

# LUISS



Department of *Political Science*

Master of *International Relations*

Chair of *Security Policies*

**THE GREAT DECEPTION:  
An analysis of the inflationary curse in Argentina and its  
repercussions on the population**

*Thesis supervisor*

Prof. Marco Magnani

*Thesis co-supervisor*

Prof. Alberto Petrucci

*Candidate*

Benedetta Barbieri

*Candidate ID*

645242

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# Introduction

*“If Argentina gets the economics right, its geography will enable it to become the power it has never been.*

*(T. Marshall “Prisoners of geography”).*

A land of 4,000 km with all soils and climates, 30 million hectares of cultivated public land, and home to one of the world’s largest drinking water reserves: Argentina is blessed with abundant natural resources – oil, minerals, agriculture, livestock. It is one of the world’s major food producers, yet a third of its population lives in poverty. A hundred years ago, it was one of the wealthiest countries in the world, and yet with all this potential, the Latin American country is periodically mired in an economic wasteland. Since the 1930s, it has suffered 15 financial crises and has changed currency five times. Argentina is the best example of a country that, although rich in natural resources and with a privileged geographical position, managed neither to exploit its initial advantages nor to use international events like globalisation as an opportunity to grow, ending up in disastrous social, economic, and political conditions.

Its endemic disease is a chronic inflationary process. Indeed, the country is mainly known and studied by economists for its deep-rooted inflationary culture: Argentina has suffered from high inflation rates for the past 75 years, except for the period between 1992 and 2001<sup>1</sup>. To give an accurate diagnosis of the disease, an adequate description of the symptoms is required. Therefore, it is first necessary to elucidate the meaning and causes of the phenomenon of inflation. The economic definition of inflation is *the overall increase in the general price level of goods and services over a given period of time*<sup>2</sup>. It is usually calculated on the basis of percentage increases in the cost of living, i.e., the changes in money a consumer pays for a representative set of goods and services – called baskets – which are considered essential. Essentially, when inflation occurs, some consumers lose their purchasing power, and this erosion of real income is the single biggest cost of inflation<sup>3</sup>.

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<sup>1</sup> From 1992 until 2001, the inflation levels were low thanks to the Convertibility plan implemented by Menem’s government.

<sup>2</sup> Definition according to the European Central Bank. Available at: [https://www.ecb.europa.eu/ecb/educational/explainers/tell-me-more/html/what\\_is\\_inflation.en.html](https://www.ecb.europa.eu/ecb/educational/explainers/tell-me-more/html/what_is_inflation.en.html)

<sup>3</sup> Definition from IMF. Available at: <https://www.imf.org/external/pubs/ft/fandd/basics/inflat.htm#author>

If inflation is a problem that recognises multiple causes, recommending a remedy without a detailed analysis, or giving a one-size-fits-all answer, would be deceptive. As this research will demonstrate, the causes that can trigger inflation are numerous and far beyond economics, entrenching political and structural factors. Besides, one of the major damages the continuous rise of prices causes in society is not economical but moral, as it has deleterious effects on public behaviour. As Solanet (2015) states: “*Inflation is a social and political disease, not just economic*”.

In Argentina, inflation is not only part of its citizen’s daily life but has become a way of living. To describe the peculiarity of the phenomenon in the country, newspapers have used words such as “absurd” and “bizarre”<sup>4</sup>. Today, Argentina is facing a new financial crisis, which has been worsened even more by the covid pandemic. The country experienced two episodes of hyperinflation<sup>5</sup> - the first one in mid-1989, the second at the beginning of 1990 - and now is at risk for a third one. As of October 2022, the General Level of the Consumer Price Index registered a monthly increase of 6.3% and an annual increase of 88% compared to October 2021, setting a record in the last 20 years. Estimates for the year 2022 predict inflation will surpass 100%, leaving millions of Argentines below the poverty line<sup>6</sup>. The macroeconomic outlook is alarming.

