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## Price Controls in Argentina: A Case of Urban Bias

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PRICE CONTROLS IN ARGENTINA: A CASE OF URBAN BIAS

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Megan Freveletti

A thesis presented in partial fulfillment of the requirements for completion of the  
Bachelor of Arts degree in International Studies  
Croft Institute for International Studies  
Sally McDonnell Barksdale Honors College  
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## Abstract

Towards the end of 2016, President Mauricio Macri of Argentina announced that he would be re-enacting a program of price controls that had been introduced by his predecessor, Cristina Fernandez de Kirchner, called *Precios Cuidados*. However, this time the list of items would contain a greater amount than the previous program, almost 400 more products than before, the variety of them falling under agricultural products. This thesis looks to examine whether or not the implementation of a price control program by President Macri, that has failed in the past, can be explained by the theory of urban bias. After a discussion of the theory of urban bias and the problems surrounding price controls, this thesis then goes to an examination of different governments in Argentina and their attitudes towards the agricultural sector, along with examining Argentina's history with inflation and price controls. It then follows with an empirical investigation which examines variables from an investigation done by Vanderbilt University, along with examining the locations of the different companies to see whether or not urban bias played a role in President Macri's decision to implement this program.

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## **Chapter 1: Introduction**

### **Overview**

The government of a country has the ability to control which citizens are the winners and losers in regards to which economic policy they implement. When inflation is untamed and runs rampant on a country's currency and economy, there are citizens who are either extremely harmed or given an extreme advantage. When a country has had a historically problematic relationship with hyperinflation, like Argentina, the consumers who have been disadvantaged by high prices express their concerns for lower domestic prices to the government through voting or even riots. In turn, the incumbent government may concede to their requests for lower inflation by implementing the use of price controls, specifically on agricultural goods, which would create a shift of the burden of inflation from the consumers in the urban areas to the producers in the periphery, which is what the past two governments of Argentina have done.

Typically, the farmers and producers who benefit from these high rates of inflation are located in the rural areas of the country, like the Pampas region, where there are vast plots of land; the people who are harmed by this are the consumers, which the majority of them are located in the more urban, industrialized metropolitan areas of the country, such as Buenos Aires, Córdoba Capital, and Rosario, which together hold almost half of the population of the country. The rest of the population of Argentina is spread out through an enormous expanse of land. This distinction between the urban and rural coalitions is what will play a major role in this thesis.

Over the years, the Argentina government has attempted to control excessive inflation through a variety of policies, but there is one that for some reason they keep

returning to, and that is the policy of price controls. The reason that this is puzzling is because it has been proven time and time again throughout history that price controls do not work as a manner in which inflation can be controlled. They may work for a short period of time, but are not ever a permanent solution, and in some cases may even cause more damage than before. Even the United States has attempted to use price controls after war periods and it has not worked, which is important because the United States is a more developed country than Argentina, and if any country would have had success with price controls, it would be the United States because of their dominance in both domestic and international markets and how the government handled years of high inflation during the Great Depression.<sup>1</sup>

So the question arises as to why the current President of Argentina Mauricio Macri, would implement a price control program that was created by his predecessor in 2013 and ultimately was repealed because it did not function properly. In this thesis, I will argue that there is an ulterior motive to the re-implementation of this program, which is that the use of price controls can be explained by the theory of urban bias. I argue that there is an incentive to shift the burden of inflation from the metropolitan areas of the country, most of which hold a majority of the support for the current government, to the rural periphery, and that this shifting of costs of inflation to the rural producers has caused them to become more concerned about inflation because they have come to bear the brunt of the burden that is caused by inflation.

Although the results from the empirical analysis give an ambiguous answer as to whether or not the use of price controls can be fully explained by the theory of urban

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<sup>1</sup> Rockoff, Hugh. *Drastic Measures: A History of Wage and Price Controls in the United States*. Cambridge: Cambridge University Press, 2004.

bias, it can be seen that in the rural areas there is a greater concern of inflation, which combined with the historical analysis that I present can show that because of the policies that the past two governments have enacted shifted away from the needs of the rural agricultural producers, who historically have been supported by the government, to the needs of the urban consumers, that a bias towards the urban coalition can be at least partially explained by the theory of urban bias. However, the limitations to this thesis which will be presented later, call for a deeper investigation into the shifting climate of Argentine politics and economic policy.



## **Chapter 2: Theory of Price Controls**

Price controls that are disproportionately targeted at agricultural goods are one of the manners in which a government can enact urban bias on its rural constituents. Price controls are a regulation put forward by the government that can establish either a price ceiling or a price floor. A price ceiling, or maximum price, that is set below the price that would prevail if the market was left unregulated, generally during episodes of inflation, while a price floor sets the lowest legal price that a good can be sold at and prevents governments from setting prices too low. If a price ceiling is set below the market price, it can lead to a shortage, where demand of the controlled good is greater than the supply available, which can have negative effects on the constituents. Shortages from price ceilings can lead to the creation of black markets of a good, long lines of people waiting for the product, or a reduction in quality of product by the producer. In this thesis we will be discussing price ceilings, and why a government would choose to use them even with the evident cost to society that price controls create.

There are different kinds of price controls that a government can enact depending on what it is trying to accomplish. It can establish a price control in a single sector, where the intention is not to drive down inflation but instead direct purchasing power away from that market. Price controls can also be a mixture of measures that attempt to control the general level of prices, but instead of relying on market forces, rely on moral persuasion or other types of enforcement. The last kind, which will be the one studied, is a set of temporary price controls that are administered over a large variety of goods and services. It is this kind of price control that has the intention of curbing inflation.

Inflation can be caused by a variety of factors within a nation's economy, such as a supply shock, an asset market boom, a belief of higher future prices—which causes sellers to withhold product for hopes of greater profit, a rise in demand relative to supply, or when an economic agent can avoid competitive pressures, drive up prices and restrict supply, given that there are no close substitutes for the product. “Inflation, more than depression, I regard as the clear and present economic danger of our times and one that is potentially more destructive of the values and amenities of democratic life”.<sup>2</sup> This quote is important because it describes how something like inflation can dismantle a democratic government, as we will see within Argentina's history of riots during periods of high inflation. The inflation hypothesis which can also be used to examine why price controls are used in these specific times, follows that the use of price controls is explained by changes in price level, and rising prices or the anticipation of a rise in price—inflation aversion—can urge policymakers and politicians to either enact or raise the level of price controls. However, this theory explains why years of high inflation tend to be associated with high levels of price controls.<sup>3</sup>

There are a few, supposed, short-term benefits of enacting price controls. Many advocates emphasize the direct effects they have on current prices.<sup>4</sup> This is one of the main reasons that they appear during times of inflation, because they allow for a temporary stabilization of rising prices. Price controls have the ability to increase exports, which increases a nation's competitive advantage in foreign markets. However, with price controls the producers willingness to sell may decrease since they would be

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2 Galbraith, John Kenneth. *A Theory of Price Control*. 1952.

3 Jonung, Lars. *The Political Economy of Price Controls: The Swedish Experience 1970-1987*. 1990.

4 Rockoff, 2.

receiving a lower price, and in turn would lead to a shortage, which would make it unlikely that foreign demand would be met. Along with reducing inflation, there are other purported benefits of price controls, although they are not supported by most economists (which again proceeds to the question of why they would be used).

The costs of the price controls first must be measured in terms of costs of other anti-inflationary policies, because one of the reasons they may be used is that they are the option with the lowest cost to society. They may also be able to eliminate temporary spikes in price and wage behavior, and even companies, whose product range is only partially subjected to price controls, may compensate for the losses created by price controls by raising the prices of products that have not been subjected to these price controls, given that they are relatively inelastic.<sup>5</sup> However, most literature follows that price controls can only be in effect for a short period of time, because the longer they are used, the harder it will be to gain acceptance among the employers and wage earners, along with the government anticipation of excessive political costs. In reality, no desired permanent effects can be anticipated from price controls.<sup>6</sup>

Neoclassical economics follows the model that in a market that is perfectly competitive, resources will be allocated efficiently, which means production depicts consumer preferences, and neither the consumers nor the producers experience a disadvantage from buying or producing. However, price controls are a way the government can intervene in the market and block efficient allocation, and prevent the market from allocating resources and goods in the most efficient manner. This is to give an advantage to a certain group of consumers, and this is the main reason that price

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<sup>5</sup> Jonung, 154.

<sup>6</sup> Ibid., 156.

controls are questionable, because theoretically the most desirable state of an economy is one that is perfectly competitive. Controls stop prices from producers responding efficiently to demand, because false information about the state of the market is conveyed through the controls—for example, if a farmer believes that the price of wheat is going to decrease, it is not going to be planted because the farmer will plant something else that he believes will be more profitable. Since cost and demand change frequently in the market, any price that is fixed for an extended time will lack social efficiency and lose any gains from trade that had been previously made, eventually resulting in a shortage of the controlled goods.<sup>7</sup> “Price control, un-supplemented by further measures to reduce the demand in the particular market, can be applied to such markets only with the greatest difficulty and at best with indifferent and temporary results”.<sup>8</sup>

Jan Herin identifies the main problems that arise when a government implements price controls. The first problem is one that may occur even before the price controls are introduced: many employers and employees in countries that routinely enact price controls have learned to anticipate them, and therefore prices may increase even prior to the implementation, causing even greater problems for consumers. As mentioned previously, price controls impede the adjustment of prices and the function of the market, which misconstrues prices for producers and may create a divergence between wages and prices. Price controls may also create substantial economic costs since they present problems concerning industrial and structural growth and change; it is difficult for a city

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<sup>7</sup> Jonung, 150.

<sup>8</sup> See, Galbraith.

to allocate resources efficiently towards industrialization and growth if the prices and wages that are present in the market do not convey the true environment of it.<sup>9</sup>

A decrease in industrial growth can also lead to a decrease in investment and productivity as another consequence of price controls. This lack of growth may in turn lead to a higher rate of inflation than prior to the controls once they have been withdrawn since there is a possibility that there was no real economic growth during the period of price controls, which is one of the major criticisms of the use of price controls to curb inflation: it does not work, and most if not all success with price controls are only temporary.<sup>10</sup> Furthermore, it is highly unlikely that a democratic government will be able to stay on course with economic policy; government controls are frequently combined with an expansionary fiscal policy because expansionary fiscal policies have also been used as an attempt to decrease inflation, and may be combined with a price freeze before an election to gratify consumers to gain votes.<sup>11</sup> However, this is a problem because the price freeze eliminates regular warning signals of problems in an economy, and therefore allows governments to apply a much more expansionary monetary policy than they would have been able to, which in turn can lead to excessive inflation once the price controls have been lifted.<sup>12</sup>

The international experience of price controls has not been notably beneficial to countries that have enacted them, for example when the United States attempted to use price controls after different war time periods, specifically on the price of oil, and it led to queues and shortages and there has been little empirical evidence gathered from studies

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9 Ibid., 152.

10 See, Galbraith.

11 Jonung, 153

12 Ibid., 152.

that has suggested that price controls could permanently lower the rate of inflation.<sup>13</sup> So the question arises of what politicians stand to gain from using them. First and foremost, price controls can be enacted almost immediately, which gives citizens the idea that the government is at least trying to improve the economy—for many countries that do not have full confidence in their government, action towards fixing a problem is extremely important to keep a popular opinion of the incumbent political party, which can be observed, for example, through elections of different representatives in the United States. If the citizens of a democratic country do not believe their representative is fixing the problems that they believe are important, they will be voted out of office.

