

A Report on “Corporate Profitability
and Economic Policy During
Argentina’s Great Depression,
1929–1934” by Francis and Newland
(2020)

Reviewer 2

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v1



isitcredible.com

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I am wiser than this person; for it is likely that neither of us knows anything fine and good, but he thinks he knows something when he does not know it, whereas I, just as I do not know, do not think I know, either. I seem, then, to be wiser than him in this small way, at least: that what I do not know, I do not think I know, either.

Plato, *The Apology of Socrates*, 21d

To err is human. All human knowledge is fallible and therefore uncertain. It follows that we must distinguish sharply between truth and certainty. That to err is human means not only that we must constantly struggle against error, but also that, even when we have taken the greatest care, we cannot be completely certain that we have not made a mistake.

Karl Popper, 'Knowledge and the Shaping of Reality'

Overview

Citation: Francis, J. A., and Newland, C. (2020). Corporate Profitability and Economic Policy During Argentina's Great Depression, 1929–1934. *Enterprise & Society*.

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Abstract Summary: This article analyzes corporate profitability during Argentina's Great Depression (1929–1934) to reevaluate economic policy, finding that the overall profit rate collapsed, with banking being the least affected sector due to government policy, particularly the decision not to default on external debt.

Key Methodology: Quantitative sectoral analysis of corporate profitability data (annual profits/net worth) from the Banco de la Nación's *Revista Económica* and British railway company reports.

Research Question: How did economic policy affect sectoral corporate profitability in Argentina during the Great Depression (1929–1934)?

Summary

Is It Credible?

This article by Francis and Newland challenges the prevailing consensus that Argentina experienced a relatively mild Great Depression followed by a rapid recovery. By shifting the analytical focus from traditional macroeconomic indicators—specifically Gross Domestic Product (GDP) and the official Wholesale Price Index (WPI)—to corporate profitability, the authors argue that the crisis was actually “profound and long-lasting” (p. 6). They further contend that the government’s refusal to default on external debt prioritized the banking sector, which remained profitable, at the expense of agriculture, industry, and commerce, which suffered from an over-valued currency and high real interest rates.

The most credible and significant contribution of the article lies in its critique of the official statistics that have underpinned the “positive view” of Argentina’s 1930s economy. The authors convincingly demonstrate that the official WPI was methodologically flawed, as it assigned equal weight to minor items like sardines and major staples like wheat (p. 5). Their recalculation of the index, even using a weighting scheme based on 1935 production values that likely understates the extent of the price collapse, reveals that deflation was roughly 30 percent relative to 1926, rather than the officially reported 11 percent decline from 1929 to 1933 (p. 26). This finding fundamentally alters the understanding of the economic environment, suggesting that real interest rates were indeed “extraordinarily high” and the burden on borrowers was far heavier than previously assumed (p. 26).

However, the use of corporate profitability as a proxy for the national economic experience introduces significant representativeness issues. The dataset is drawn primarily from corporations registered in Buenos Aires. While this sample includes large enterprises that operated in the interior, such as railways and major agricul-

tural firms, it systematically excludes the vast non-corporate sector and businesses not registered in the capital (p. 2). While the authors acknowledge this limitation, the leap from the profitability of this specific formal segment to a conclusion about the entire Argentine economy is substantial. Furthermore, the claim that the depression was uniquely severe is weakened by a lack of international context regarding profit rates; while the authors use secondary literature to contextualize macroeconomic policy, they do not provide comparative profitability data from other nations. Without this, it is difficult to determine whether a profit rate drop to 2 percent was an exceptional collapse or a typical global baseline for the period.

The argument that policy “prioritized the banking sector” is empirically supported regarding private banks, which maintained healthy profit rates, but the analysis is complicated by the fact that large public banks were largely excluded from the sample (p. 3). The article admits that the Banco de la Nación was “pushed toward crisis” to support the very system that kept private banks afloat (p. 14). Therefore, the “banking sector” as a whole did not benefit uniformly; rather, the state absorbed the costs to protect private entities. Additionally, the article frames this support as a choice to prioritize banks over other sectors, without fully engaging with the alternative explanation that policymakers were attempting to prevent a systemic financial collapse that would have devastated all sectors.

Finally, the data presentation in the appendices raises questions about the precision of the aggregate figures. In Table A1, the reported “Total” capital is significantly higher than the sum of the capital reported for the individual sectors (Agriculture, Industry, Transportation, Commerce, Insurance, Banking, Diverse), with the discrepancy unexplained (pp. 22–24). This suggests that the breakdown provided is incomplete, making it impossible for readers to verify how the overall profitability rate was derived or how heavily the unlisted sectors influenced the aggregate result. Despite these data presentation issues and the speculative nature of the counterfactual argument regarding debt default, the article’s revision of the price index and its

documentation of the private banking sector's resilience provide a credible basis for reevaluating the distribution of pain during Argentina's Great Depression.

The Bottom Line

Francis and Newland successfully undermine the "mild depression" myth by exposing critical flaws in Argentina's official price statistics and demonstrating that deflation—and thus real interest rates—was severe. Their finding that private banks remained profitable while the productive economy collapsed is a strong indictment of the period's economic policy, though the argument is nuanced by the exclusion of the state bank that bore the cost of the bailout. Readers should accept the revised view of the crisis's severity but treat the aggregate profitability figures with caution due to unexplained discrepancies in the data appendix.

Potential Issues

Representativeness of the primary data source: The article's central thesis—that an analysis of corporate profitability reveals a more severe crisis than previously understood—relies on a dataset that may not be representative of the broader Argentine economy. The data is drawn from corporations registered in Buenos Aires, a sample that systematically excludes the large non-corporate sector and businesses not registered in the capital (p. 2). The authors acknowledge and attempt to correct for the “main omission” of large British railway companies by adding data for eight of them, but this ad-hoc adjustment highlights the sample's inherent limitations (p. 3). While using corporate data is a valid approach when national accounts are unreliable, the article's conclusions about the national economic experience are drawn from a narrow segment of the formal economy.