If on the one side, alarming socio-economic data and projections give little hope of improvement, on the other side, the Peronist government firmly declares a “*war on inflation*”, as stated on the 18<sup>th</sup> of March 2022 by President Jose Hernandez. The first action announced on the battlefield is nothing other than the umpteenth deal with the IMF, approved on the 24<sup>th</sup> of march, to refinance the 45.5 billion\$ debt contracted in 2018 with Macri’s government. Meanwhile, thousands of citizens protested the foreign debt payment in the streets. As an old quote says, “*one can win a battle but still lose the war*”. De facto, signing the agreement with the International Organization after two years of negotiations might be a victory, but it may lead to another losing war. The weapons announced by the Government to face the current crisis are price controls and price caps, the Supply Law and meetings with businesses, unions, and picketers' representatives. In other words, the same weapons used on and on and with all previous battles have been lost.

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<sup>4</sup> The Guardian: “*How much? The absurdity of inflation in Argentina*”, October 2022; The New York Times: “*Think 9% Inflation Is Bad? Try 90%*”, August 2022. Available at: <https://www.theguardian.com/artanddesign/2022/oct/08/argentina-100-per-cent-inflation-photo-essay-irina-werning> ; <https://www.nytimes.com/2022/08/06/business/inflation-argentina.html>

<sup>5</sup> Hyperinflation occurs when prices rise more than 50% each month over time. This phenomenon annuls all the currency’s functions: store of value, unit of account, and medium of exchange.

<sup>6</sup> Data from INDEC time series, available at: <https://www.indec.gob.ar/indec/web/Nivel4-Tema-3-5-31>.

Furthermore, the agreement is seen, by several economists, as inflationary by definition: the intention is to increase subsidies for the consumption of food and other goods to the lower-income sector of the population. However, growing subsidies means more public spending; inflation is needed for this to be possible. Specifically, revenue must increase at the rate of prices and public spending -especially pension- at a lower rate. Indeed, to avoid a reshuffling of public spending to sustain subsidies while keeping public spending constant – or even reducing it- the Argentine government uses inflation as the instrument to lower the fiscal deficit. With this strategy, to wage war against inflation is like shooting oneself in the foot and then trying to dance the tango. In short, it is all very incongruous.

Over the years, inflation has become the signature topic of many presidents and finance ministers to justify stabilisation, adjustment, or austerity measures, who eventually ended up lowering their credibility because of their inability to tame the rising cost of living. Since expectations also play a key role in determining inflation, Government credibility is fundamental for rebuilding confidence and thus stopping inflation inertia. As the former Minister of Economy, Martin Guzmán, declared: “*broad political support is needed because the economy works in a context of power*”. However, for a country with one of the highest rates of political distrust and with a constant persistent pessimistic view over the country's economy, both present and future, gaining credibility is an authentic challenge. “*It takes two to tango*”, but Argentine politicians apparently like to dance alone.

The main questions this research seeks to answer are: *Where does the curse of the Argentine economy stem from? What is the impact of the cyclical inflation and crisis on Argentine citizens? And, finally, is there a way out?*

To ever understand the present, one must first understand the past. Therefore, a review of the country's economic history is needed to comprehend better the phenomenon and the repercussions of the current crisis. Argentina has a long history of economic and political crises. It has defaulted on its external debt nine times since achieving independence in 1816. Persistent and abrupt changes in the system of government and clashes within the dominant power cartels have impeded both the development and the implementation of coherent policies to tame the crisis (BTI, 2022). Hyperinflation and political stalemate characterized the presidency of Raúl Alfonsín and his Radical Civic Union from 1983 to 1989, who was then forced to cede office prematurely to Carlos Menem in 1999, Peronist leader of the Partido Justicialista and known for his neoliberal, "free-market" reforms.

After 10 years of neoliberalism, Peronism was voted out of office for the first time in Argentina's history in the 1999 elections, leaving space for the new centre-left alliance under the leadership of President Fernando De la Rúa (BTI, 2022). The 2001 recession, together with bad management of Argentine social problems, led to his resignation and the coming back to power of Peronism.

