of its neighbors is partly explained by differences in institutional quality as measured by most indicators. Compliance and enforceability are both weaker in Argentina, i.e., the country exhibits a high degree of institutional anomie (see Ocampo, 2021b). This divergence can be expected given the prevalence of populism in the latter since the beginning of the 21st century.

²¹ Despite Alfonsín's attempt to seduce them, labor unions remained loyal to Peronism and actively sought to destabilize his government.

²² The deterioration of the country's fiscal stance in recent years is explained by a growing deficit of the public pension fund system.

Comparative Indicators of Institutional Quality

| Indicator | Average 2006-2018 | | | As % of Argentina | |
|--|-------------------|-------|---------|-------------------|---------|
| | Argentina | Chile | Uruguay | Chile | Uruguay |
| Economic Freedom | 49.7 | 77.8 | 68.9 | 156% | 139% |
| Liberal Democracy | 61.8 | 82.6 | 82.7 | 134% | 134% |
| High Court Independence | 68.3 | 79.2 | 82.0 | 116% | 120% |
| Legislative Constraints on the Executive | 76.1 | 94.6 | 89.4 | 124% | 118% |
| Rule of Law | 38.3 | 75.6 | 62.8 | 197% | 164% |
| Control of Corruption | 42.5 | 77.3 | 75.7 | 182% | 178% |
| Voice and Accountability | 57.9 | 71.0 | 72.2 | 123% | 125% |
| Political Stability | 50.7 | 59.3 | 68.2 | 117% | 135% |

Source: Heritage Foundation (1), V-Dem Institute (2-4), and World Bank (5-8).

These institutional quality indices are positively correlated to predominant beliefs and ideologies. Among the three countries Argentina exhibits the highest level of skepticism about the aims of government: a significantly larger percentage of respondents believes that public policies are mostly designed to benefit powerful interest groups. Although relatively fewer Argentines identify themselves as having a leftwing ideology than Chileans and/or Uruguayans, they exhibit a stronger anti-capitalist and anti-free trade mentality. Argentines also express a significantly stronger anti-US sentiment. This suggests that this mentality is deeply ingrained in society and to some extent independent of the professed ideology. According to World Values Survey 2018, which does not include Uruguay, the percentage of respondents who believe government ownership of business should increase was 52% in Argentina and 39% in Chile. Interestingly a higher percentage of Chileans identified themselves as leftists (47% versus 39% of Argentines). When asked to choose between freedom and equality, the results were the opposite: surprisingly 62% of Argentines chose the former and 58% of Chileans the latter.²³ The following table summarizes the results of two surveys –*Latinobarómetro* and *WVS*– that assess the level of support for a free enterprise system in the three countries and the notion that the economy is a zero-sum game.

To understand why Peronism emerged in Argentina a comparison with Uruguay is helpful. Both countries share a common history and culture and between 1870 and 1930 underwent a similar economic and institutional evolution, sheds light on the origins of Peronism. As former Uruguayan president José Mujica once explained Argentina and Uruguay are like twins that grew out of the “same placenta,” but Argentina is “simply Peronist and that is not an ideology, it is a gigantic feeling that a considerable part of its people has” (Telam, 2014).

The two countries trajectories started to diverge during the 1930s. Argentina went from a military coup in

Percentage of Respondents that have Beliefs Inimical to Free Markets

| Country | Do not believe a market economy is good for the country (1) | Do not believe free trade is good for the economy (2) | Believe one can only get rich at the expense of others (3) |
|-----------|---|---|--|
| Argentina | 29.6% | 9.1% | 42.2% |
| Chile | 26.1% | 3.8% | 39.2% |
| Uruguay | 21.5% | 2.2% | 31.1% |

Source: Latinobarómetro (average 2000-18) and World Values Survey (2010-2014). Between parenthesis is % of Argentina.

1930 to another thirteen years later with a brief semi-democratic interlude with voter suppression. In Uruguay, the trajectory was the opposite. A coup in 1933 was followed by a full return to democracy in 1942. During WWII, instead of embracing a vernacular version of Nazi-fascism, confronting the United States, and closing its economy as Argentina did, Uruguay stuck to democracy, joined the new international economic order, and sought an alliance with the US. The contrast between the economic performance of both countries was remarkable: between 1945 and 1955 Uruguay’s annual per capita GDP growth rate was 4.5% while Argentina’s was 1.5%.

There are two typically Argentine cultural traits that were not present in the same degree in Uruguay: collective narcissism and messianic *caudillismo* (fascination with strongmen.)

Two other institutional factors present in Argentina and not in Uruguay also facilitated the emergence of Peronism: a high concentration of economic resources in the hands of an elite and the enormous influence of the Army and the Catholic Church in national politics. Regarding the former, during the period 1870-1938 both GDP per capita and inequality and poverty indices were higher in Argentina. Regarding the second, it is enough to compare the increase in military spending between 1930 and 1946: 247% in Argentina and 11% in Uruguay. Not only was the army more prominent in Argentina, but its officers were trained and indoctrinated by German military instructors (which would have political consequences during the First and Second World Wars). Regarding the political power of the Catholic Church, it not only had a higher percentage of worshippers in Argentina (93% versus 70% in Uruguay in 1950) but also much greater political influence. This difference was institutionally ingrained: Argentina’s constitution included financial support from the state and required the president to profess the Catholic faith, while the Uruguayan did neither. Secularism, which at the end of the 19th century had gained ground in both countries, lost ground in Argentina after 1918, when the effect of the Russian Revolution. However, in Uruguay it has remained strong until the present day. The economic power of the Catholic Church derived not only from public financing but also by huge donations from rich landowners. During the 1930s and 1940s Argentine politics were increasingly dominated by the alliance of the Catholic Church and the Army. Perón can be considered the “bastard child” of this unholy union (Zanatta, 1999, p.7).

²³ The relatively strong anti-free market sentiment in Chile presages economic and political instability (see Newland, 2019; and Newland and Ocampo, 2020).