

Case Study – Argentina

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Economic Wealth and History

- The amount a nation can produce is influenced by history through its stock of capital
 - Rich past implies lots of capital today
 - Poor past implies little capital today
- This suggests there should be a great deal of persistence in wealth
- Last time we saw South Korea was able to overcome this (“catch up” growth)
- Today: Argentina did the opposite

Argentina: Things to Watch

- What choices did the government make?
 - Trade
 - Industrial Policy
 - Social Programs
- How are they different than in South Korea?
- Why did they have different effects?

Argentina



Some Facts about Argentina:

- 41 million people
- 1,073,000 sq miles (four times larger than Texas)
- 2014 per capita GDP (nominal): \$13,600 (about 25% of the US)
- 2011 per capita GDP (G-K \$): \$22,300 (about 40% of the US)
- Currency: Peso
- Democratic form of government
- Major industries: Agriculture
- Major cities: Buenos Aires

Beginning of the 20th Century

- Argentina was one of the most productive, highest income countries in the world. Richer than:
 - Japan
 - France
 - Germany
- Had a lot of accumulated wealth: 4% of the world's gold, 1.5% of world GDP

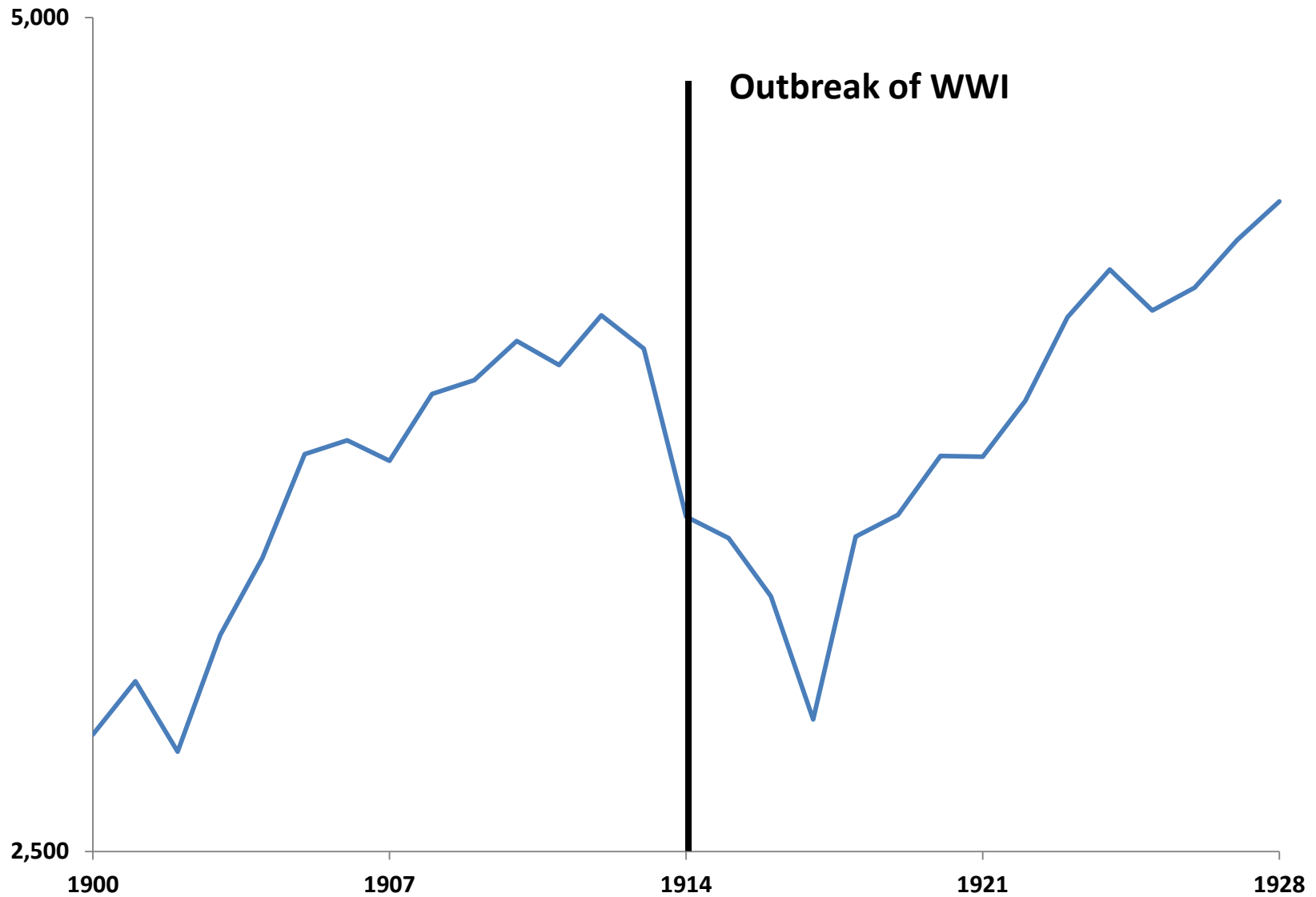
Early 20th Century Economy

- Geographic advantages:
 - Huge agriculture exporter (grain, beef)
 - Large volume of ocean traffic traveling between Atlantic and Pacific
- Large investments by foreigners
- Huge influx of European immigrants