However, in Argentina, a country that has one of the highest urban populations of big countries in the world at 92%, it is important that the urban consumers are kept satisfied, because they are the ones who in the recent past have had the most control over the government because of their sheer immensity, which can be seen for example by their ability to revolt and vote out Presidents, as they did five times between 2001-2002 because of the hyperinflation the country had been experiencing.<sup>14</sup> Therefore, the process of enacting price controls at different times over the past decade satisfies the urban consumers need of cheap food while shifting the brunt of the burden of inflation to the rural producers, which could therefore make them more concerned about inflation since the needs of the urban coalition have been addressed first in the past decade. Controls are also “cheap” in a sense, to introduce, and are a quick reaction from public pressures to take some kind of action, which follows from the election hypothesis that states voters

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<sup>13</sup> See, Rockoff.

<sup>14</sup> "The Argentine Crisis 2001/2002." Rabobank. August 23, 2013. <https://economics.rabobank.com/publications/2013/august/the-argentine-crisis-20012002-/>.

gauge the performance of the government on the current economic situation; so, introducing price controls and immediately lowering prices could convince voters that the economic situation is improving.

Controls also shift an immense amount of political power to the ruling party, and many times are used to reach an alternative goal of setting a political process in motion.

<sup>15</sup> The party could use these price controls to respond to special interest groups by providing privileges or exemptions—this creates winners and losers from price controls that plays an extremely important role in the argument that will be presented in this thesis. These winners and losers are created by the shift of the burden of inflation enacted by the government; it is important to note that although the government would rather not create losers, it is one of the consequences of creating winners that can support the government.

It can be difficult to discern who, if anyone, wins from price controls because it depends on the institutional factors that affect a particular market, and the effects that price controls have on income can effect different groups of consumers and producers. However, there are groups of people who are at a greater disadvantage through the implementation of price controls. Price controls allow for the creation of a higher amount of return on revenue for a particular industry that is favored by the government, and also is a strategy for resource mobilization, which allows companies to secure new resources for their organization more quickly than others. This, in turn, has the possibility of giving an advantage to the constituents of the ruling party, if these constituents are businesses who do not produce anything that is placed under price controls.

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<sup>15</sup> Jonung, 155.

According to the neoclassical model, prices and wages of goods normally rise in response to a demand of a good that is greater than the supply available, and historically, consumers pay higher prices for certain goods because many consumers would rather have the good than be without it. However, price controls freeze the price at a certain rate, which in turn gives an advantage to the consumers and harms the producers. Even though there is a short-term gain for purchasers, there is ultimately a decline in output from the producers since they are not receiving a fair price for their good, which eventually ends up harming the consumers as well because they will face shortages. When price controls are enacted to benefit the consumers, however, it is the producers who are harmed the most because they are not receiving a fair market price for their product, and in turn become the group that is most disadvantaged. There are two different manners in which companies and producers can be affected by price controls. On one side, there are companies who would have prices that would have exceeded those of the price control. This would obviously have an impact on the revenue of the company, but the degree of impact would depend on the difference between the prices, the period of time the controls were in place, and the ability of the company to adjust to the price controls. The other side contains companies whose prices would have been lower than the maximum price, so in reality these firms are given an advantage for a short period of time from the price controls.<sup>16</sup>

In the governments of many developed countries, a distinct bias to the rural areas is present in the way that the government is arranged. For example, in the United States the Senate has two senators per state, regardless of population. While the House of

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<sup>16</sup> Jonung, 1.



Representatives is formed in a way that more accurately represents the populations of each state according to size, the Senate allows the smaller states or the states with a smaller population a greater advantage over the states with larger populations. Included in this bias towards smaller states is that many of these states do not have a heavily populated urban center and much of the revenue for that state comes from agriculture. Therefore, in order to protect the interests of these agriculture based states, the Senate allocates two members per state with the same amount of power, so that the interests of the smaller and less populated states are not overtaken or overshadowed by the more urbanized and heavily populated states—Montana and New York, for example.

In some developing countries there is not a rural bias present, but rather an urban bias. Many developing countries have a certain set of characteristics that separate them from developed countries, such as a low per capita income, high poverty levels, but the most important one being an economy that is predominantly focused on agriculture and is in transition to an economy focused on industrialization.<sup>17</sup> The theory of urban bias would explain why in countries with these characteristics and such a historically powerful agricultural sector there is an incentive of the government to protect the urban dwellers that do not work in agriculture, especially when there is a high percentage of urban commoners that direct the flow of votes in a democratic government, because of the level of importance that has been placed on the agricultural producers in the past that has allowed them to charge higher prices for their goods in order to compete in the global market and create a stronger economy for the country, which in turn harmed the pockets of the domestic consumers. In a country like Argentina that currently has a high urban

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<sup>17</sup> Kumara. "Major Characteristics of Developing Countries." <http://web.uvic.ca/~kumara/econ420/characteristics-dev.pdf>.

population in direct contrast to its historically rural population, the theory of urban bias could help explain why President Macri has enacted price controls. In this next section I will explain the theory of urban bias to further explain how it may help explain why President Macri has chosen to enact price controls.

### **Chapter 3: Theory of Urban Bias**

Michael Lipton, a British economist who specializes in rural poverty in developing countries, first introduced the theory of urban bias in 1977. Although Lipton coined the name of the theory of “urban bias” in the 1970s, the decision of where resources would be best allocated in a country attempting to industrialize has been a question for the past 100 years. In the 1920s, policymakers in the Soviet Union how to modernize and industrialize within planned economic development, which raised the issue of a sectoral balance between urban and rural, and how to best divide rural economic product for urbanization and industrialization.<sup>18</sup>

The idea of urban bias gained prominence in the 1980s for two reasons: first, it became an economic development sub-theory that explained slowed growth and high rates of poverty in developing countries, and secondly because the World Bank and other bi-lateral agencies who produced numerous reports on urban bias and urban development in this time period strongly reacted to Lipton’s theory because it was an attempt that helped argue the theory that agricultural prices in the third world were highly “distorted” because of urban-dominated politics in these countries.<sup>19</sup>

The theory of urban bias attempts to answer the question as to why growth and development in poorer developing countries have failed to improve the welfare of its poorest citizens, not in a rich versus poor context but rather urban versus rural.

“The most important class conflict in the poor countries of the world today is not between labor and capital. Nor is it between foreign and national interests. It is between rural classes and urban classes.the rural sector

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18 Pugh, Cedric. "Urban Bias', the Political Economy of Development and Urban Policies for Developing Countries." *Urban Studies* 33, no. 7 (1996): 1045-060. doi:10.1080/00420989650011492.

19 Varshney, Ashutosh. "Introduction: Urban Bias in perspective." *Journal of Development Studies* 29, no. 4 (1993): 3-22. doi 10.1080/00220389308422293.5.

contains most of the poverty and most of the low-cost sources of potential advance; but the urban sector contains most of the articulateness, organization, and power. So the urban classes have been able to win most of the rounds of the struggle with the countryside".<sup>20</sup>

He states that development is "unjust and inefficient" because it is constructed for the citizens in the urban areas who receive a larger portion of national resources, thereby depriving the rural areas that contain a large share of poor constituents of much needed revenue.<sup>21</sup> He argues that industrialization in poor countries was stimulated by artificial resource transfers from the rural villages to urban cities since they were not seen as a potential source of economic progress, and that governments accommodate resources to towns and cities rather than villages because the citizens in urban areas have more political power to convince governments to push policy towards their interests.<sup>22</sup>

Following this argument, he describes that poor people in rural areas are disadvantaged in areas of technology, health, education, nutrition, and access to financial services caused by the disproportionate share of public spending urban areas receive and policies centered on maintaining low prices of goods on products from rural areas, such as food, and higher prices on goods and services produced in the urban sector.<sup>23</sup> Urban bias often leads to significant food subsidies for the urban poor, which is usually at the expense of rural agricultural producers who are subjected to selling their products at lower than market prices as a result of the ability of the government to interfere in the market. In a study done in Peru, urban bias was present in the subsidization of food for urban consumers, that had been produced in rural areas, to make it cheaper for them to buy. This left a heavy burden of production on the rural consumers and is an example of a

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<sup>20</sup> See Varshney.

<sup>21</sup> Lipton, M. 1977. *Why poor people stay poor: a study of urban bias in world development*. Temple Smith London.

<sup>22</sup> See Lipton.

<sup>23</sup> Ibid.

direct transfer of wealth from rural to urban citizens, because instead of the producers receiving the full price for their goods, they were receiving a much lower domestic profit.

<sup>24</sup> Artificially low prices on food are specifically aimed at aiding the interests of the urban consumers who are not involved in the production or growing of food.

The theory then states that the comparison within the economic history of industrialized countries is misleading, because the gap between rural and urban wealth was much greater in poor countries than it was in rich countries during their respective industrialization periods; he states that development usually requires industrialization, but both of these processes are delayed when countries either attempt to industrialize too quickly, too early, or try to do so through taking resources from rural areas and re-allocating them to urban areas. <sup>25</sup> Overall, the theory of urban bias brings forward two main propositions: first, that the process of development is systematically biased against the countryside, and secondly, since these countries are controlled by the urban groups, this bias is profoundly inserted in the political structure of these countries: “the countryside is economically poor because it is politically powerless”. <sup>26</sup>

There have been certain critiques pertaining to Lipton’s theory and its shortcomings. The first critique of urban bias is that it neglects political institutions. Lipton’s initial research focuses specifically on India and its government, so it may be possible that the urban bias theory cannot explain actions across different political systems, such as a democratic institution versus an authoritarian one; there lies a difference in how well a single candidate electoral system could represent rural interests

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<sup>24</sup> Ballard-Rosa, Cameron. "Hungry for Change: Urban Bias and Autocratic Sovereign Default." *International Organization* 70, no. 02 (2016): 313-46. doi:10.1017/s0020818315000363.

<sup>25</sup> See Lipton.

<sup>26</sup> Varshney, 2.

and how a multiple candidate system could. The different ideological orientations of the ruling elite and whether they are pro-rural or pro-industrial could also play a role in determining whether or not urban bias can explain the actions of the ruling party. Autosh Varshney believes that this neglect of political institutions is the single most important criticism of Lipton's theory; he believes the continuation or existence of urban bias may depend on the nature of the political institutions present in a country. One country may have a state-centered focus and create agencies that attempt to contain the power of pro-agricultural institutions, such as the Finance Ministry in India, while others may have a particular rural bias, similar to the United States.<sup>27</sup> This also demonstrates how different political institutions, autocratic or democratic, may react towards the agricultural sector.