Left-wing Peronists governed the country for the following 13 years, but the 2015 presidential elections resulted in a surprising political change. For the first time, a non-Peronist centre-right coalition under the leadership of Mauricio Macri won the presidency. Macri's presidential term commenced with a mix of economic shock therapy and gradualism, but these measures, although necessary, have proven painful for the country and mainly for its citizens. The peso devaluation further increased the already-high inflation rate and strongly affected the purchasing power of households. Similarly, the reduction or abolition of a wide range of subsidies – such as energy and transport subsidies - led to considerable price increases. These measures provoked social discontent and protests all over the country (BTI, 2022). Finally, 2019 marked a new hot spot: the presidential election of the Peronist leader Alberto Fernández was constrained by the arrival of the covid pandemic, stretching out the already evident economic problems of the country. Yet, the President managed to close a new deal with the IMF which, although promising, brought with itself many questions about what to expect for the future of Argentina.

This research paper will be structured as follows: the first chapter will take an economic historical-diachronic approach to trace the origins of Argentina's inflation and its causes. After carefully analysing the lessons history left us, the work will prove that the leading causes of Argentina's poor economic performances over the years can be summarised into two main factors: weak institutions and bad policies<sup>7</sup>. As there is no monocausal explanation, these are not mutually exclusive but rather correlated: the country's political power chooses the political institutions, and then political institutions decide the economic institutions. The second chapter is a snapshot of the current economic crisis, the various measures taken by the current Government and the agreement with the IMF, in order to examine how much the choices made relate to or detach from the previous administrations and if some progress has been made.

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<sup>7</sup> The primary reference to the first chapter of the thesis has been the book "Exceptional Argentina" written by Di Tella, Glaeser and Llach, a volume dedicated to exploring the puzzle of Argentina in the twentieth century. The authors outline different hypotheses about why Argentina fared poorly in the twentieth century. Among these, bad institutions and bad politics stand out.

Finally, the third chapter will investigate inflation's repercussions on Argentine citizens' daily life. A final section will be thus devoted to the author's policy recommendations to counteract the phenomenon. Conclusions will then be drawn.

*“What goes up must come down”*. With the end of the pandemic and the recovery of the economy, Argentina could come back to economic nationalism, or face a drastic structural and social change, building a more stable institutional framework and equilibrium and a more faithful society. Is this time going to be different?

This thesis acknowledges the time constraint of the research. Indeed, as the author is writing, the circumstances are constantly evolving. Developments after February 10<sup>th</sup>, 2023 will thus not be included in the research. Future investigation on the economic and political challenges of Argentina should therefore be incorporated for a better understanding of the phenomenon.



# CHAPTER 1

## 1. History of Argentine inflation

### 1.1. From a prosperous prospect to a chronic disease

*“Throughout history, there have been four types of economies in the world: developed, undeveloped, Japan and Argentina”<sup>8</sup>.*

These words, attributed to economist and 1971 Nobel Prize-winning Simon Kuznets, effectively describe the uniqueness of two countries’ economic history at their antipodes: on the one side, an unexpected and persistent growth— Japan – and, on the other, a State that started on a promising path to success but never managed to take off and achieve prosperity, ending up in a spiral of crisis and uncertainty- Argentina. Whether Japan is not in the vanguard of how an underdeveloped country can become a developed one anymore<sup>9</sup>, it is a shared opinion that Argentina remains an outlier for many theories of economic growth. Argentina is the only notable country that, with all the suitable premises and a start as relatively rich, ended up comparatively poor; no wonder its economic history is one of the most studied in the world (Taylor, 2012). It is also what Glaeser et al. (2017) define as “*Argentine exceptionalism*”: at the beginning of the 20th century, the country was among the richest in the world, but it gradually lost this place of privilege.

The country of the famous La Plata River is blessed with a vast supply of natural resources in energy and agriculture. De facto is a leading food producer and exporter with large-scale agricultural – soybeans, wheat - and livestock industries (World Bank, 2022). In the agribusiness sector, Argentina has always had one of the highest export rates in the world, being the focus of the commercial attention of many European countries. In the period of the consolidation of the national state, between 1862 and 1880, the young South American nation entered the international economic market as a food producer and raw material exporter, experiencing unprecedented economic growth thanks to foreign capital investments -especially from Great Britain – the development of the railway to export meat and hollow, and the consolidation of the *modelo agroexportador*<sup>10</sup>.