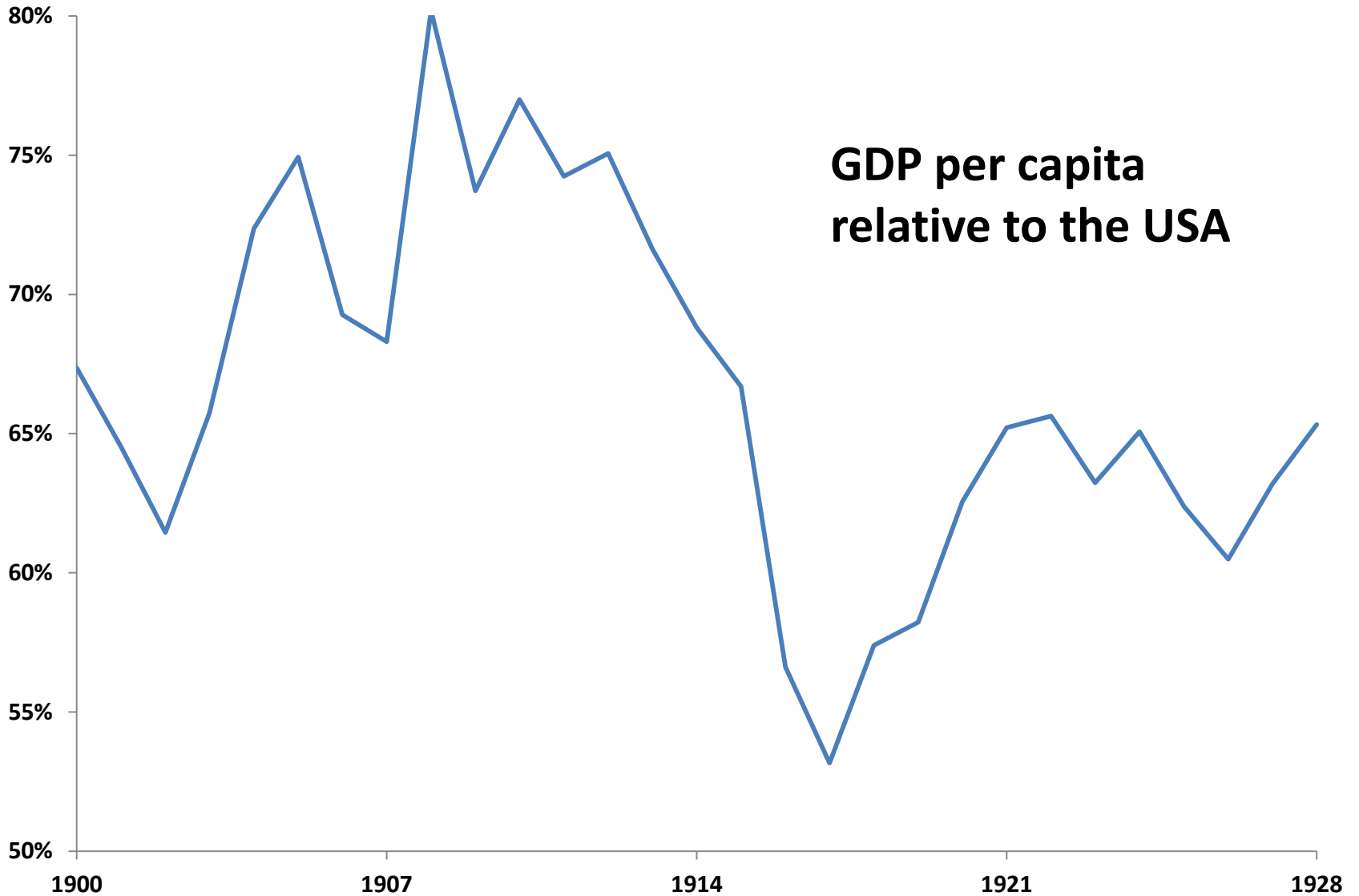
Panama Canal and World War I

- Argentine economy was heavily dependent on trade
- The Panama Canal (opened in 1914) redirected ocean traffic
- World War I saw huge drops in exports
- Major recession (not depression) in Argentina
- Not too long lasting