Along with the difference in political institutions, Lipton also only describes how rural interests are defined in the political realm in an economic sense. He looks at rural constituents as just that: rural. He does not include the possibility that ethnic and religious identities may create cohesion between the urban and rural and therefore obstruct rural interests instead of a bias towards the urban residents.<sup>28</sup> He solely focuses on economic outcomes for the countryside, and from there concludes that the unfavorable economic outcomes were due to the lack of power of the rural citizens.<sup>29</sup>

Lipton also failed to realize that technical change over time could make the agricultural sector more powerful than the period before industrialization. As economies develop and modernize, the dependence on agriculture declines, and during the industrialization of an agricultural society resources are going to be transferred to the developing urban sector. In fact, Varshney alludes to the notion that the agricultural and

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<sup>27</sup> Varshney, 17.

<sup>28</sup> Varshney, 5.

<sup>29</sup> *Ibid.*, 15.

industrial sectors are linked because the agricultural sector creates the resources for industrialization. The rural agricultural sector is the resource for food for the increasing urban population, provides labor for the growing industrial workforce, and it produces savings to finance industrial investment. This is an example of transferring resources from the agricultural sector to industrial, not squeezing them. The former helps both industries, while the latter hurts both.<sup>30</sup>

The final criticism lies in the difficulties that arise in differentiating urban and rural boundaries, which have begun to overlap since Lipton first produced his theory. Because the size in villages and cities that may have once been subjected to urban bias has increased, many of these villages are no longer subjected to urban bias but rather have urbanized, or may have created strong bonds between urban consumers and rural producers to where the peripheral producers have gained an advantage in the cities. Varshney uses the example of the Ivory Coast, where an urban based association may lobby for a rural project due to a previous linkage of the two. Changes in population and growth in types of businesses may also be a cause in the blurred line between urban and rural.

Through an examination of the theory behind price controls and why they are historically unsuccessful along with an introduction to the theory of urban bias, we can make a few conclusions. First, that price controls are not viewed as a legitimate approach to combat inflation, and that any time they have been used to combat inflation, they have almost always failed, even if they have been a temporary fix. Price controls distort market prices, disadvantage producers, and can even create higher inflation. The theory of urban

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<sup>30</sup> Ibid., 7.

bias was also introduced as a different way to view why politicians make certain economic decisions, and is opposite of the rural bias that is present in countries like the United States; governments make economic policy decisions that favor their constituents in urban, metropolitan areas, for a number of reasons. By using what we have so far observed from these two theories and discussing the history of the Argentine agricultural sector and government, I will combine them in order to test whether or not the use of price controls in Argentina by President Macri can be explained by the theory of urban bias.



## Ch 4:

### The Beginning of an Industry

#### **The Beginning of Agriculture in Argentina**

In this section, I will give a brief history of the politics behind the agricultural sector in Argentina to demonstrate a few things. First, I will illustrate the dominance that the agricultural belt has retained in the economy since the country's birth. Second, I will show the different political divisions within the recent history of the country and the beginning of a bias towards the urban areas under Peronism, with the exception of Menem, and how this affected the rural areas. Finally, it will be important to see the impact that the rural sector had in bringing the economy back to somewhat of its former state after the crisis of 2001, and how this was the last time producers would be favored from an economic standpoint, because Nestor Kirchner brought about a new state of Peronism—called Kirchnerism—that greatly changed the favoritism and rural bias that the industry of agriculture had so long enjoyed in the country.

Although the current and past two Presidential regimes of Argentina have not been particularly beneficial to the country's farmers and rural producers, there has not always been such an inclination towards the urban constituents. The expansion of agriculture has been more or less continuous since 1890, when the country was a magnet for European immigrants.<sup>31</sup> These immigrants arrived in bulk to work on the land in the fertile Pampas region where cattle and agricultural crops were driving the expansion and power of Argentina.<sup>32</sup> Between 1900 and 1916, the development of railways allowed

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31 Cooney, Paul. "Argentina's Quarter Century Experiment with Neoliberalism: From Dictatorship to Depression." *Revista De Economia Contemporánea* 11, no. 1 (2007): 7-37. doi:10.1590/S1415-98482007000100001 .

32 "A century of decline." *The Economist*. February 17, 2014. <http://www.economist.com/news/briefing/21596582-one-hundred-years-ago-argentina-was-future-what-went-wrong-century-decline>.

Argentina to begin exporting its beef on an extraordinary scale; during these years, exports of frozen Argentine beef grew from 26,000 tons per year to 411,000 tons per year, which was the beginning of the dependency on agriculture and exports that the country still—to an extent—observes today.<sup>33</sup>

Before the outbreak of World War I, Argentina recognized the benefits of globalization and free trade, and took advantage of them through the export of beef. However, this dependence on agricultural exports was halted due to the implementation of import protection policies, tariffs, and trade blockages during and after the war.<sup>34</sup> The rise of Juan Perón was also the rise of a political party whose interests were not aligned with the producers, but rather with those of the consumers and those affected by high domestic prices, a pattern that has continued in the recent history of Argentina's government and its economic policies. Even with the limitations imposed on the agricultural sector under Perón, between 1960 and 1985 the use of land for agriculture had increased by 30%, productivity on this land had increased twofold, and the labor force had increased by almost 4 times as much.<sup>35</sup>

### **The Military Junta**

This increase in land for farming and productivity in the agricultural sector did not come without a cost. In 1976, a military coup overthrew the incumbent President at the time, Isabel Perón, and from this year until 1985 installed a ruthless military dictatorship with the intention of ridding the country of Peronism and re-designing the economic structure of the country.

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<sup>33</sup> See, "A Century of Decline."

<sup>34</sup> Bailey, Tom. "A history of economic trouble in Argentina." World Finance. March 10, 2016. <http://www.worldfinance.com/special-reports/a-history-of-economic-trouble-in-argentina>.

<sup>35</sup> See, "A Century of Decline."

The junta intended to shift support away from manufacturing industry and towards agro-industry. They argued that the rent from agriculture, primarily beef and grains, was no longer going to be used as a subsidy for industry, but rather for the development of other value-added agro-industry. There are three key factors which explain this approach by the junta. One represented a shift toward agro-industry as opposed to industrial manufacturing. The junta was being more supportive of the landowning oligarchy as opposed to the manufacturing industry.<sup>36</sup>

This is important because it was the one of the first times since before the reign of Perón that the agricultural producers were once again given predominance in the economy and were not hindered by tariffs or taxes; this inclination towards a free market economy was a glimpse into the past of the free market economy that Argentina had adopted before the first World War. Traditionally, exporters promote trade liberalization, and industrialists and workers in the metropolitan areas support import substitution and protectionism policies.<sup>37</sup> Therefore, this trade liberalization favored the rural producers over the urban constituents.

The rural bias that was present in the economic stance of the military government was also seen in their alliances with certain groups and the restructuring of certain areas of the legislature. The government aligned itself more with the Argentinian Rural Society (Sociedad Rural Argentina, SRA), instead of the Industrial Union of Argentina (Unión Industrial de Argentina, UIA). The former represented the landowning oligarchy, while the latter represented the industrialists of the country.<sup>38</sup> In 1983, the military junta also increased the number of seats in the Diputado (Argentine version of the U.S. House of Representatives) from three seats to five, which gave over-representation to the periphery

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<sup>36</sup> See Cooney.

<sup>37</sup> Ardanaz, Martin, M. Victoria Murillo, and Pablo M. Pinto. "Sensitivity to Issue Framing on Trade Policy Preferences: Evidence from a Survey Experiment." *International Organization* 67, no. 02 (2013): 411-37. doi:10.1017/s0020818313000076. 417.

<sup>38</sup> See Cooney.

and rural provinces. Up until 1994, the presidents were chosen by an electoral college where the rural constituents were overrepresented.<sup>39</sup>

### **Peronism Under Menem**

After the end of military rule, there was a “strong and irresoluble urban/rural cleavage” that many thought would yield back to the high levels of protectionism of the urban citizens seen before the war.<sup>40</sup> With the election of Carlos Menem in 1989, a Peronist, it was conceivable that rural producers would lose their advantage in the economy, given his political stance and the Peronist party’s historical attitude toward free markets and exports. Despite his party affiliation, the adjustment to a free trade market was continued under Menem; he broke with traditional Peronist views and was committed to an economy with a base in agro-industry that sacrificed manufacturing.<sup>41</sup> This means that instead of the urban bias normally seen under Peronist governments, the rural bias created under the military junta continued under Menem.

Different aspects of Menem’s presidency demonstrate a rural bias, specifically the restructure of the public sector and federal spending. Under Menem, the national public sector was reassembled without any costs being shared to the provincial sectors; this means that all of the costs related to the reorganization of the national public sector were shifted directly to the urban areas and away from the rural areas. Therefore, all of the early aggregate costs of state reform were dispensed to areas where most of the national public sector employees were located: the urban areas of the metropolis.<sup>42</sup> Along with the monetary costs of restructuring, there were also costs in the manufacturing

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39 Gibson, Edward, and Ernesto Calvo. Federalism and Low-Maintenance Constituencies: Territorial Dimensions of Economic Reform in Argentina. Master’s thesis, Northwestern University, 2000. Studies in Comparative International Development.

40 Ardanaz, Martin, M. Victoria Murillo, and Pablo M. Pinto, 416.

41 See Cooney.

42 Gibson, Edward, and Ernesto Calvo, 13.

employment sector due to the privatization of national companies. There were more than 110,000 jobs lost due to privatization, along with a loss of 33.9% loss in total manufacturing employment between 1991 and 2001. Manufacturing as a share of GDP also decreased from 30.9% in 1989 to 17.1% in 1998.<sup>43</sup> These numbers alone show the priority that agricultural jobs were given during this time period.

The other manner in which the periphery was given preference under Menem was through federal spending. While the data on federal spending shows that a greater amount of transfers were given to urban areas in absolute terms in comparison to the transfers given to the rural areas, the periphery was highly favored in federal redistributive scenarios where the government re-organized how money would be spent in different regions of the country. The government also spent an average of three times more in the periphery than in the metropolitan areas, and the political impact that this spending had was magnified by the lower cost in votes that were required to elect members of Congress in the periphery.<sup>44</sup> All of these factors are important in the relationship to the rural constituents because he had a control and bias towards the periphery that was not usually included in the Peronist or Justicialista political parties. Not only was it out of character for the parties, but it was also one of the last times in the history of the Argentine government after the economic crisis of 2001 that different types of tariffs or taxes enacted by the government did not hinder rural producers.

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<sup>43</sup> See Cooney.

<sup>44</sup> Gibson, Edward, and Ernesto Calvo, 19.

## The 2001 Financial Crisis

The Argentine economic crisis of 2001 was the failure of the Argentine government to pay its creditors a total of \$95 billion, which was one of the the biggest defaults in history, was started by the he austerity measures of President Menem in 1995, which included pegging the Argentine currency, the peso, to the dollar. Although this measure worked for a short period of time, pegging the peso to the dollar overshot the desired appreciation value, which caused catastrophic effects on argentine exports, which were predominantly agricultural. By the late 1990s Argentina had entered into a deep recession, which resulted from a combination of the peg, a rise in state spending, and a diminished revenue base.<sup>45</sup> By 1999 creditors lost confidence in the ability of the Argentine banks to service their debts, which appreciated Argentine bonds and resulted in austerity cuts at the request of the International Monetary Fund. The defaulting of debts and disposal of the currency peg only advanced Argentina's recession and the following three-fold currency devaluation further impoverished Argentine citizens.<sup>46</sup>

Following in 2001, a complete economic crash took effect, creating a major income shock to the Argentine population.