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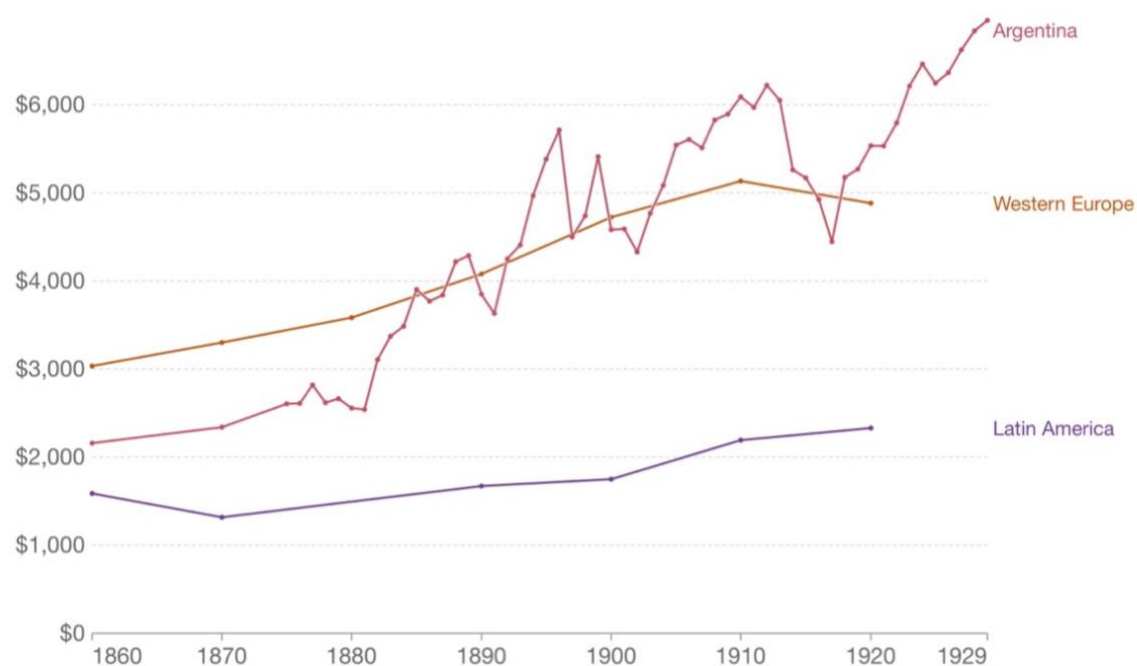
<sup>8</sup> Apocryphal quote.

<sup>9</sup> Other countries such as Singapore, South Korea, Taiwan and China started as relatively poor and experienced outstanding growth. Their economies now generate a GDP per capita comparable to that of some European countries.

<sup>10</sup> The agro-export model was based on the natural advantages of the Pampean geography, an area with a temperate climate and abundant fertile land suitable for developing raw materials for export, such as wheat, corn and linen.

In this context, the exploitation of the fertile land of *la pampa* firmly pushed its economic growth, transforming Rio de la Plata's country into the world's leading exporter of corn and beef and the second-largest producer and wool exporter. The 1880s were also the start of mass immigration in the area, with two big waves of migrants arriving between 1881 and 1914, mostly of Italians, Spanish and French (Devoto, 2005). This phenomenon was due to the high availability of land and the nation's rapid economic growth, favouring farming families' arrival. During the first three decades of the 20th century, Argentina outgrew Canada and Australia in population, total income, and per capita income. As shown in figure 1, in the inter-war decades, it was wealthier and more prosperous than the average Latin American and Western Europe countries. Nevertheless, the country's comparative advantage later proved also to be its curse, or what economists define as the *natural resource curse*. That is the paradoxical failure of a natural resource-abundant state to benefit fully from this wealth and for governments in these countries to respond effectively to public welfare needs, leading to underperforming economically<sup>11</sup>.