Argentine Growth: 1900-1928



Argentine Growth: 1900-1928



Great Depression era

- Great Depression hit the USA, UK and other major world economies in 1929
- Argentina not hurt as bad as other places
 - 10% unemployment in Argentina
 - 25% unemployment in the USA
- Still, economy heavily dependent on trade so they were hurt by damage to trading partners

First Military Coup

- In 1930, a pro-fascist military coup ousted the democratically elected government
- Ruled directly or controlled the electoral process for over a decade
- Called the “Infamous Decade” in Argentina
 - Corruption
 - Anti-communist purges
- Neutral in World War II

Economic Policies

- Import Substitution:
 - Reduce reliance on trade
 - Protect “infant industries” from foreign competition through heavy tariffs
 - Subsidize those industries as well
- Why?
- How is this different than South Korea?

Second Military Coup

- Huge public disagreement over stance in World War II
 - Popular support for Allies
- Widespread dissatisfaction with government
- Rising inequality
- In 1943, a pro-left military coup ousted the fraudulently elected conservative government
 - Argentina joined Allies at the end of the war

Perón Era

- Juan Domingo Peron rose to the presidency in 1946
- Pursued a variety of pro-labor policies aimed at promoting social justice
 - Increased wages
 - Labor market protections for workers
- Continued import substitution policies
- What were his goals? Why did the population support him?