“The country's GDP shrank by 11% within a year. Unemployment increased from 16.5 to 21.5% and the percentage of people below the poverty line grew from 38 to 58% over the same period. A 200% currency devaluation and 41% inflation in 2002 significantly reduced the purchasing power of the vast majority of the population, forcing households to spend larger fractions of their income on basic services.”<sup>47</sup>

However, this devaluation of the peso meant that Argentine agricultural exports were cheaper during a time that global prices were high: the devalued peso gave Argentine

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45 See Bailey

46 Ardanaz, Martin, M. Victoria Murillo, and Pablo M. Pinto, 418.

47 Bril-Mascarenhas, T. & Post, A.E. *St Comp Int Dev* (2015) 50: 98.

products an advantage in international markets. The only way that Argentina was able to create capital again after this default was through its agricultural exports.<sup>48</sup> In fact, much of the turnover of the country's economy was derived from the profits from the export sector. The successful agricultural industry from 2004-2005 created sufficient revenue that enabled the country to pay off \$9.5 billion of foreign debt.<sup>49</sup> While this devalued peso was beneficial for many producers in Argentina, much of the revenue was derived from heavy export taxes to the government, and also created a dependency on agricultural goods, similar to the dependency before the first World War.

### **A Change in Pace**

Nestor Kirchner, who became President of Argentina in 2003, was what could be called a "true" Peronist and described Menem's bias towards the rural areas and his economic policy of restructuring a "traitor" to Peronism. Kirchner wanted to rebuild the industrial base of Argentina, its public works and services programs, and renegotiate the operation of public services that had been privatized by Menem. In other words, Kirchner was focused more on helping the urban constituents, whether they be poor or rich, and wanted to decrease the focus on agriculture and increase the focus on industrialization, which can be seen through his *Superpoderes* program, which fundamentally allowed him to funnel discrete government resources to sectors that supported him most, such as urban works and infrastructure projects, with none of the money going towards the agricultural sector.

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48 Deese, William, and John Reeder. "Export Taxes on Agricultural Products: Recent History and Economic Modeling of Soybean Export Taxes in Argentina." *Journal of International Commerce and Economics*, September 2007. September 2007.

[https://www.usitc.gov/publications/332/journals/export\\_taxes\\_model\\_soybeans.pdf](https://www.usitc.gov/publications/332/journals/export_taxes_model_soybeans.pdf). 10.

49 Wise, Carol. *Unexpected outcomes: how emerging economies survived the global financial crisis*. Washington, D.C.: Brookings Institution Press, 2015. 160.

After the crisis, the sharp increase of price in the 2000s positively affected Argentina's terms of trade, which allowed the agricultural sector to help pay off some of the lingering foreign debt, as described previously.<sup>50</sup> However, 2/3 of the exports were primary products or manufactured goods of primary origin whose prices went up, while most of the imports were industrial and intermediate capital goods that experienced a decline in prices. This meant that the protection of import competing firms that were mainly centered in the urban areas were not beneficial to the economy, and the high prices of agricultural goods were hurting the Argentine consumers, especially in the urban areas.

Business on the international market for Argentina agricultural goods was doing so well that many times, to gain more profit, Argentine local producers began selling less of their products to the domestic economy, which in turn led to shortages, principally in the major cities. These favorable terms of trade—which is a measure of how much of an import an economy can get for a unit of an exported good—and incentive to export agriculture caused a rise in domestic prices of food; the positive relationship between trade, openness, and prices was soon reversed when food prices began increasing faster than the inflation rate. In 2006, this reversal caused Kirchner to impose export bans on producers so that the domestic supply would maintain a steady rate and price.<sup>51</sup> The rising price of food, especially beef, became an extremely important political issue.

These export restrictions on farmers began the conflict between Kirchner and the agricultural sector and the reversal of agricultural dominance. March of 2006 was the first public conflict between Kirchner and the agricultural producers concerning the domestic

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50 Ardanaz, Martin, M. Victoria Murillo, and Pablo M. Pinto, 415.

51 Eiss, Donald W. National Trade Estimate Report on Foreign Trade Barriers. Washington D.C.: Office of the United States Trade Representative. 2006.



prices of food: “we want the price of beef to come down, but we want it to come down due to the consciousness and responsibility of the producing and processing sectors, and we do not want them to subject the domestic price of beef to that of exports”.<sup>52</sup> Not soon after this confrontation he placed a temporary ban on the nation’s largest export: beef. Because of this, farmers lost revenue in waves because they were unable to sell beef at higher prices abroad and were forced to sell beef only at the low, domestic prices. Two months into the provisional ban, the agricultural sector demanded the government lift the ban or it would protest violently. Although the ban was lifted, the government placed even higher taxes on agricultural exports.

Kirchner believed this method of taxation on the agro-industry was helpful to the economy because high taxes on household goods such as bread, milk, and beef would hinder farmers from exporting too much, and therefore keep a steady local supply on the market. To an extent, Kirchner was correct; these taxes were a significant part of government revenue, because agriculture and agriculture related products composed almost 50% of Argentina’s exports at this time.<sup>53</sup>

Although Argentine farmers switched their major production from beef and wheat to soybean and sunflower seeds, the “perverse effects of government intervention have been amply demonstrated in the Kirchner era”.<sup>54</sup> According to the U.S. Department of Agriculture, in 2006 Argentina was the world’s fourth largest producer of wheat; by 2013, it had dropped to tenth place. It became too expensive for farmers to grow and sell wheat because they were unable to compete in the international markets. In turn,

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52 Ardanaz, Martin, M. Victoria Murillo, and Pablo M. Pinto, 417.

53 Simoes, Alexander. "Products exported by Argentina (2008)." The Observatory of Economic Complexity. [http://atlas.media.mit.edu/en/visualize/tree\\_map/hs92/export/arg/all/show/2008/](http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/arg/all/show/2008/).

54 Hendrix, Cullen, Stephen Haggard, and Beatriz Magaloni. Grievance and opportunity: Food prices, political regime, and protest. [https://cshendrix.files.wordpress.com/2007/03/hh\\_foodpricesprotest\\_forweb.pdf](https://cshendrix.files.wordpress.com/2007/03/hh_foodpricesprotest_forweb.pdf).

Kirchner took the opposite approach that Menem did and sacrificed the agricultural and rural sector for the needs of the urban and industrial sectors, a pattern that set the tone for the two following administrations and gave way to their own economic programs that benefitted the urban dwellers. This is one of the manners in which the shifting of the burden of inflation and the importance of the urban consumers can be seen in recent political history, and gives an idea as to who may be more concerned with high inflationary prices. If the President says publicly that he does not want the urban consumers to be subjected to high prices, the rural periphery becomes aware that their needs are not as important to the political environment and may become more concerned about inflation than before, and their fears may be confirmed through subsequent actions taken by the President to aid the urban consumers, such as the subjection of farmers to a continuous tax on agricultural goods and a loss in predominance in world markets.

## **Chapter 5:** **Argentina and a History of Price Controls**

### **Inflation in Argentina**

The citizens of Argentina are no strangers to the pitfalls of inflation. The entire country has been on a rollercoaster of inflation, hyperinflation, or a normal rate of inflation since the end of the second World War. This, in turn, caused inflation to be one of the leading problems in Argentina, both economically and politically. Each new President is given the task of figuring out a different way to rid the country of the rampant inflation that has plagued it for years, but for some reason they keep returning to price controls. “In Latin America, inflation is the most important determinant of public opinion”; it can lead to coups of governments, riots, protests, and lack of critical constituent support for re-election.<sup>55</sup>

The biggest issue that the Argentine—and most other governments that face the problem of inflation—government faces is the tradeoff between inflation and unemployment, as can be seen on the Phillip’s curve that was discussed earlier in this paper. However, after 1945 and Perón’s rise to power, his combination of state intervention, redistribution of income based on increased wages, and industrial protectionism were the basis for the beginning of the unbridled inflation that would become an epidemic and would set the tone for what was more important to the citizens of Argentina. Between 1945 and 1990, the country experienced different levels of inflation and hyperinflation, during which time the worst level was from March 1989 to March 1990, with an inflation rate of over 20,000%.<sup>56</sup>

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55 Kaplan, Stephen B. *Globalization and Austerity Politics in Latin America*. Cambridge: Cambridge UP, 2013. Print. 256.

56 Parker. "Money and Inflation in Argentina Case." Reed College. <http://www.reed.edu/economics/parker/f10/201/cases/argentina.html>.

In order to curb inflation, the government under Carlos Menem created the convertibility plan where one peso was equal to one American dollar, and that each peso in circulation must be backed by the central bank with an equivalent amount of gold or foreign currency. This was one of the only plans in recent history of the government that did not include price controls to curb inflation, and to an extent it worked: “Inflation fell from 1,344 percent in 1990 to 84 percent in 1991, 17.5 percent in 1992, 7.4 percent in 1993, 3.9 percent in 1994, 1.6 percent in 1995 and 0 percent in the twelve-month period between June 1995 and June 1996”.<sup>57</sup>

However, the economic crisis of 2001 demonstrated that there were more problems inside of the Argentine economy than were visible to the public, and inflation surged again in 2002. While the recent history of Argentina’s inflation will be discussed later in this section, it is more important to first discuss the implications that these periods of inflation and hyperinflation had and continue to have on the Argentine constituency. This turbulent history of inflation has caused many of its citizens to become extremely inflation averse.

Inflation aversion is how an individual assesses the relative costs and benefits of inflation and unemployment. Obviously, individuals dislike unemployment, inflation, and low growth, but not all of these can be obtained at the same time. With the historically high rates of inflation, according to a poll 90% of Argentines perceived the rate of inflation as increasing when the inflation rate reached 10%.<sup>58</sup> As prices increase more rapidly, rising and volatile inflation becomes more costly to the incumbent government and the public places a greater emphasis on it. For example, in the early 2000s in

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<sup>57</sup> See Parker.

<sup>58</sup> Ardanaz, Martin, M. Victoria Murillo, and Pablo M. Pinto 417.

Argentina during hyperinflation, prices started rising faster than stores would keep up with, and by the time a person would reach the end of the checkout line, the price would have risen by five or ten pesos in a matter of minutes.

History also plays a role in expectations. Countries that have experienced significant periods of inflation are generally more inflation averse and are more concerned about the potential rising of prices that could possibly foster economic and political instability.<sup>59</sup> Inside of this theory comes one of the proposals for using price controls, as a way to reduce inflationary expectations over a certain period of time; it is the belief that price controls would “directly” reduce inflationary expectations and therefore lead to a lower rate of inflation, although it has been demonstrated that price controls do not work. Expectations are also prevalent in a society such as Argentina where if individuals consider the current rate of inflation to be high, then they also expect high future rates of inflation.<sup>60</sup> This can be seen in the current situation in the government; the rate of inflation has been increasing steadily since Macri’s time in office, which has led citizens to believe that there again is the possibility of hyperinflation, which is something they want to avoid. History’s role in expectations can take one of two routes in Argentina; either the urban consumers will be extremely worried about high inflation because of rising costs in the past, or the rural constituents will be more concerned because of how recent history has caused the President to enact economic policies that have accommodated the avoidance of high prices for urban consumers,

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59 Scheve, Kenneth. "Public Inflation Aversion and the Political Economy of Macroeconomic Policymaking." *International Organization* 58, no. 01 (2004): 1-34. doi:10.1017/s0020818304581018. 14.