Oversimplified explanatory framework: The article's core argument is that economic policy during the Great Depression had the effect of “prioritizing the banking sector at the expense of other sectors” (p. 3). However, the analysis does not fully engage with the most likely motivation for these policies: the prevention of a systemic financial collapse. The article presents the support for private banks as a choice that benefited one sector over others but then declares the crucial question of *why* this policy was chosen as “beyond the scope of this paper” (p. 15). This framing avoids a direct confrontation with the alternative explanation that policymakers were not “prioritizing” banks but rather attempting to stabilize the entire financial system to prevent a deeper economic paralysis. This leaves a significant gap in the article's explanatory power.

One-sided and unquantified counterfactual argument: The article's main policy critique rests on the counterfactual scenario that an earlier default on external debt combined with a greater currency devaluation would have led to a better outcome. This alternative is presented as unambiguously beneficial, with the authors assert-

ing that the gains in agriculture and industry “would have outweighed the reduced incomes in the banking sector” (p. 16). This claim is not supported by any quantitative estimation of the trade-offs involved. Furthermore, the article does not substantively address the significant potential negative consequences of such a policy in the 1930s, such as capital flight, hyperinflation, or a complete collapse of the credit system. While the argument is grounded in the established economic history literature on the benefits of devaluation during the Depression, it presents a complex policy choice with significant risks as a simple and obvious solution (p. 16, fn. 63).

Scope of claims about crisis severity: The article concludes that Argentina suffered a “profound and long-lasting crisis,” challenging a historiography that has often portrayed the downturn as relatively mild (p. 6). This conclusion is based on the dramatic collapse in corporate profitability relative to Argentina’s own pre-crisis levels. However, the analysis lacks a direct international benchmark for corporate profitability. Without comparative data on profit rates from other countries like the United States or Germany, it is difficult to assess whether the collapse in Argentina was uniquely severe or typical for the period. This omission limits the strength of the article’s claims about the relative severity of Argentina’s depression.

Methodological limitations of the recalculated price index: A key contribution of the article is a recalculated Wholesale Price Index (WPI) intended to show that Argentina experienced much more severe deflation than the official, flawed index suggests. However, this new index is constructed using weights from the “gross value of production in 1935” (p. 26). The authors themselves acknowledge that using a post-crisis year as the base is a limitation, stating that “the degree of deflation would probably appear even more pronounced if a pre-crisis year had been chosen for the base, as the post-depression base gives greater weights to goods whose prices did not fall so much” (p. 26, fn. 73). While they justify the choice based on data availability from the 1935 industrial census, this anachronistic weighting scheme means their already-damning estimate of deflation is likely a conservative one.

Exclusion of systemically important banks from the profitability analysis: The article's finding that the banking sector was "relatively unscathed" is based on a sample from which large public banks were largely excluded (pp. 6, 14). This is a significant omission, as the analysis of the policy mechanism reveals that the Banco de la Nación, a large public bank, was "pushed toward crisis" by being obliged to finance the government and support the rediscounting scheme that benefited private banks (p. 14). The finding that private banks remained profitable is still valid, but the conclusion about the "banking sector" as a whole is based on a sample that omits the very public institution that bore a substantial cost of the government's policies.

Data presentation and clerical errors: The main data appendix contains several clerical errors that complicate the verification of the article's results. In Table A1, the figure in the "Total" column for the number of corporations is significantly larger than the sum of the corporations listed in the sectoral columns for every sample and year, with the source of the additional corporations unexplained (p. 22). More significantly, the reported "Total" capital is significantly higher than the sum of the capital reported for the individual sectors (Agriculture, Industry, Transportation, Commerce, Insurance, Banking, Diverse), with the discrepancy unexplained (pp. 22–23). This suggests that a large portion of the capital and profit data used to calculate the overall profitability rate comes from corporations not accounted for in the sectoral breakdown.

Minor data and methodological issues: Several smaller issues regarding the data and methods are present. First, the analysis of the transportation sector's profitability may not fully disentangle the effects of the depression from powerful confounding factors, such as rigid labor costs and the secular disruption from new automotive technology, though the authors do acknowledge these factors (pp. 11–12). Second, the article does not discuss the potential role of corporate leverage as a confounding variable in its profitability measure (return on equity), which is sensitive to changes in capital structure. Finally, the authors note that the underlying capital and profit

data for the sub-sectors in Table A2 were only published in the original source for the years 1932–1933, preventing a full reconstruction of the sectoral composition for the entire period (p. 21).

Future Research

International comparative profitability: Future work could contextualize the severity of Argentina's corporate crisis by compiling a comparative dataset of corporate profit rates from other depression-hit economies, such as the United States, Brazil, or Australia. This would determine whether the collapse to a 2 percent profit rate was a uniquely Argentine failure or consistent with global trends for commodity exporters.

Quantified counterfactual analysis: Researchers could employ a dynamic stochastic general equilibrium (DSGE) model or similar macroeconomic simulation to test the article's counterfactual claim that debt default and devaluation would have produced superior outcomes. Such a study should explicitly model the potential negative feedbacks of default, such as capital flight and trade retaliation, to provide a rigorous cost-benefit analysis of the policy alternative.

Reconciliation of corporate data: Future studies should revisit the *Revista Económica* source material to resolve the large discrepancy between the sectoral sums and the reported totals in the dataset. A more granular breakdown that accounts for the "missing" capital in the aggregate figures would clarify the relative weight of different sectors in the overall profitability index and ensure the robustness of the trend analysis.

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