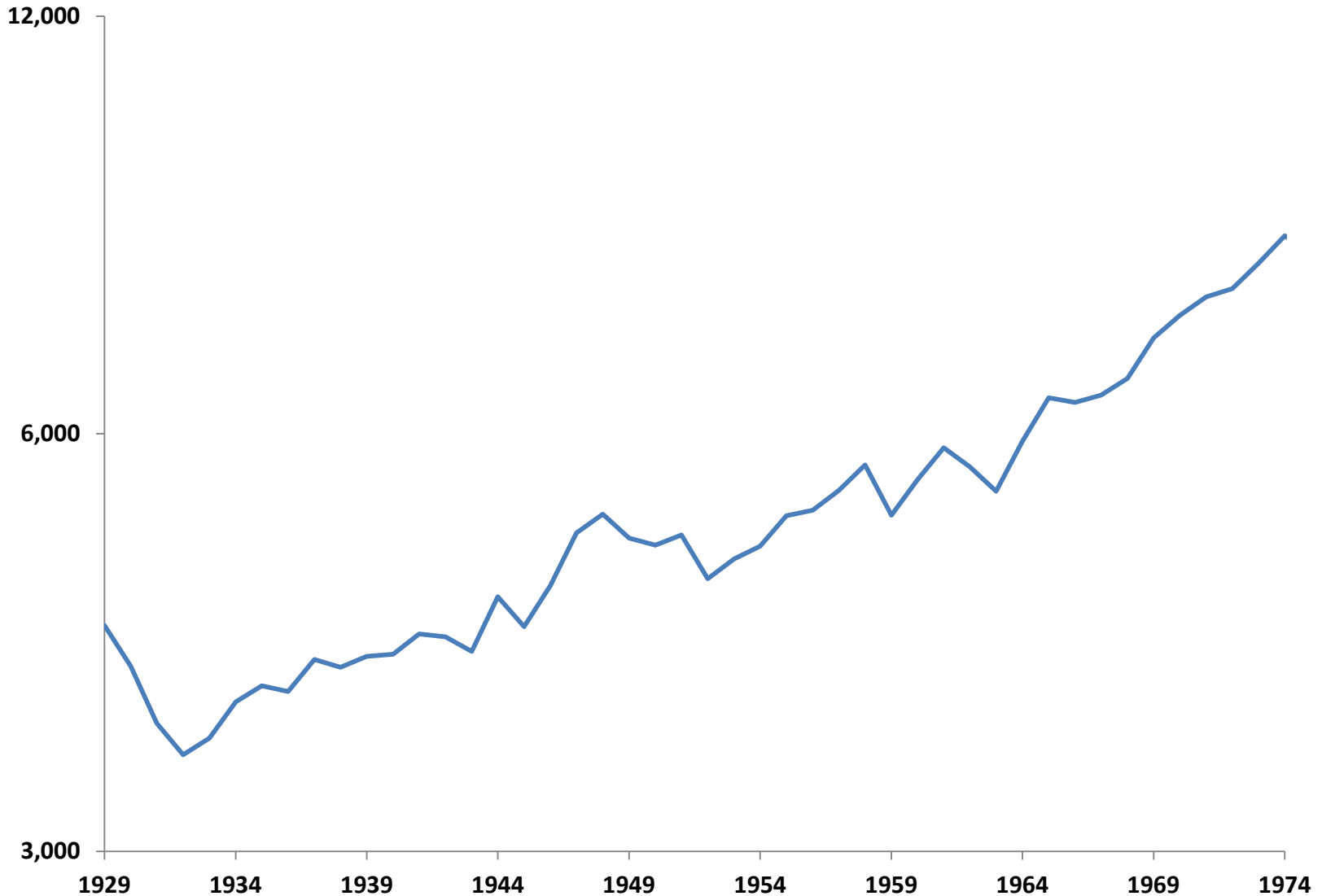
Effects of Perónist Policies

- Exports fell, and imports remained high
 - Particularly had to import capital equipment
- Turned former big trade surpluses into huge deficits
 - Exchange rate plummeted; peso lost 70%
- Similarly, government deficits rose
- By 1951, annual inflation was 50% and rising
- Ultimately, Peron forced out in another coup