60 Jonung, 141.

while harming the rural producers with low domestic prices. It is my belief that in Argentina, the latter of the two will be more prevalent.

The question then arises as to who is more inflation averse in a country where everyone has been harmed by inflation in some way. From a historic perspective and as stated above, countries with consumers who have been exposed to high levels of inflation are typically more inflation averse and if the relative proportion of individuals has been more exposed to the costs of inflation, the more inflation averse they will be. Although there is an alternative argument presented that countries, which have experienced substantial inflation in the past, are no longer concerned about it because the government has developed a way to combat it, this is obviously not the case in Argentina because the government has repeatedly used price controls and failed. However, what I believe is present is that the urban constituents are no longer as concerned about inflation because the way that the government has chosen to combat inflation and rising food prices, through the use of price controls, has shifted the burden of inflation from urban consumers to rural producers, making the rural constituents more concerned with inflation.

Rising and volatile is more costly politically than even a steadily increasing inflation rate, so the public places a much greater concern for low inflation as prices increase rapidly.<sup>61</sup> A study done on public inflation aversion has also suggested that different political parties have different attitudes towards inflation, and their findings show that political conservatives tend to be more inflation averse than people who identify as more politically liberal. It has been found that right-wing conservative parties

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<sup>61</sup> Scheve, 5.

tend to pursue low inflation at the cost of jobs and economic growth, while left wing parties tend to prioritize economic growth and jobs at the cost of a higher inflation rate.<sup>62</sup>

Members of the conservative party are also more likely to choose economic paths that appeal to business and financial districts, because the financial sector also has a strong preference for price stability; many financial districts are located in urban areas, the biggest financial district of Argentina is located in Buenos Aires.<sup>63</sup> It has been shown that politicians use price controls to target certain political constituencies, so it is possible that President Macri implemented price controls as a way to appease his constituents in the financial sectors of Buenos Aires and other large cities.<sup>64</sup> Considering that he is a member of a conservative party and was once also a businessman himself, and since the macroeconomic policies of many people are often believed to reflect the political coalitions that they identify with, the theory of urban bias may also explain his actions in this respect.

Following the tumultuous history that Argentina has had with inflation along with the attitude of the most recent Presidents towards the agricultural sector during times of hyperinflation, it is not difficult to understand that there could be a particular bias towards the urban sector. The implementation of price controls during the recent times of inflation is an example of how President Macri is attempting to shift this burden of inflation from his urban consumers to the rural producers. It is evident that not everyone is able to benefit from either high or low inflation, there have to be winners and losers with each one; historically in Argentina during times of high inflation, the agricultural rural producers become the losers, which may have caused them to become much more

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<sup>62</sup> Kaplan, 77.

<sup>63</sup> Scheve, 6.

<sup>64</sup> Kaplan, 103.

concerned about inflation that the urban consumers, whose issue with high prices has been acknowledged much more in recent history than the ability of the farmers to compete in global markets, as we saw with Nestor Kirchner and the discontinuation of beef exports in 2006. Many criticisms of high inflation come from unions, public enterprises, and private entrepreneurs, the majority of which are located in the urban sector; however, there are rarely complaints from the agricultural sector about high inflation because the price of their products increase, meaning they have the potential to make more money.<sup>65</sup>

However, President Macri, in order to appease his urban constituents who are typically the losers under high inflation, shifts this burden using price controls to stabilize the volatile prices and set them lower than international market price, which in turn benefits the consumers from rising prices and harms the producers and turns them into the losers from inflation. In reference to the alternative argument which states that citizens of countries that have experienced inflation in the past no longer worry about the effects of high inflation it because their respective government has found a way to combat it, it may be quite possible that many urban constituents no longer view inflation as a major problem because they know that the economic path to combat inflation will be geared towards their desires—which is a different way of stating that the burden of inflation will be shifted away from them.

### **Methods to Combat Inflation: Presidential Perspectives**

Different Presidents of Argentina have attempted to combat inflation in a variety of ways. The convertibility plan in 1991 that was discussed above was a temporary

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<sup>65</sup> Kaplan, 229.



solution, but was combined with other bad economic policies that ultimately led to the crash in 2001. However, this experience from Menem did show that in Argentina a lower rate of inflation does lead to a higher approval rating. When Carlos Menem became President and began to favor the urban sector over the rural sector, he implemented different export tariffs to try and lower the rate, but ultimately his failure to do so led to his administration tampering with national inflation statistics from the National Institute for Statistics and Census (Instituto Nacional de Estadística e Censos), better known as the INDEC. During a period of high inflation in 2006 the government infringed on the technical autonomy of the INDEC and the technicians that had previously been in charge of estimating the CPI to gauge inflation rates were fired and replaced with technicians chosen by the administration. The INDEC then began to release a distorted inflation index that was much lower than what provincial governments and private agencies were reporting, which can be seen in Figure 6 in the Appendix. Private sector economists estimate that the inflation rate during this time was 2-3 times higher than what was reported by the INDEC.<sup>66</sup>

Although Cristina Kirchner did not stop the false reports of inflation rates when she became President in 2007, she tested the public's inflation aversion through an increase in energy and transportation subsidies, higher social spending and public employment, and a 25% hike in the minimum wage; notice that many of the policies she implemented appealed to mainly urban constituents and allowed some sort of business cycle to return to Argentina.<sup>67</sup> The tool she used to combat inflation after testing the public's inflation aversion is what we are most interested in.

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<sup>66</sup> Ardanaz, Martin, M. Victoria Murillo, and Pablo M. Pinto, 417.

<sup>67</sup> Kaplan, 55.

In 2013, Cristina Kirchner created the program called Precios Cuidados, or Protected Prices. This was a list of around 100 products that were given a ceiling price that they could be sold at; many of these goods included things like bread, meat, juices, all items that were produced agriculturally. “Son precios que permiten asegurar condiciones de competitividad en la economía, cuidar el bolsillo de la población argentina y que cada consumidor ejerza su derecho de elegir informado”.<sup>68</sup> This states that these prices are ones that ensure competitive conditions in the economy but also protect the bag of the Argentine consumer and give each consumer the right to choose his or her product. When this program was implemented it was thought to be successful, but it was soon realized that this program was nothing more than another failed attempt to use price controls. Inflation in Argentina only continued to increase and the program was repealed in 2015.

When President Macri was running his campaign, one of his promises was that he would finally stabilize the economy and get rid of the high levels of inflation and corruption that had plagued the country. He also promised to not enact any of the policies that were in place under either of the Kirchner administrations, because he is of a different party and did not want to be viewed as corrupt as they were. So when he announced that he would be reenacting Cristina’s Precios Cuidados program and adding over 400 more items, it is easy to see why producers were shocked. If it is a program that his predecessor created that he did not want to be related with, and he also saw it fail in 2015, just a year earlier when he was mayor of Buenos Aires, then there should not be any reason to reenact it. However, this is a program that is more or less only beneficial to

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68 Henríquez, Gonzalo. "Plataforma de Seguridad Alimentaria y Nutricional (SAN)." Argentina: Programa Precios Cuidados. <http://plataformacelac.org/es/programa/964>.

urban citizens, which is one of the main political bases for Mauricio Macri and his party. The increase in the program that created low prices on consumer goods was a way President Macri could please the urban constituency and also continue to increase the level of urban bias that has been growing for over a decade, and the implementation of a price protection program that has been used before can be used as an example as one of the reasons why the rural producers may be more concerned with high inflation; this is a program that has harmed the producers before during times of high inflation, and now is being brought back and will help the large urban coalition regain a steady price on agricultural goods at the cost of the profits of the rural producers.

## **Chapter 6:** **Political Economy Theory of Price Controls**

Price controls as a way to curb inflation have been used in many different countries in Latin America since the end of the second World War. For example, different heterodox programs in Argentina, Brazil, and Peru have all experienced politicians attempting to use price and wage controls in order to tame inflation while also attempting to maintain an expansionary economic policy, which is what Macri has been trying to do in Argentina during 2016 and the beginning of 2017. However, in the past all of these programs were ultimately unstable and only further worsened the state of the economy, and multiple times provoked different economic crises. The question that we have been trying to answer through this thesis and will continue to answer is, why would a President enact a program that has historically always failed?

As we have seen from the review of urban bias and the history of price controls and inflation in Argentina, the idea that President Macri has re-enacted the Price Protection Program of former President Cristina Kirchner in order to appease his urban constituents is extremely plausible. His actions and policies he has implemented can be explained by the theory of urban bias that has been presented, and is using price controls on goods produced by rural citizens of Argentina in order to shift the burden of high inflation in the country away from the metropolitan area and to the producers in the rural periphery. As President and as someone who has been involved in politics for close to a decade, Macri should be more aware of the problems that inflation causes the urban constituents because of his proximity to them both politically and geographically, and since economic policies have been enacted in the past decade that have been catered

towards the urban constituents by different presidents, inflation is now going to become a bigger concern for the rural constituents because the burden is shifted towards them.

Urban bias results in significant food subsidies for the urban poor, which in turn also gives an advantage to the wealthy urban citizens. Food subsidies are financial aid given to a certain niche, whether it be an industry, farmers, or consumers, in order to make food available to the poor. Following the theory of urban bias, the niche that would be given preference from certain food subsidies, such as price controls that lower the cost of food and benefit consumers, would be the urban poor. Consequently, this is at the expense of rural producers, who are forced to sell their products at lower than market prices in order to protect the consumers.<sup>69</sup> However, what is more important to examine is how Presidents are able to follow through with programs that harm a majority of the rural agricultural producers in a country, such as urban bias does. In the case of Argentina, there are many different manners in which both Presidents Kirchner—both Nestor and Cristina—and current President Macri could alleviate the burden of inflation from their urban coalition and defer it to the periphery.

The first way urban bias is achieved by President Macri is because of his proximity to his urban constituency. The capital of Argentina, Buenos Aires, is home not only to the Casa Rosada, where the President resides, but is also the largest metropolitan area in the country, la Ciudad Autónoma de Buenos Aires (abbreviated CABA) and is home to over two million urban residents. Prior to being President of Argentina, Macri was a former wealthy businessman and also mayor of Buenos Aires, meaning that he has

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<sup>69</sup> See Ballard-Rosa.

many ties to the metropolis. Obviously, the government is going to put more effort into mitigating the problems of the citizens located more closely to the capital.

Business networks can also have a considerable amount of influence on the government; they can pressure the government through different business associations, policy networks, cabinet appointments, or even through different lobbying and campaign contributions depending on the laws in the country regarding campaigning.<sup>70</sup> Given Macri's business background in Buenos Aires, influence on the government through different financial businesses in the urban area would not be completely unfathomable. Many people who are involved in business are conservative in ideology, which Macri is as well, and referring back to information observed by Scheve, conservatives and people who are involved in the financial district tend to be more inflation averse and on the Phillip's curve prefer low inflation to unemployment because of the manner in which high inflation affects their businesses in terms of rising uncertainty, rising costs of goods, and during times of high inflation a negative effect on the firms profits.<sup>71</sup> This is one of the biggest economic paradoxes that has faced Argentina for decades. Since the majority of his political constituency is located in one large area, the probability for them to have a greater pull in the political realm and lobby for their interests of lower inflation is greatly increased.

