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Gareth Pahowka  
*Gettysburg College*  
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# A Railroad Debacle and Failed Economic Policies: Peron's Argentina

## **Abstract**

After General Juan Domingo Perón was elected President of Argentina in 1946, he quickly moved to adopt a "New Deal" Plan for Argentina based upon economic nationalism and improved working conditions. The nationalization of the British-owned railroads was perhaps the centerpiece of his reformist policies. But fervent national pride and pageantry surrounding the purchase were quickly eroded by a painful realization: the Argentine railway system was a crumbling, antiquated colossus that drained vital resources and helped propel the nation and its people to financial ruin.

## **Keywords**

Argentina, Juan Perón, Argentine railway system

## **A Railroad Debacle and Failed Economic Policies: Peron's Argentina**

*Gareth Pahowka*

After General Juan Domingo Perón was elected President of Argentina in 1946, he quickly moved to adopt a “New Deal” Plan for Argentina based upon economic nationalism and improved working conditions. The nationalization of the British-owned railroads was perhaps the centerpiece of his reformist policies. But fervent national pride and pageantry surrounding the purchase were quickly eroded by a painful realization: the Argentine railway system was a crumbling, antiquated colossus that drained vital resources and helped propel the nation and its people to financial ruin.

Before ascending to the presidency in 1946, Juan Perón had been a high-ranking government official, busily engaged in cultivating support for his future plans. Once Perón became Secretary of Labor and Welfare in 1943. He mediated a crippling strike by railroad workers. The agreement he reached with the Union Ferroviaria, the largest railroad union, called for increased pay and benefits—which the union had unsuccessfully sought for more than fifteen years. The industry had a troubled history marked by bitter labor disputes, including strikes in 1917-18. Perón even made an appeal in favor of Christmas bonuses. In the eyes of the worker, Perón was a hero. Railroad employee Arturo Cordeyro Echague remarked that “it was natural that the workers would turn out in support of a man who seemed to have their welfare at heart.”<sup>1</sup> Historian David Rock argued that these actions represent a shrewd strategy by the secretary to create a “vast popular constituency” of the worker and proletariat.<sup>2</sup> Support of the working

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<sup>1</sup> Arturo Cordeyro Echague, interview by Robert J. Alexander, in Robert J. Alexander Papers: Interview Collection, 1947-1999, ed. John D. French (Leiden: IDC Publishers, 2002), microfilm, reel 4, frame 456.

<sup>2</sup> David Rock, Authoritarian Argentina: The Nationalist Movement, Its History and Its Impact (Berkeley: University of California Press, 1993), 144.

classes would be crucial to a successful nationalist platform. Indeed, it would reap the intended rewards.

Three years later Perón became President of Argentina. Throughout the next nine years in office, he would lead the nation with an unprecedented nationalist vision. According to historian Robert Crassweller, Perón's "inward" approach was based upon guiding policies that promoted a "strong evocation of the indigenous Argentina."<sup>3</sup> His "New Deal" economic reforms were embodied in two sweeping five year plans, the first passed in 1946, and the second in 1952. Both rested on several core principles: enlarged state ownership through nationalization of utilities, central economic planning by the state, and industrialization. Appealing to his base supporters, Perón implemented new labor laws including a minimum wage, paid holidays, sick leave, disability pay, and a right to strike.<sup>4</sup> Overall, his economic nationalism can be considered "reformist" but not revolutionary. Author Jean Kirkpatrick argued that the economic models of Perón's predecessors were left largely intact.<sup>5</sup>

The showcase of Perón's new nationalism was perhaps the acquisition and nationalization of the British rail system. In the years preceding the Perón administration, Argentina had attempted to gradually buy out foreign railroad interests. By 1946, the nation had been successful in assuming ownership of a small network of French rails, but the British, to whom the vast majority of the system belonged, refused to sell off any of its interests. Early in his term, Perón agreed to a plan that would have incrementally increased Argentine railroad interests, but he later scrapped the plan in favor of immediate purchase.<sup>6</sup> Negotiations were

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<sup>3</sup> Robert D. Crassweller, Perón and the Enigmas of Argentina (New York: W.W. Norton & Company, 1987), 187-8.

<sup>4</sup> Jean Kirkpatrick, Leader and Vanguard in Mass Society: A Study of Perónist Argentina (Cambridge: M.I.T. Press, 1971), 37.

<sup>5</sup> Kirkpatrick, Leader and Vanguard, 38.

<sup>6</sup> David Rock, Argentina: 1516-1982 (Berkeley: University of California Press, 1985), 241, 277-79.

reopened and the purchase was finally completed on March 1, 1947, for a staggering price tag of \$600 million.<sup>7</sup> Reactions to the sale were mixed. Argentine economist, Raul Prebisch contended that “Perón undoubtedly paid entirely too much for the railroads.”<sup>8</sup> In contrast, Americo Berries, an aide to the President, argues that “the purchase of the railroads was a good deal which cost Argentina nothing.”<sup>9</sup> In any event, Perón had achieved the centerpiece of his nationalist plan.