**Figure 1: GDP per capita, 1860-1929 adjusted for price changes over time (inflation) and price differences between countries – measured in international-\$ in 2011 prices.**



Source: Maddison Project Database 2020 (Bolt and van Zanden, 2020)

OurWorldInData.org/economic-growth • CC BY

**Source: Maddison Project Database 2020 (Bolt and Van Zanden, 2020).**

<https://ourworldindata.org/economic-growth>

<sup>11</sup> Definition from the Natural Resource Governance Institute, March 2015. Available at: [https://resourcegovernance.org/sites/default/files/nrgi\\_Resource-Curse.pdf](https://resourcegovernance.org/sites/default/files/nrgi_Resource-Curse.pdf)

After the decrease in the world's demand for Argentine goods during the first World War, and even more with the Great Depression, the Government started to encourage the creation of an independent and internal market with industries more related to the manufacturing sector. The response to the global shocks was economic isolation for most of the second half of the twentieth century. Accordingly, from 1930 the country turned inward with stronger government interventionism and protectionist policies: many public works were indicted, import duties were decreased, and multiple exchange rates favoured manufacturing activities over agriculture, focusing on industrial growth (Glaeser et al., 2017). Workers moved towards more urbanised centres, but real wages remained stagnant. Gradually, Argentina adopted a series of import-substituting policies<sup>12</sup> aimed at strengthening its domestic producers, and these seem to have cut the country further off from the global economy. In this scenario, between 1929 and 1940, the share of exports plus imports relative to Argentine G.D.P. dropped from almost 40% to below 15% (Glaeser et al., 2007).

It is important to note that before 1944 Argentina did not have real inflationary issues – or, more precisely, the economic statistics available for this period are scarce and questionable. It is estimated that between 1900 and 1943, the annual inflation rate averaged 1.5% (Ocampo, 2015). The first official and reliable consumer price indexes available starts from January 1944, a year after the Revolution – the military coup of the nationalist group which provoked the fall of Castillo's government of systematic electoral fraud and corruption. One of the creators of the coup was colonel Juan Domingo Perón, leader of the subsequent populist political movement, which would then take his name - *peronismo* - that sought the end of the nation's reliance on foreign economic powers. With Perón's rise to power in 1946, the economic agenda rapidly moved towards a "New Deal" Plan for Argentina based upon economic nationalism<sup>13</sup> and several pro-labour laws, together with a massive government spending program. Until 1945, inflation travelled closely along with world inflation, as prices in developed countries rose for various reasons.

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<sup>12</sup> Import substitution is “a government strategy that emphasises replacement of some agricultural or industrial imports to encourage local production for local consumption, rather than producing for export markets. Import substitutes are meant to generate employment, reduce foreign exchange demand, stimulate innovation, and make the country self-reliant in critical areas such as food, defence, and advanced technology”. Definition from the European Directorate-General For External Policies. Available at: [https://www.europarl.europa.eu/RegData/etudes/briefing\\_note/join/2012/491424/EXPO-INTA\\_SP\(2012\)491424\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/briefing_note/join/2012/491424/EXPO-INTA_SP(2012)491424_EN.pdf)

<sup>13</sup> Perón's government choose not to participate in the expansion of international trade that followed the end of Second World War, by not joining international institutions such as the General Agreement on Tariffs and Trade.

Nevertheless, Perón’s policy choices had a significant cost for Argentina, leading to increased capital and input goods prices and a decline in technological transfer from abroad (Taylor, 2012). It is with Perón’s government that some of the causes of the inflationary process of 1946-1951 took shape: a series of nationalisations of some companies and services, the introduction of a regulatory framework that distorted property rights and freedom to contract, the increase of money supply to finance the fiscal deficit and the use of central banks’ money to cover provincial debts, all led to rampant inflation and subversive macroeconomic instability. As can be deduced from figure 2, consumers’ prices raised 18% in 1946, with an increasing tendency of up to 50% annually in 1950 (Solanet, 2015). The highest inter-annual consumer price variation between 1943 and the death of Perón in 1974 was recorded in mid-1959 under the presidency of Arturo Frondizi, with an index that exceeded 120% (Cámara Argentina de Comercio y Servicios, CaCESF, 2018).