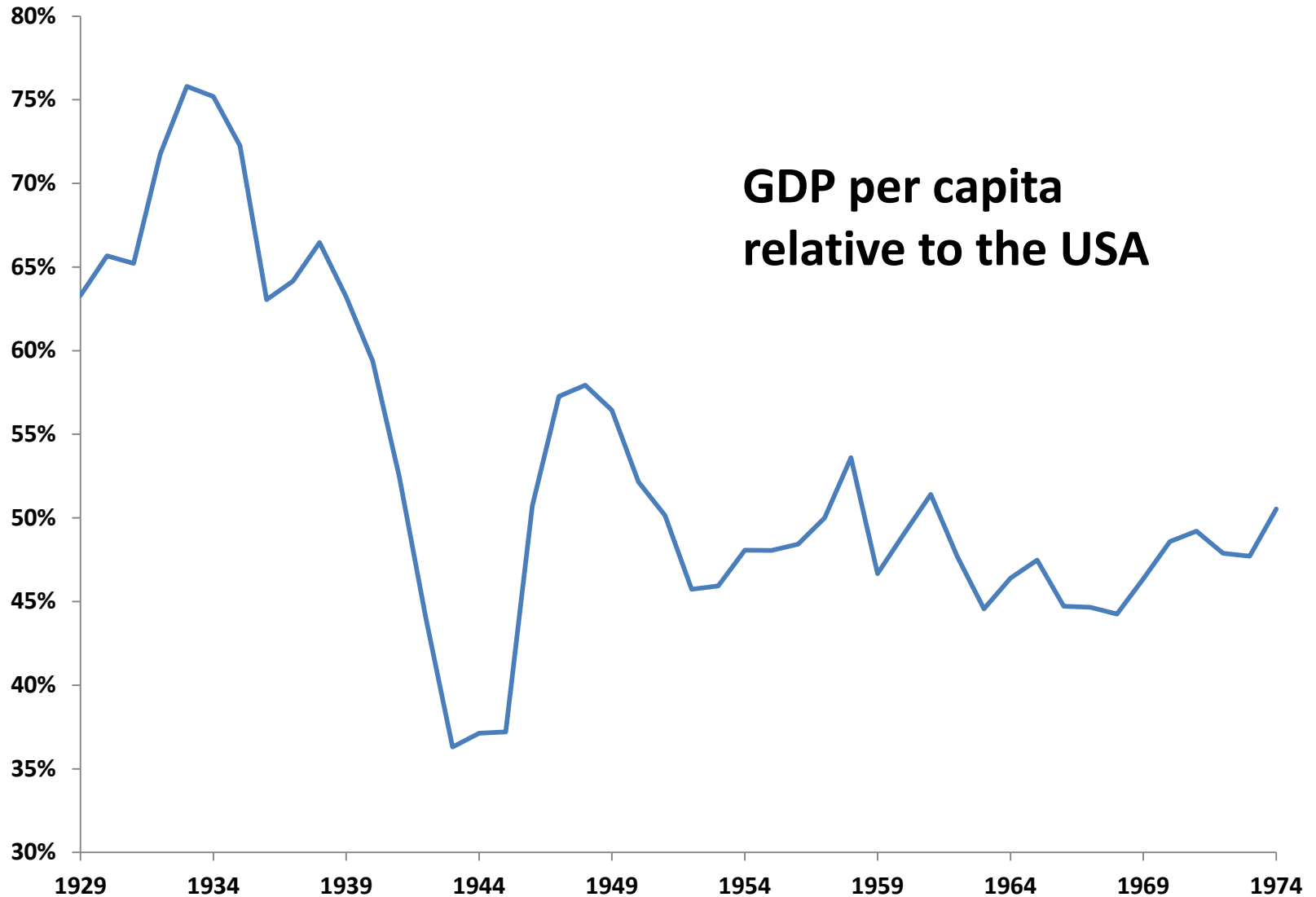
From Bad to Worse

- The next twenty years were a highly unstable period of short term administrations and coups
- Governments changed unpredictably and instituted abrupt changes in policy
- Oscillating between open and closed trade policy
- Nationalize industries to try to stabilize them, then government has to pay for their losses
- Unable to maintain taxes, have to print money
- High inflation and attempts at price controls

Argentine Growth: 1929-1974



Argentine Growth: 1929-1974



Stagflation and Depression

- From 1975-1991, *average* annual inflation was 300%