This urban constituency does not go unnoticed by people located in the periphery Argentina either; in 2012, a majority of the Macristas—people who were members of Macri's political party—were concentrated in urban areas. Following a map which shows how Argentine citizens voted in the presidential election of 2015, Macri won the Ciudad

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<sup>70</sup> Kaplan, 64.

<sup>71</sup> Scheve, 6.

Autónoma of Buenos Aires (CABA), the largest metropolitan area in the country, which shows that this concentration has not changed much, if at all, which only further adds to the probability that Macri is biased towards the urban metropolis.<sup>72</sup> To show the attitude of many Argentines, a survey done by the Centro de Estudios de Opinión Pública—or the Center for Public Opinion Studies—in November of 2016, eleven months after Macri became President, asked the question “Which is the sector that has benefitted the most during these 11 months of government?” with response options of the upper class, the middle class, the lower class, or all benefit equally. From the 1200 respondents from different areas around the country, the survey showed that 65% of these participants believed that Macri governed for the upper class, and that his policies benefitted them the most.<sup>73</sup>

While this thesis is not concerned with the divide between rich and poor but rather rural versus urban, there are a few things we can discern from this statistic. Similar to many other countries, a majority of wealthy, upper class citizens are located in urban areas. And while inflation does hurt the poor and the rich and the argument can be made that there is an abundance of urban poverty, the reason that urban bias is still present is because the urban poor have a much closer proximity to the President and the capital, and therefore can make themselves heard, while the poorer voters in the periphery who are producers have no way of making their voices heard by the President because they are so far away. This is characterized in the following example: “if a rural farmer needs to walk several miles just to reach his/her nearest neighbor, but an urban citizens lives with in and

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72 "Elecciones 2015: mapa interactivo de resultados del ballottage por provincia, por municipio y por comuna." LA NACION. November 22, 2015. <http://www.lanacion.com.ar/1846694-elecciones-2015-mapa-de-resultados-del-ballottage-por-provincia-municipio-y-comuna>.

73 LARED21. "Para el 65% de los argentinos Macri gobierna para los ricos." LARED21. November 21, 2016. <http://www.lr21.com.uy/mundo/1312729-argentina-encuesta-macri-gobierno-economia-ricos>.

works within a few feet of fellow protestors, suggests the relative threat of civil opposition to a regime should be much greater in urban areas”.<sup>74</sup>

Not only do urban and rural constituents differ in their separation from the capital, but they have completely different needs from each policy that is enacted by the government. For the urban consumers who have little way of producing their own food besides buying it, the overriding concern in many of the large cities is the concern for cheap food, which is something that is unavailable under times of volatile inflation or times of hyperinflation, something that Argentine constituents are all too familiar with. Inflation in the late 2000s caused the creation of a black market for currency.

The actions of not only President Macri, but the government as a whole, could possibly be explained by the theory of urban bias. Right now in the Senate and House of Deputies in Argentina, the majority of people in these positions of power are members of the Peronist Party, the majority belonging to Alianza Frente para la Victoria or Frente para la Victoria (AFPV and FPV), or are supporters of Cristina Kirchner and her policies. As we have discovered from previous sections, Peronists are typically supported by the urban coalition, and both Nestor Kirchner and Cristina Kirchner were much more biased towards the urban sector as well. Therefore, the implementation of price controls to support the urban coalition may not only have been to please Macri’s constituents, but also the constituents under the Senators and Deputies.

A different manner in which we can determine if urban bias was a determinant of the use of the Price Protection Program is through the location of each company that has price controls placed on its products. The companies are spread out through different

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<sup>74</sup> See Ballard-Rosa.



provinces in Argentina, and many of them are located in the more rural areas of the country. Although there are sixteen total companies that are located in the large cities of the Ciudad Autónoma de Buenos Aires and in Rosario in the province of Santa Fe, the majority are located in rural areas, because that is where the most fertile land is for farming, especially in the Pampas region. The companies that are located in those two urban centers are mostly non-agricultural companies that are import competing, and it can be argued that these specific companies were placed under the price controls in order to keep their prices from rising to try and compete in the foreign market as well.

The types of products that were placed under price controls are predominantly produced in rural regions of Argentina, and while there are some products under the Program that are manufactured and not agriculturally grown, the price controls on these products still harm the producers in the rural area where the company is located. However, the majority of the products under the Price Protection Program are agricultural goods such as meat, different bread products, juices, milk and dairy items, along with other different products who all require an expansive farming community in order to create their merchandise; therefore, the price controls are still aimed and placing the burden on the companies and producers who are located in the rural areas. We can see in the map below the distribution of the companies throughout the country in Figure 5.

As I mentioned earlier, there are some problems that arise from the original theory of urban bias. One of the most discussed problems is that many of the countries that have been studied and have been found to contain urban bias are not democratic regimes but autocratic, and that democratic regimes are typically biased towards the rural periphery, such as the United States. The other argument against this is that the likelihood that

citizens will riot or overthrow a government is less in a democratic government—because there are so many different levels—and more probably in an autocratic one, because it is only one person that has power. However, Argentina has proven to be one of the most contentious democratic countries in the world, with the highest rate of protests and riots in Latin America. Historically, Argentina protests in the major urban cities because that is where the politicians are located and the citizens know their concerns will be heard there.

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In autocratic regimes, the absence of a legitimate government is what leads to social unrest and the express of dissent from citizens through violent revolutions and movements. In a democratic society such as the United States, there has not been a violent revolution against the government since the Revolutionary War in 1776. In Argentina, the country went through 5 different Presidents between 2001 and 2002 because of the amount of protests and social unrest that the citizens held in response to the high rates of inflation. Many of these violent protests took place in the capital city and in major urban areas, which were noticed by the Presidents at the time. This also makes sense because citizens who reside in urban areas tend to express a lower level of satisfaction than those who live in smaller cities and rural areas, and therefore have more reason to protest.<sup>76</sup>

Urban bias is present in Argentina even though it is a democratic regime because the amount of people who can conglomerate in the metropolitan areas and rebel against the government is much larger than the amount of people who can loot and riot in the streets in the rural peripheral regions. A riot in front of the capital urban city of Buenos

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75 See Ballard-Rosa.

76 "LAPOP." LAPOP . <http://www.vanderbilt.edu/lapop/>.

Aires is much more noticeable than one in the province of Jujuy. Even Nestor Kirchner was aware of the power of the piqueteros, which comes from the word “to picket”, and protested by gathering in huge numbers to have rallies that would block streets, sections of cities, or businesses and government buildings; he would use them as factors of intimidation. The power of protest is no small ordeal in Argentina. The other main problem presented with the urban bias theory are those of determining what is perceived as urban and rural, but this is addressed in the methodology section with the specific variable that is used for size.

There are many different ways to measure whether or not the theory of urban bias can be used to explain the implementation of price controls in Argentina, some of which have been measured through research in this section. In the next section, I will conduct an empirical analysis to determine whether my hypothesis that rural constituents are more concerned with inflation overall is correct. I suspect this because of the policies that the past two Presidents have enacted in order to appease the strong urban coalition through the implementation of price controls to reduce the price of agricultural goods, which has therefore led to a shift in the burden of inflation from the urban consumers to the rural producers who now receive most of the impact of high inflation.

## **Chapter 7:** **Empirical analysis**

The historical analysis of inflation and price controls in Argentina combined with the relationship of the government to its urban and rural constituents has given a certain amount of insight into whether or not urban bias has been present in the past decade. The economic policies that have been implemented suggest that urban bias has played a role, but a statistical analysis also needs to be done to corroborate the historical analysis. In order to test that price controls can be explained by urban bias, I will conduct two analyses: one that pertains to public opinion on inflation data, because the level of concern that certain citizens have about inflation will help to explain whether or not the price controls were enacted for their benefit or to their disadvantage. The second analysis will determine whether or not the population density of the city or town that each company that had price controls placed on their products can be explained by urban bias, the hypothesis following that places with lower population densities will have a higher amount of companies with price controls located within them.

This section will be divided into two different sub-sections. The first section will be an analysis of data gathered from a public opinion survey done in Argentina in 2014 to assess different attitudes concerning problems in the country in relation to the respondents personal life in the economic, political, and social realms. This is important because it will demonstrate how constituents in different areas of the country—with differences in size of city, age, occupation and education—view inflation in Argentina, and we will be most interested in seeing how rural citizens view inflation; if it is seen as more of a problem in rural areas than urban areas, this could mean that through the policies enacted to combat inflation and appease members of the urban constituency,

rural constituents have been harmed the most and therefore view times of high inflation as a greater problem than those in the urban areas, because the urban constituency knows that their concerns will be taken care of by the government.

The second section will contain data from the companies who have products under price control in order to show that the locations of each company coincide with the theory of urban bias that has been examined previously. We will return to the theory of urban bias from a business viewpoint rather than from a singular respondents view will also examine the importance of location of the different businesses that have price controls. This is important because if there are more companies located in areas with a small populations and population densities, we will be able to verify whether or not these companies were selected specifically because of their rural attributes, which would coincide with the theory of urban bias.

### **Section I: Public Opinion**

The first section will consider public opinion data in order to gain an accurate perception of how inflation is viewed throughout the country. The data used in this part is derived from a few different sources. First, I used data from a study done at Vanderbilt University concerning different problems that were facing Argentines in the year 2014, with data concerning employment, gender, level of education, political ideology, age, monthly household income, the size of where the respondent lives, and whether or not the respondent believes inflation is the most important problem concerning the country of Argentina.

The variable of monthly household income, labeled “q10new”, ranges from “ningún ingreso” or “no income” to “más de 9900” or “more than 9900” pesos per

month. The variable for years of education, labeled *ed*, ranges from 0 to 18+, the variable age, labeled “*q2*”, ranges from 16 to 88. The ideological variable which is labeled “*i1*”, is ranked on a scale from Izquierda or 0, to Derecha or 10, which means the scale proceeds from the most liberal to the most conservative. Gender, which is labeled the same, is registered as “0” for male and “1” for female. The variable that represents the size of where the person lives, labeled “*tamano*” or size, ranges from “Capital Nacional (área metropolitana)” to “Área rural”, which means that it is coded as 0 representing a large metropolitan area and 5 representing the most rural areas in the country.

I recoded the variable of employment as well as the variable that concerned whether inflation was the biggest problem that faced the country. The variable of employment, labeled “*employment*” was changed from different levels of employment—if the person was searching, was in a part time or full time job—to simply employed or unemployed, and the variable that asked if inflation was the biggest problem or not was recoded from a variable that listed different problems facing the country to a variable that simply listed inflation as the biggest problem, or other. This was done in order to simplify the process and to assure that all of the variables used are relevant to the research.

The first hypothesis that will be examined in this analysis as it relates to urban bias is as follows: as the size of the place where the respondent is located grows smaller in size, the tendency to view inflation as the largest problem for the country will increase. I suspect that this will be caused by previous experiences that rural constituents have had with inflation, which is that the urban constituents are more favored during times of high inflation—in their desire for lower prices—and in turn do not see inflation as a problem anymore because of the recent price control program which has lowered the price of

agricultural goods, while the needs of rural constituents—many of who are producers—during times of inflation have been ignored, since they are the ones who benefit from inflationary prices because it makes their products more competitive in the international market.