Meanwhile, the governments in the aftermath of 1955 did not manage to install consistent and long-lasting policies that would bring economic equilibrium and stability. The stop-and-go phenomenon will dominate the following years: after a period of the industrial boom – *go* - the level of demand for manufactured products became so high that the foreign currency produced by the countryside, and to a much lesser extent by domestic manufacturing, was insufficient to continue importing the machinery and inputs needed to continue industrial growth. This would lead to adopting more orthodox measures – *stop* - such as a tightening fiscal and monetary policy.

**Figure 2: inter-annual variation of consumer’s prices, January 1944 - December 1974**



**Source: UEPE CAC on INDEC base (2021).**

The period between 1973 and 1976 is one of the most dramatic in Argentine economic history, with profound economic and social instability in the context of the Latin American debt crisis. To counteract inflation, the minister of economy Gelbard – whose economic conception was very protectionist and interventionist – constituted a harsh cost and price control system with a “zero inflation” target (Solanet, 2015). The government would decide the prices, the tariffs of gas, water and electricity, transportation, and other public services, while salaries were determined through syndicalist conventions. During these years, the only zero inflation that occurred was in the utility and fuel rates, which were frozen. In the same period, the cost of labour rose by 125%, and the prices of consumer goods rose by 98%, although they were subject to control in many sectors. As a result, tariffs and prices of public enterprises were significantly delayed, and the fiscal deficit grew disproportionately: it was 7.5 % of the GDP in 1973, 7.0 % in 1974 and 14.3 % in 1975 (Solanet, 2015).

The next step to “*sort out the mess*” and avoid a fiscal meltdown was the famous *Rodrigazo*, an economic adjustment plan launched in 1975 that aimed at cutting real wages through an increase in public services prices, a sharp devaluation, and wage negotiations freezing. Consequently, the adjustment triggered inflation, with a massive impact on investment and economic activity, which also led to a deepening of the political crisis. It was the beginning of the end of the import substitution industrialisation in Argentina. That experience was also the first time in Argentina that the phenomenon of money leakage emerged and its inflation-multiplying effect was demonstrated. Money leakage boosts and self-feeds inflation, when money loses value too fast, people get rid of it more quickly, and bank deposits rotate rapidly. If the output does not physically increase, what happens is that prices increase. When the velocity of money circulation doubles, this has the same inflationary effect as doubling the money supply (Solanet, 2015).

Figure 3 shows the consumer price index variation between 1975 and 1989. When the new military regime was established with the coup of 1976, the average price variation reached 1000%. Under the military dictatorship, a sharp decrease in public spending and a drastic wage fall brought inflation down momentarily but to annual levels of no less than 150% on average. The fiscally irresponsible dictatorship brought unsustainable levels of foreign debt, and when Raúl Alfonsín took over the government in 1983, inflation was over 400% yearly. The fiscal deficit in 1982 had slightly exceeded 10 % of GDP, and by the end of 1983, it was projected to be over 15 % (Solanet, 2015). The highest inflation rate in the country was reached under the presidency of Alfonsín in 1989; that year, the average price variation was 3079%, and the exchange rate rose by 4771% per year against the dollar.

The loss of value of the currency – the *Peso Ley* - was such that during this period, there were two changes in the monetary symbol: in 1983, it was replaced by the *Peso Argentino*, and in 1985 the latter was replaced by the *Austral* (CaCESF, 2018). Argentina was experiencing hyperinflation: the sharp devaluation of the currency exponentially multiplied the value of the debt, prevented imports, hindered foreign trade, and shredded people's savings in local currency, leading millions of people to poverty. This was emphasised by the phenomenon of money leaking and the stop-selling of traders and manufacturers because they could not secure the replacement price (Solonet, 2015).