 - In 16 years, prices increased by a factor of over 20,000,000,000
- Continued government instability and inability to manage their finances
 - Industrial subsidization collapsed leading to massive unemployment
- Government debt spirals
- Attempts at price and wage controls

1990s Recovery

- In 1991, a new pro-markets government came to power and instituted a series of reforms
 - Open trade
 - Privatize previously nationalized industries
 - Peg currency to US\$ to stabilize exchange rate
- Very strong growth in the 1990s

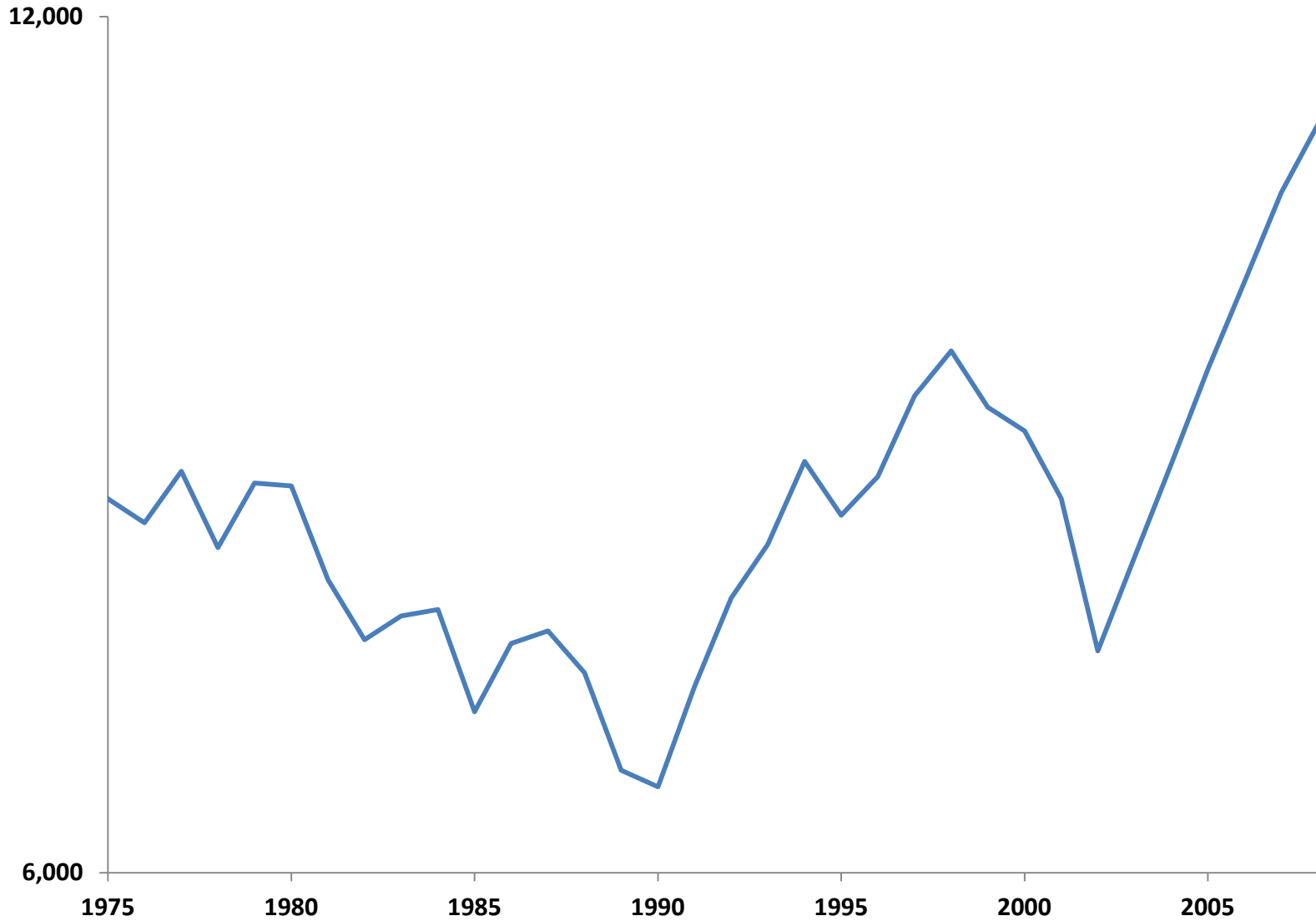
Familiar Pattern...

