Introduction

Werner Baer and David Fleischer

Economists and other social scientists analyzing contemporary South America have often puzzled over the similarities and differences between the two giants of the region: Argentina and Brazil. Both countries were great agro-exporting economies in the second half of the nineteenth century and the first decade and a half of the twentieth century. However, Argentina had benefited from the prolonged boom of its grain and meat exports and from gigantic foreign investments in its infrastructure and meat packing plants to such an extent that on the eve of World War I it was viewed as being in the same league as the US, Canada and Australia as a newly emerging economic giant. Brazil's wealth, based on coffee exports and also on foreign investments in infrastructure, seemed not to have been large enough relative to its size so that it was not considered in the same league as Argentina.

However, there were a number of similarities. Both countries received a large number of European immigrants in the late nineteenth and early twentieth centuries (Brazil also receiving a large number of Japanese immigrants), and both experienced an incipient industrial growth at the time (mainly in the food and textile sectors).

After World War I both countries seemed to have prospered again from their traditional exports and during the Great Depression of the 1930s both had similar experiences in an incipient import-substitution industrialization (ISI) period – mainly as a result of declining export earnings, which lead to a decline of imports and thus provided protection to new industries.

After World War II these two countries had both similar and different experiences. In Argentina the appearance of President Perón resulted in policies which favored the urban working classes and some industrialists, while in various ways taxing the agricultural sector and adopting a nationalist stance vis-à-vis foreign investments. Although these policies paid political dividends in the short run, they ultimately led to severe economic crises which partially contributed to the end of the Perón regime, though not to Peronism as a political force. Subsequently the country underwent long periods of 'stop and go' development – some periods favoring the agro-industrial sectors and foreign investment in import-substituting sectors, followed by periods favoring the urban working classes. The economic–political cycles would last for a long time, diminishing long-term growth.

Brazil adopted import-substitution policies from the early 1950s on, encouraging foreign investments, while creating many state productive and financial entities to complement them. This led to long periods of high economic growth and structural transformations. However, over-indulgence in ISI resulted in a series of problems – one of the main ones being the need to diversify exports, which was problematical owing to an inefficient, protected industrial structure.

Both countries underwent long periods of inflation, ultimately resulting in hyperinflation. Inflation was partially the result of the needs of government to provide social and economic infrastructures to a rapidly industrializing and urbanizing society, but the institutional backwardness of the tax collection systems made it difficult to finance those needs. The short-run way out of this was financing by the central banks, which led to inflation. Both countries experimented with various types of stabilization programs which were unsuccessful. Argentina seemed to finally conquer its chronic inflation with the introduction of the Currency Board in 1991 and Brazil with the introduction of the Real Plan of 1994 – the former collapsing in 2001, while the latter survived.

Both Argentina and Brazil fell victim to the debt crisis in the 1980s and experienced long periods of low growth and investment, and both finally adopted the so-called neo-liberal policies advocated by the 'Washington Consensus of the 1990s' – which included the opening of the economy and an extensive program of privatization.

During the first decade of the twenty-first century Argentina experienced the disastrous collapse of its Currency Board Plan, which brought on a few years of economic decline and a default on its external debt. However, the economy recovered after a brief period, owing in great measure to the world boom in the commodities it exported. Brazil's Real experiment lasted, and after a few years of modest growth its economy became so dynamic in the second half of the first decade of the twenty-first century that the country became part of the so-called BRICs, i.e. the four emerging countries which the world business community expected to become a significant economic and political power center. In addition, there was evidence to suggest that not only was Brazil emerging as an important world economic player, but also this was taking place with an improvement in the distribution of the gains from growth. So Brazil in the first years of the twenty-first century seemed to be taking the place of the Argentina of 100 years ago as the principal economic power of South America.

It was within this context that the Lemann Institute for Brazilian Studies of the University of Illinois organized a conference dedicated to the comparison of the two countries in some key areas: industrialization, agriculture, formal and informal service sectors, income distribution, the state and the privatization experience, regional development, inflation and stabilization policies, and foreign trade and investments. We selected these eight topics for discussion and invited Argentinean and Brazilian scholars to present an analysis for their country. The invited commentators were scholars from other countries. The conference was held on 22–23 April 2010 at the University of Illinois, and this volume contains the papers that were presented. Co-sponsors of the conference were: the Fundação Instituto de Pesquisas Econômicas (FIPE); the Faculdade de Economia, Administração e Contabilidade of the University of São Paulo, and the Center for International Business Education and Research at the University of Illinois (Illinois CIBER).