Lecture 5: Case Study – Argentina

September 13, 2016

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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: Important Features

- 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

Outbreak of WWI
Argentine Growth: 1900-1928

GDP per capita relative to the USA
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

GDP per capita relative to the USA

[Graph showing the percentage of GDP per capita relative to the USA from 1929 to 1974, with fluctuations over the years.]
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
What happened?

- Why did this move toward market-oriented policies ultimately fail?
- Monday morning quarterbacking: How could they have adjusted their policies to make them sustainable?
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

GDP per capita relative to the USA
Argentine Growth: 1900-2008
Argentine Growth: 1900-2008

GDP per capita relative to the USA

20% 30% 40% 50% 60% 70% 80%

Argentina (2008-2015)

- 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 (less than a year ago) won by the opposition
- Ran on a platform of reform
- Still, existing political pressures may limit reform
Next Lecture

- Professor Brooks will be back on Thursday
- Lecture: Chinese economic history
- Be sure to complete homework and reading for that class