- Previously subsidized regions started to have political unrest
- Government used transfer and subsidy programs to try to placate them
- Led to unsustainable rises in government spending
- Eventually the government was unable to maintain its currency peg (1 peso = 1 US\$)
- Led to default on government debts in 2001 and recession

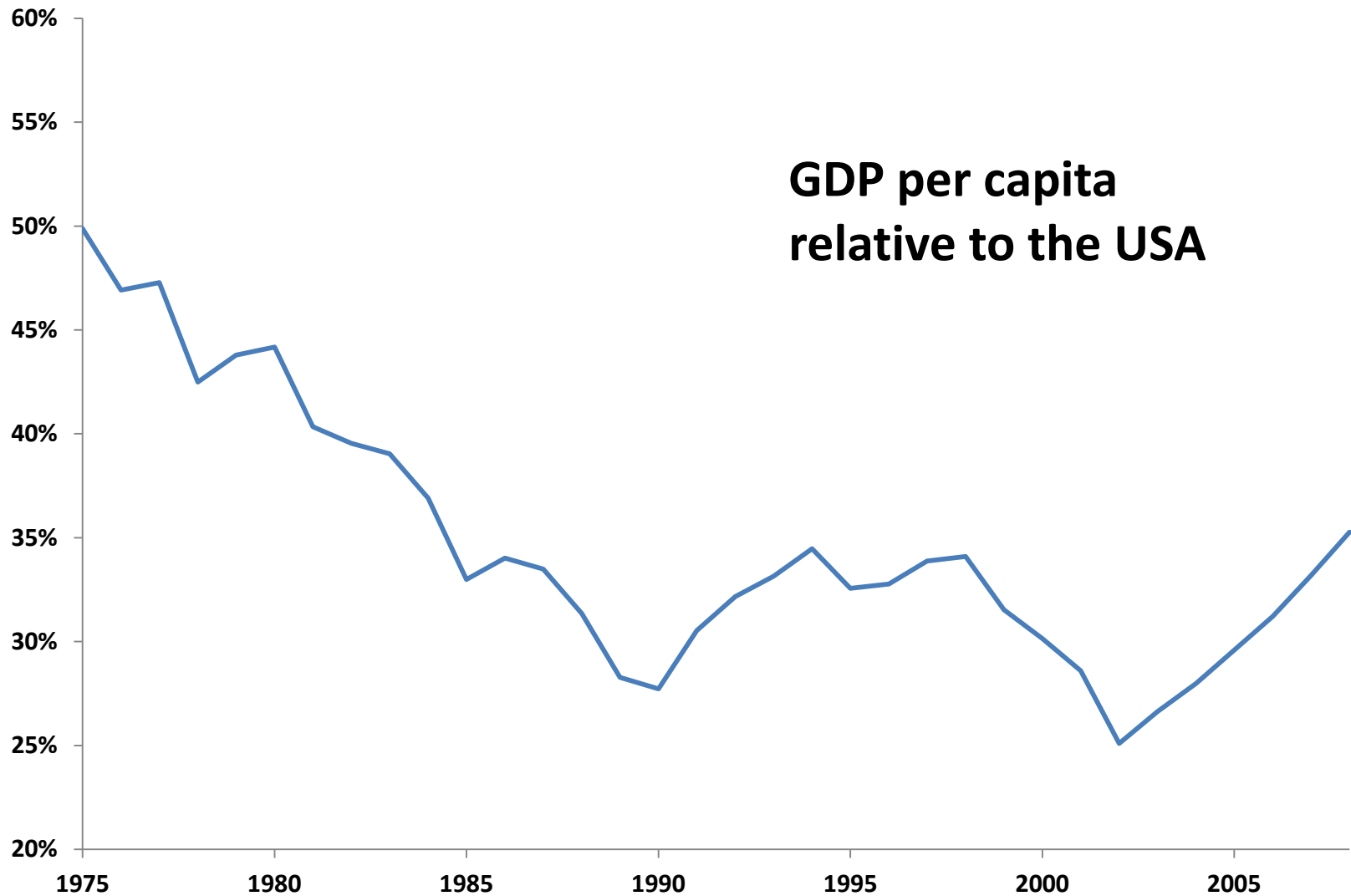
2000s Recovery

- After default, the Argentine economy managed to recover
- Mainly driven by a boom in export prices of goods sold to east Asia
- Also, were able to renegotiate most of their debt and stabilize government finances