The dramatic purchase was made possible by utilizing the country’s abundant assets. President Perón was the lucky benefactor of significant foreign reserves accumulated during World War II. Because Argentina remained neutral, its factories were not retooled to support the war effort and subsequently, continued to churn out exports that wartime countries were no longer able to. As a result, the nation amassed a sizable foreign trade balance, mostly with Britain, that totaled approximately \$1.6 billion dollars in 1946. Historian Arthur P. Whitaker stated that by using this “fabulous treasure” to purchase the rails, Perón squandered a “golden opportunity” to put the reserves to good use.<sup>10</sup> Similarly, Manuel Herrada, an Argentine student, asserted that “it was a great mistake to use these frozen assets to buy the railroads.”<sup>11</sup> Julio Broide, and economics professor at the University of Buenos Aires, agreed. He alleged that “Perón was a free spender.” As to the foreign exchange, “he wasted it,” Broide said.<sup>12</sup> In addition, as aforementioned, Perón used the reserve balance to pay the purchase price in one lump sum. This method was also highly criticized by observers, including Whitaker who argued that it was “unwise” for Perón to do so. Instead, he would have preferred the payments be made

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<sup>7</sup> Arthur P. Whitaker, *Argentina* (Englewood Cliffs: Prentice Hall, 1964), 126.

<sup>8</sup> Raul Prebisch, in *Alexander Papers*, reel 4, frame 581.

<sup>9</sup> Berries, in *Alexander Papers*, reel 4, frame 1039.

<sup>10</sup> Whitaker, *Argentina*, 122.

<sup>11</sup> Manuel Herrada, in *Alexander Papers*, reel 4, frame 476.

<sup>12</sup> Julio Broide, in *Alexander Papers*, reel 4, frame 472.

in installments, thereby maintaining a reserve balance which could have been used for necessary projects.<sup>13</sup>

Nevertheless, Perón's bold railroad nationalization was wildly popular and garnered widespread support for the regime. The purchase was a significant and dramatic achievement in the fulfillment of Perón's vision for enlarged state ownership. The acquired system accounted for a staggering 65% of all rails within Argentina (the remaining sections were mostly owned by France).<sup>14</sup> In addition, total foreign-owned assets in the nation plummeted by 59%.<sup>15</sup> Flag draped rail cars triumphantly chugged through towns and cities, arousing much needed nationalist pride. But the pageantry and celebration were quickly eroded by a painful realization, one that would strike a serious blow to the Perón presidency.

Argentina had on its hands a crumbling, outdated rail system. More than half of the equipment and machinery used on the 30,000 kilometers of track pre-dated 1914.<sup>16</sup> By 1955, some of the trains had deteriorated so badly that they ran at only half their normal speed. It was estimated that \$1.2 billion would be needed to properly overhaul the dilapidated system (whereas only \$600 was paid for the system originally).<sup>17</sup> But with foreign reserves gone, there existed no available capital for the needed upgrades. Surely, the sparkle and gleam of Perón's new nationalism was considerably faded by the rusting hulk of a once impressive rail system no longer in its glory. Manuel Herrada, a student at the University of La Plata, surmised that because of the "bad condition" of the rails, the "real gainers from [the nationalization purchase] were the British investors."<sup>18</sup> He had a point. Why then, was the industry itself unable to

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<sup>13</sup> Whitaker, *Argentina*, 126.

<sup>14</sup> Whitaker, *Argentina*, 126.

<sup>15</sup> Rock, *Argentina*, 278.

<sup>16</sup> Rock, *Argentina*, 279.

<sup>17</sup> Whitaker, *Argentina*, 138.

<sup>18</sup> Herrada, interview, reel 4, frame 476.

generate sufficient revenue to meet critical infrastructure needs? Historian Robert Crassweller argued that the railroads were not a “productive industry,” meaning they created no new jobs and “did little to stimulate economic growth.”<sup>19</sup> Furthermore, the rails were labor intensive, requiring an expansion of an already bloated workforce. Between 1943 and 1957, the number of employees jumped by 60%.<sup>20</sup> Coupled with stagnant passenger traffic, the system soon became an enormous cancer slowly draining the country of its economic health. Raul Prebisch, once General Manager of the Central Bank of Argentina, characterized the railroads as a “serious deficit creator for the government.” But Mr. Prebisch placed blame for this mostly upon Perón himself.<sup>21</sup>

Indeed, the president poorly managed the industry by ignoring critical needs and hampering the workforce with ineffective bureaucrats. Prebisch stated that Perón “very much overmanned the railroads.”<sup>22</sup> Whitaker agreed and further argued that Perón filled the staff with loyal cronies as opposed to talented businessmen who were capable of effectively managing the railroad labyrinth. He asserted that Perón’s stewardship was nothing more than “bureaucratic politics, feather-bedding, and incompetence.”<sup>23</sup> Perhaps even the best managerial efforts couldn’t have rescued the decrepit rails, but clearly the president erred by allowing partisanship and favoritism to supercede honest direction from the Casa Rosada (presidential palace).