The dependent variable in this analysis will be the variable “inflation”, which asks “Is inflation the most important problem?” which has responses of “other” or “inflation”, coded 0 and 1 respectively, while the independent variable is “tamano”, described above. Originally, I was going to use a variable that was only urban and rural, but thought it better to use “tamano” because it was a more specific measure of what counted as rural or urban and gave a better view as to how the size of the city affected the view of inflation.

Size of Area Lived In	Frequency	Percent
National Capital (metropolitan area)	126	8.3
Big city	163	10.8
Medium sized city	323	21.4
Small city	720	47.6
Rural area	180	11.9
Total	1512	100

We can see from the frequency distribution that a majority of these respondents have identified themselves as being from a “ciudad pequeña”, which is a small city, and it constitutes almost half of the responses at 47.6%. It also shows that the smallest number of respondents came from the metropolitan area, at only 8.3% of the respondents, so this may bias the results towards the smaller cities because there are more respondents from that area.

The equation that we will be using to run the regression for these two variables is as follows:

$$\text{inflation} = a + b(\text{tamano})$$

Where a is the constant and inflation and tamano represent the two variables. After running the two variables we arrive with these statistics, which will be explained below.

Variables in equation	B	Sig.	Exp(B)
Tamano (size)	0.240	0.000	1.271
Constant	-2.361	0.000	0.094

The equation from above now becomes:

$$\text{inflation} = -2.361 + .240$$

The regression was tested at a 90% confidence interval, which means that anything under .10 is statistically significant, which we can find in the column labeled Sig. Since the significance of both the independent variable in relation to the dependent variable was .000 this means that the relationship between the two is statistically significant.

Furthermore, the column labeled Exp(B) identifies the odds ratio between the two variables, and indicates how much the odds of the dependent variable change for each increase in the independent variable. So, since the Exp(B) value is greater than 1, this means that the odds of the dependent variable increase as the independent variable increases. Therefore, since the size of the town starts from 0 at the largest city and goes to 5 as a small rural town, this means as the size of the residence gets smaller, the likelihood that the person believes inflation is the largest problem facing the country increases, which proves my hypothesis to a certain extent.

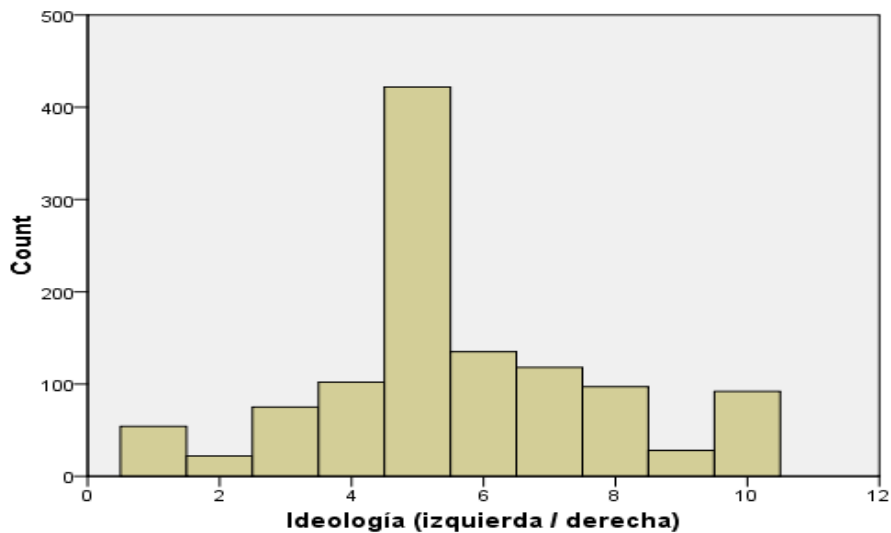
However, it is important to note that there are no controlling variables in this first regression, which means that there could be other unidentified variables that also have an



influence on whether or not inflation is a priority. Control variables are also important in order to relieve some of the bias present from the amount of respondents in the small city category. So, in this next regression to test the same hypothesis as above, we will add independent control variables of education, gender, monthly household income, employment, age, and political ideology along with keeping “tamano” as the main control variable in order to validate the regression and achieve more accurate results.

From Figure 3, we can see that the number of employed respondents is greater than the number of unemployed respondents, and we can also see that there is a variety in the ages of respondents, with the youngest being 16 years old and the oldest being 88, so it will be interesting to see what kind of effect this has on their attitudes towards inflation. The other distributions located in the following Appendices are that of the monthly household income, which shows the ranges that are used, and the number of male and female respondents.

The distribution of the political ideology variable is particularly interesting. We can see from the histogram below that it is a bell curve that is not skewed, with most people identifying as politically moderate, or 5 on the scale, which can be found below. This shows that there may be a general consensus among Argentines that political affiliation may not be as important in determining certain situations. I believe that the regression will show that political ideology does not play as important of a role in determining whether or not inflation is the greatest issue because the majority of respondents identified themselves as moderate rather than radical.



With the addition of these control variables, the equation now becomes:

$$\text{inflation} = a + b_1(\text{employment}) + b_2(\text{gender}) + b_3(\text{q2}) + b_4(\text{l1}) + b_5(\text{ed}) + b_6(\text{q10new}) + b_7(\text{tamano})$$

where inflation equals the constant plus the control variables of employment, gender, age, political ideology, years of education, monthly household income, and size of city from the previous regression and when we run the regression, we achieve the following results:

Variable in equation	B	Sig.
Employment	0.005	0.980
Gender	0.012	0.953
Age (q2)	-0.011	0.105
Ideology (l1)	-0.037	0.406
Education (ed)	-0.059	0.050
Monthly household income (q10new)	-0.009	0.702
Size of area lived in (tamano)	0.284	0.007
Constant	-1.174	0.109

From this table we are able to come to a number of different conclusions concerning the variables and how they relate to the problem of inflation as it is viewed in Argentina. The regression was still run at a 90% confidence interval, so any variable in the section labeled Sig. that is below .1 means that it is significant in determining whether or not the respondents believe that inflation is the biggest problem facing the country. We can see from the chart that employment, gender, age, political ideology, and household income are all not statistically significant because they are above the .1 value.

However, the variables of education and size of city (tamano) are both below .1, with respective measures of .050 and .007, which means that including these variables as predictors significantly enhances the probability that the respondent will view inflation as the largest issue in the country. So, as the respondent increases in years of education, the likelihood that they will view inflation as the largest problem decreases. It has been studied in many different societies and especially in third world countries that a majority of the people who are educated or who are able to obtain higher levels of education reside in urban areas because there is more opportunity and more availability to achieve a higher degree of learning, while many people in rural areas are unable to do so simply because their proximity to the nearest school is too far for a child to walk. Many times children who live in rural areas also have to leave school in order to help their families with farm work or other household work. The fact that there is a statistically negative relationship between level of education and consideration of inflation as the largest issue, meaning that as the years of education increase, the probability that inflation will be viewed as the largest problem decreases, coincides with the hypothesis that I have attempted to prove.

While the significance of the variable tamaño did change from .000 to .007 with the addition of the control variables, there is still a statistically significant relationship between the independent and dependent variables. This slight increase shows that even when we control for many other factors that may or may not influence the dependent variable, the size of the city where the respondent lives is still extremely significant. We can also examine the Exp(B) column and find that the measure here is 1.329. Since this number is greater than one, this means that there is a positive relationship between the two variables; as the size of the city gets smaller, the probability that the individual will see inflation as the most important concern increases.

From the results of these two empirical analyses we can come to a few different conclusions. The results from each analysis show that the hypothesis considered in this first part of the section—as the size of the place where the respondent is located grows smaller in size, the tendency to view inflation as the largest problem for the country will increase—is supported, because each test ran gave a significant result under the variable “tamaño”. This means that the respondents who were located in the smaller areas had a larger concern of inflation in the country, caused by policies that had been enacted that shifted the burden of inflation from the urban constituents to the rural periphery, and can be explained by the theory of urban bias. However, I was surprised to discover the role of the variables of employment and monthly household income were not significant, although I believed they would be.

In association with the first test, although the regression showed that the size of the area lived in was significant in regards to how it affected inflation was viewed there are certain limitations. The most important limitation to this regression is there were no

other variables included in the analysis to control for outlying factors, and therefore could have produced a biased result. However, this was controlled for in the second regression when the control variables were added, and we still achieved a result that was significant in determining that size of area was related to how inflation was viewed to the respondent. It is also important to emphasize the fact that when the analysis was controlled for household income, the result that rural was still more concerned with inflation held, and income did not play a significant role in determining whether or not inflation was the largest problem, which means that how concerned a person is with inflation does not depend on how much money they make per month, which reinforces the fact that this is not an argument of rich versus poor but rather urban versus rural.

Yet, there are some data-related constraints to this regression even though it contains control variables. First, the data is from the year 2014, when Mauricio Macri had not yet been elected President and Cristina Kirchner was still in power; this could have affected the views of the respondents on what problem was most significant to them in regards to what was occurring in the country at the time of the poll and whether or not inflation had been a concern that year; if the poll had been done at a more recent date, it could have shown either a greater or lesser concern with inflation and therefore changed the results of the analysis. There is also a greater number of respondents who live in rural areas than the urban areas, which also could have misconstrued the results.

## **Section II: Companies**

The rationale behind the second empirical test that will be run is to examine whether or not the companies that have products with price controls on them are located in rural areas of the country. If a company is located in a rural area and a majority of its

products are produced agriculturally, this could also be explained by the theory of urban bias; these companies would have very little say if their products are placed under price controls because they are located further away from the capital. Furthermore, the companies being located in rural areas and not urban areas would mean that Macri would not want to harm the companies and his constituents in urban areas by placing their products under price controls, but would still place price controls on companies in rural areas and harm the rural producers.

The second analysis that will be run is a linear regression, which evaluates causal relationships, to gauge if there is a relationship between the cities that have businesses with price controls on them and whether or not they are a product of this urban bias as well. For the dependent variable for this regression, I used a variable that I created, which was the number of companies for that specific department that had a price control on them, divided by the population of that department, with information gathered from the INDEC.<sup>77</sup> As my independent variable for the first test, I used the population density of each department. The hypothesis that I will be testing is that as the number of companies per department increases, the population density of that department will decrease. The null hypothesis would stand as there is no relationship between these two variables. The equation is as follows:

$$\text{companies w/ price controls} = a + v4(\text{popdens})$$

When we run the linear regression, we receive the following results:

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<sup>77</sup> "Argentina." Argentina: provincias, departamentos, partidos, ciudades y localidades - población y mapas. [https://www.citypopulation.de/Argentina\\_s.html](https://www.citypopulation.de/Argentina_s.html).

Variable in equation	B	Sig
Constant	5.243E-06	0.000
Pop. Dens. (v4)	-2.815E-10	0.738

From these results, the equation now becomes :

$$\text{companies w/ price controls} = 5.24\text{E-}6 - 2.815\text{E-}10$$

By using the column labeled Sig., as we did in the previous tests, we are able to see that there is no significant correlation between the population density and the number of firms that have price controls on them, since the value is .738 and more than .1.