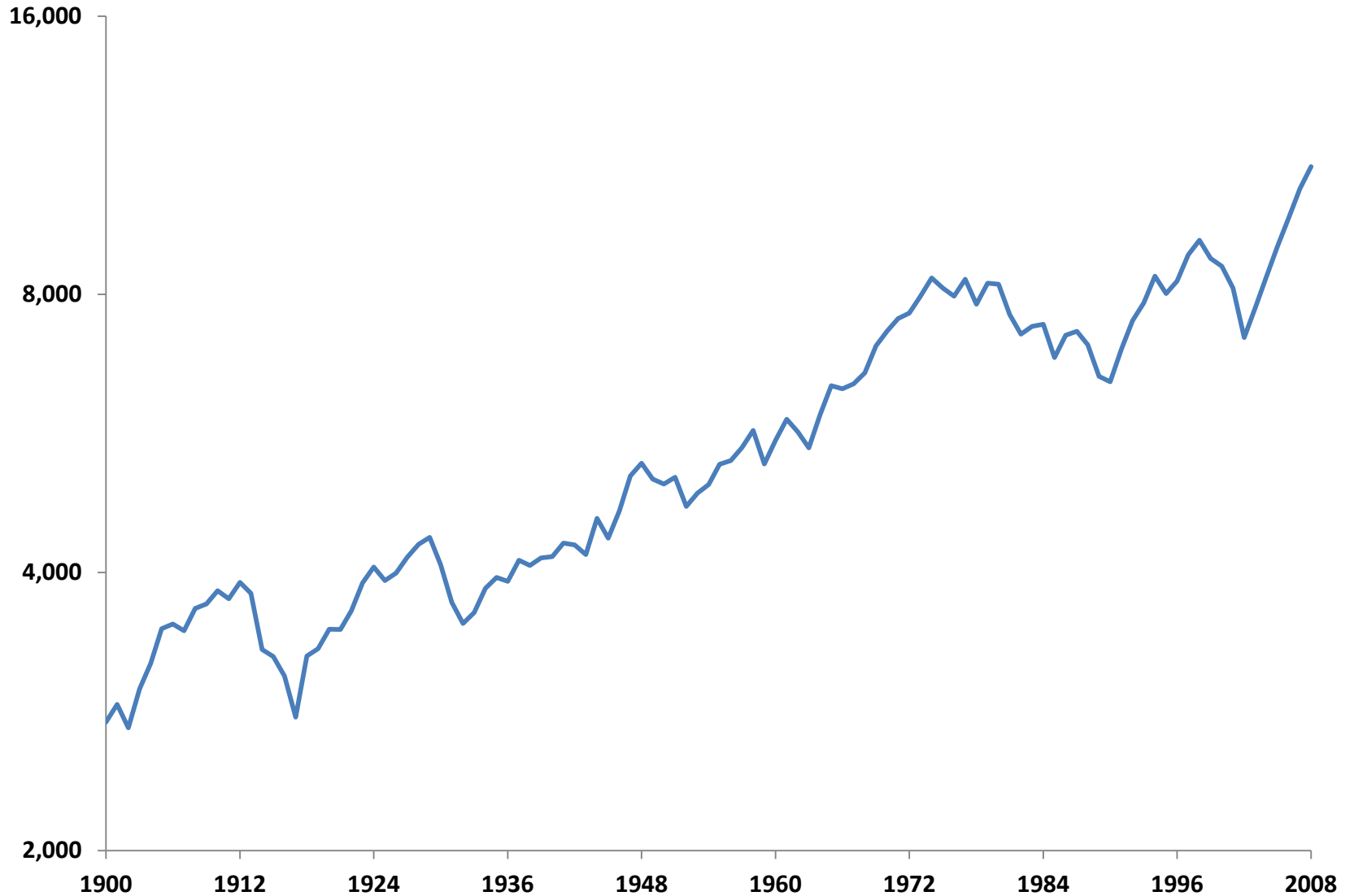
Argentine Growth: 1975-2008



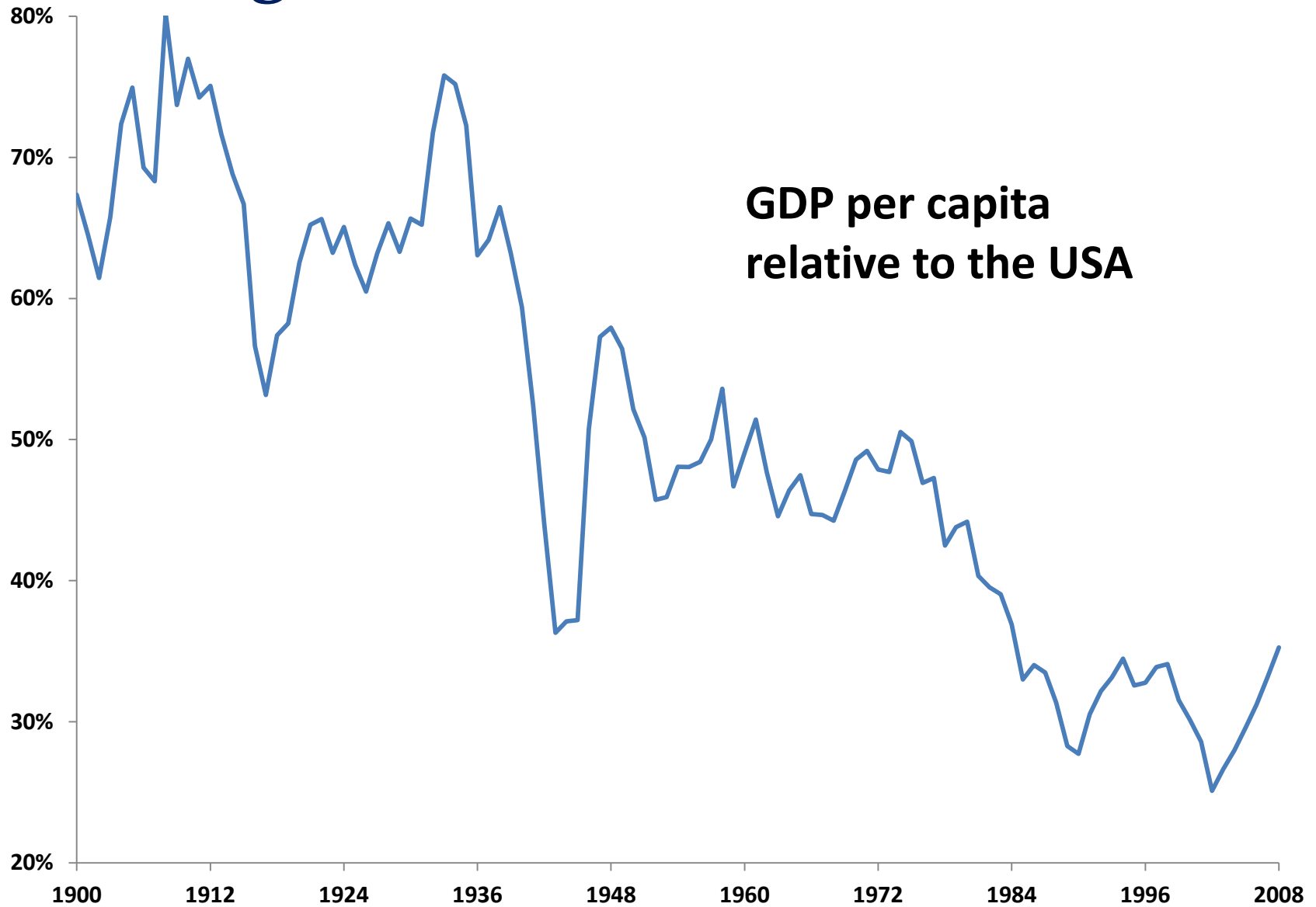
Argentine Growth: 1975-2008



Argentine Growth: 1900-2008



Argentine Growth: 1900-2008



Argentina Recently

- No economic data....
- In the midst of very high inflation (reported: ~13%, estimated ~50%)
- Major exchange rate devaluation (official rate is 9:1, black market rate is 20-25:1)
- Political scandals surrounding President Kirchner
- Nationalized private pensions
- Export taxes

Argentina Today

- Recent election (December 10) won by the opposition
- Ran on a platform of reform
- Still, existing political pressures may limit reform
- ... we'll see what happens!

Summarize: Argentina vs S. Korea

- How was **trade** different?
- How was **industrial policy** different?
- How was the **political climate** different?
- What were the **details** of policy that mattered?

- Where/when did Argentina go wrong? Is there a crucial moment in history that you think got them on the wrong path?