The disastrous railroad debacle is largely indicative of Perón’s failed economic policies as a whole. During his term, Argentina grappled with soaring inflation and a skyrocketing deficit. Inflation jumped from 3.6% in 1947 to 15.3% in 1948, and up to 23.2% in 1949.<sup>24</sup> This

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<sup>19</sup> Crassweller, Perón and the Enigmas, 218.

<sup>20</sup> Rock, Argentina, 301.

<sup>21</sup> Prebisch, interview, reel 4, frame 581.

<sup>22</sup> Prebisch, interview, reel 4, frame 581.

<sup>23</sup> Whitaker, Argentina, 126.

<sup>24</sup> Juan Carlow Torre and Liliana de Riz, “Argentina Since 1946,” in Argentina Since Independence, ed.

dramatic increase in the cost of living essentially undermined Perón's earlier wage increases—precisely the reason why railroad workers went on strike in 1950. Arturo Echague, a construction engineer on the rails, stated that “Perón has not done so much for the workers as he makes out that he has done...And insofar as wages are concerned, they may have gone up, but prices have gone up even faster, and so the worker is the loser.”<sup>25</sup> Author Fredrick C. Turner agreed. He stated that Perón's policies “spurred inflation and undercut the economic growth that might have been the surest aid to the lower classes in the long run.”<sup>26</sup> In addition to inflation, the ballooning deficit loomed as a grave and growing problem. The huge rise in public spending caused the national debt to reach \$160 million by 1949.<sup>27</sup> Edward Morrow, a New York Times correspondent in Buenos Aires, lamented that “the deficit has been getting bigger... [and] the economy is going to ruin.”<sup>28</sup> Without a doubt, the rail system only added to this dismal economic picture. It was indeed a microcosm of a much larger yet equally severe financial situation.

Robert Crassweller made a case that the “Achilles heel,” or root cause of Perón's economic woes was his investment policy. As aforementioned, industrialization was a major priority for the administration. However, Perón went too far in this regard and largely neglected the agricultural sector. As a result, agricultural exports declined, as did crucial export revenues. With declining profits, Perón was hard pressed to find sufficient funds for acquiring imports (say, new machinery for industrialization) and investing in domestic projects (railroad overhaul,

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Leslie Bethell (Cambridge: Cambridge University Press, 1993), 257.

<sup>25</sup> Echague, in Alexander Papers, reel 4, frame 455.

<sup>26</sup> Fredrick C. Turner, “The Cycle of Perónism,” in Juan Perón and the Reshaping of Argentina, eds. Fredrick C. Turner and José Enrique Miguens (Pittsburgh: University of Pittsburgh Press, 1983), 3.

<sup>27</sup> Torre and de Riz, in Argentina Since Independence, 257.

<sup>28</sup> Edward Morrow, in Alexander Papers, reel 4, frame 995.

for example).<sup>29</sup> Argentine politician Arturo Frondizi saw the results of this “disastrous” economic policy first-hand. He commented that “there has not been imported any new agricultural machinery for many years. This is because the industrialization program of the government was established at the cost of the country’s agriculture.”<sup>30</sup>

The dramatic showcase of President Juan Domingo Perón’s economic nationalism was the wildly popular purchase and nationalization of British-owned railroads. But the bold move turned out to be a costly anachronism in a land increasingly characterized by modern, transnational highways not colossal rail networks. The system was a crumbling, expensive, poorly managed labyrinth. Looking back, engineering student Felix Lodesma remarks that “the Perón government was a disaster. He loaded the country with social legislation which it couldn’t afford, and which was purely demagogic. He wasted government funds, destroyed agriculture, and did nothing for the industry or any other part of the economy.”<sup>31</sup> Indeed the nationalization was indicative of such failed economic policies as a whole. The purchase squandered favorable reserves, caused significant deficits, and turned out to be a massive cancer, slowly draining Argentina of its economic vitality.

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<sup>29</sup> Crassweller, *Perón and the Enigmas*, 219.

<sup>30</sup> Arturo Frondizi, in *Alexander Papers*, reel 4, 1077.

<sup>31</sup> Felix Lodesma, in *Alexander Papers*, reel 4, 491.