However, in this test there was only one independent variable to control for random responses or correlations. In the next linear regression, I will add a control variable that represents the percentage of votes that President Macri received in the 2015 election in order to gauge the kind of representation and support that he had throughout the country when he was elected President. The different percentage of votes that he received for each department in each province of Argentina is important because it enables us to see how the rural departments voted in relation to the urban departments and whether or not the population density of the department and whether it was considered urban or rural was related to the amount of votes that gathered in each. The addition of this variable is also important because a department that is historically rural would probably not be inclined to vote for someone who has historically been linked to business and not agriculture. This information was gathered from an independent newspaper in Argentina.

When using these two variables, the equation is:

$$\text{companies w/ price controls} = a + v4(\text{popdens}) + v7(\text{percentvotes})$$

The same hypothesis as above is being tested, and I believe will give a more accurate result as to whether or not this information can be explained by the theory of urban bias.

Variable in equation	B	Sig
Constant	5.280E-06	0.000
Pop. Dens. (v4)	-2.820E-10	0.737
Percent of Votes (v6)	-6.682E-10	0.902

With the addition of the control variable, the equation is:

$$\text{companies w/ price controls} = 5.820E-6 - 2.82E-10 - 6.682E-20$$

We can see from the Sig. column once again that the hypothesis is not supported through this analysis. This means the hypothesis stated above, that companies with price controls on them will increase in an area that has a lower population density, is proven wrong and therefore does not support the theory that urban bias can be used as an explanation as to why these companies were chosen.

From these two analyses we can conclude that there is not a relationship between the population density of the department and the number of firms that contain price controls on them, which means that there is a chance that the locations of each company were chosen randomly, or some just happened to be in rural areas. Therefore, the theory of urban bias cannot be used for this section of the analysis to explain whether or not Macri was attempting to give an advantage to his constituents in the metropolitan area.



## **Chapter 8: Conclusion**

Following the discussion of the history of price controls and inflation in Argentina combined with an empirical analyses of certain sociopolitical and economic characteristics and the businesses under price controls, the results remain ambiguous as to whether or not urban bias was truly the reasoning behind the implementation of price controls. However, there were a few limitations to this thesis. The first limitation was simply the lack of some important information about the different departments in Argentina; the data used for population and population density was from a 2014 census, and although that may not have had a dramatic effect the results, it could have had a certain effect. It may have been better to use city level data rather than department level data, but for many of the rural towns in Argentina there had not been information after the year 2001, which would not have been an accurate representation of the population. Another limitation to this analysis is that originally I would have liked to use data pertaining to whether or not the citizens were against the use of price controls, but this particular data was not available, so I believed that their concerns about inflation would be able to at least partially explain their attitudes towards price controls.

Another limitation to this thesis relates to the analysis between the companies and the population density. Ideally, population density would have been a control variable and the number of companies per town or city in Argentina would have been used to compare the ratio between the number of companies that have products with price controls and the number of companies per town or city overall, but again this data was unavailable.

If I had more time, I would have liked to conduct my own investigation of citizens in Argentina from this current year, as the data from the Vanderbilt study was done in 2014 when Cristina Kirchner was still President; the attitudes of certain residents of urban and rural areas may have been different under Kirchner and Macri. Something that may call for further analysis is the reasoning as to why people voted for Macri, for example, if they voted for him because they believed in his vision, or if they simply wanted a change from the Peronism and Kirchnerism that had ruled them for over a decade. There is also the possibility for a cross-national study because it would be less generalizable than just Argentina, since Argentina has such a high percentage of urban voters. It would be interesting to see if the theory of urban bias can also be used to explain why other countries have used price controls, especially if they have a lower percentage of an urban population than Argentina. Another study could be done on whether or not the rural coalition has revolted against the policies that have put them at a disadvantage in terms of profit and their level of competitiveness in the international market, and whether or not it had any effect on the policies of the government.

However, there are certain implications that we can derive from the results from the public opinion analyses. We can see that there is a significant relationship between the size of the city that a person is located in and their level of education along in relation to their concern about inflation in the country, since the analysis done in this thesis showed that as the level of education decreased, the person's concern of inflation as the biggest problem in the country increased. This may call for further analysis in Argentina to see if there is a large education gap between rural and urban constituents, and how this

education gap may affect their concerns about the country in both an economic and political sense.

We can see that certain economic approaches may worry some constituents who have been subjected to policies such as price controls previously. This analysis shows that Argentine citizens who live in smaller towns and have been harmed by price controls realize that their politicians may not always be acting in their best interests. This is a cause for concern especially when the steps that the government takes to appease the urban constituency harms the livelihood of the rural producers, such as the price controls on agricultural products do. The government of Argentina needs to realize, as the rest of the world has, that price controls are not a sufficient manner in which inflation can be controlled, and they need to adopt a policy that is less harmful to the producers of the country, the producers that help and have helped sustain their economy.

**Chapter 9:**  
**Appendix**

Figure 1: Ideology Distribution

		<b>Ideología (izquierda / derecha)</b>			
		Frequenc y	Percent	Valid Percent	Cumulative Percent
Valid	Izquierd a	54	3.6	4.7	4.7
	2	22	1.5	1.9	6.6
	3	75	5.0	6.6	13.2
	4	102	6.7	8.9	22.1
	5	422	27.9	36.9	59.0
	6	135	8.9	11.8	70.7
	7	118	7.8	10.3	81.0
	8	97	6.4	8.5	89.5
	9	28	1.9	2.4	92.0
	Derech a	92	6.1	8.0	100.0
	Total	1145	75.7	100.0	
Missin g	DK	276	18.3		
	NR	91	6.0		
	Total	367	24.3		
Total		1512	100.0		

Figure 2: Gender Distribution

**Sexo**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Hombre	726	48.0	48.0	48.0
	Mujer	786	52.0	52.0	100.0
	Total	1512	100.0	100.0	

Figure 3: Employment Distribution

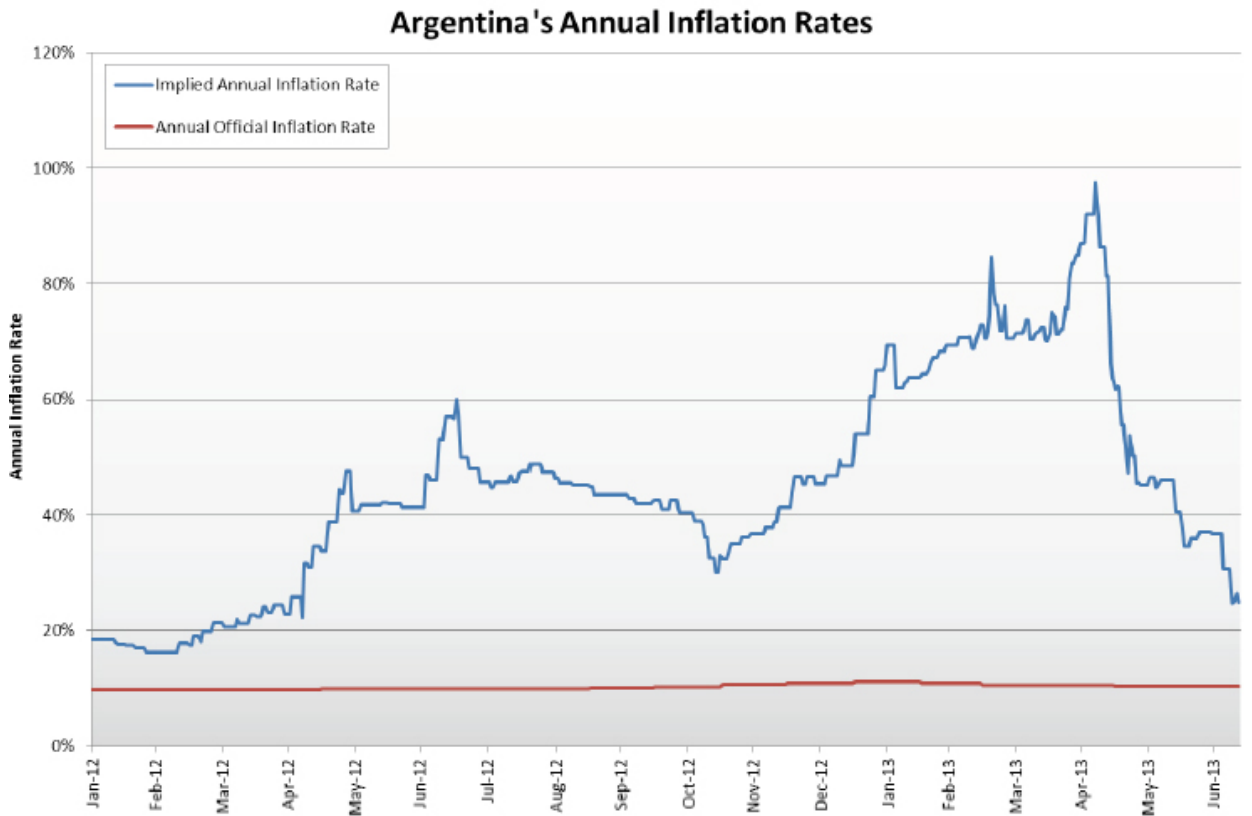
**Is person employed?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Unemployed	690	45.6	45.7	45.7
	Employed	820	54.2	54.3	100.0
	Total	1510	99.9	100.0	
Missing	System	2	.1		
Total		1512	100.0		

Figure 4: Map of Companies



Figure 5: Actual vs. Reported Inflation Rates



Sources: DolarBlue, Federal Reserve Economic Database, International Monetary Fund (IFS), and calculations by Prof. Steve H. Hanke, The Johns Hopkins University.  
Note: These annual inflation rates are implied from the movements in the black-market ARS/USD exchange rate.

Figure 6: Monthly Household Income

Ingreso mensual del hogar

		Frecuenc y	Percent	Valid Percent	Cumulative Percent
Valid	Ningún ingreso	3	.2	.3	.3
	Menos de 1300	23	1.5	2.5	2.8
	Entre 1300 - 1700	32	2.1	3.5	6.3
	Entre 1701 – 2000	33	2.2	3.6	9.8
	Entre 2001 – 2400	38	2.5	4.1	13.9
	Entre 2401- 2800	46	3.0	5.0	18.9
	Entre 2801 – 3100	43	2.8	4.6	23.5
	Entre 3101- 3500	53	3.5	5.7	29.3
	Entre 3501 - 3800	30	2.0	3.2	32.5
	Entre 3801 – 4100	49	3.2	5.3	37.8
	Entre 4101 – 4500	74	4.9	8.0	45.8
	Entre 4501 - 5100	71	4.7	7.7	53.5
	Entre 5101 – 5800	83	5.5	9.0	62.4
	Entre 5801 – 6800	80	5.3	8.6	71.1
	Entre 6801 – 8000	97	6.4	10.5	81.5
	Entre 8001 – 9900	88	5.8	9.5	91.0
	Más de 9900	83	5.5	9.0	100.0
	Total	926	61.2	100.0	
Missin g	DK	243	16.1		
	NR	343	22.7		
	Total	586	38.8		
Total	1512	100.0			



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