**Figure 3: inter-annual variation of consumers' prices, January 1975 - December 1989**



**Source: UEPE CAC on INDEC base (2021).**

**(Note: a maximum of 500% on the vertical axis was determined for a better graphical representation).**

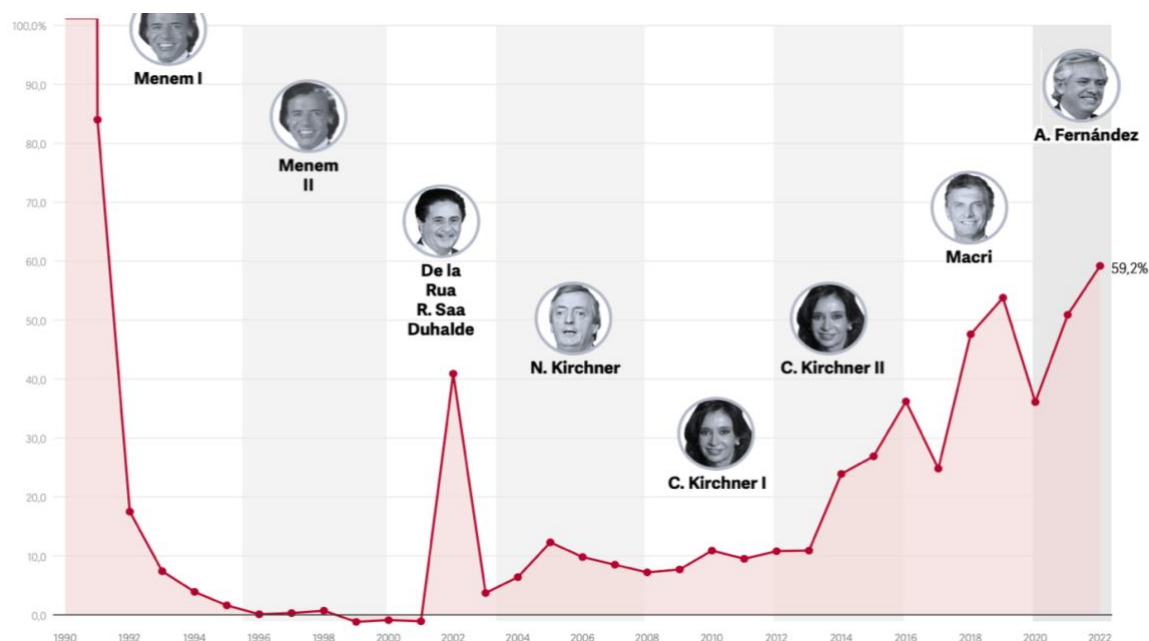
The scenario that the new president Menem found himself in forced him to commission an economic emergency program. With the Convertibility Law of 1991, which fixed the parity of the Austral with the dollar, and the subsequent replacement of that currency by the *Peso*, Argentina began a period of drastic reduction of inflation and subsequent stabilisation of the price level, even registering years of deflation. It is worth noting that, as figure 4 displays, inflation was high in Menem's first term - 147.5% per year – while in his second it lowered to 0% annually (Cámara Argentina de Comercio y Servicios, 2018). According to economist Emilio Ocampo (2015), the Convertibility Plan was arguably the most successful measure undertaken by any government in Argentina as a stabilisation plan. This fixed exchange rate system was imposed in Argentina until 2002 when flexibility was decreed.

Nonetheless, it proved to be unsustainable in the long term, when the appreciation of the real exchange rate, the fall in export prices for agricultural products, and the reduction in international financing determined the crisis of convertibility. A combination of internal and external factors triggered a massive economic crisis at the end of 2001, and the political pendulum swung dramatically back in the opposite direction, again bringing out populism and inflation (Ocampo, 2015). Furthermore, although inflation fell in Menem's years, structural issues like fiscal deficit remained unsolved.

In the year between December 2001 – the date of the end of the convertibility and the declaration of a new economic default - and December 2002, Argentina crossed one of its most profound economic crises ever. The largest default on its sovereign debt occurred in December 2001, when the government reneged on nearly \$93 billion in loans, causing Argentina to lose access to international debt markets. In this span, its GDP fell to 11% in real terms. Also, unemployment, poverty and indigence rates reached historic levels in 2002: respectively 21,5%, 57,5% and 27,5% (Trombetta, 2012). Because of the Convertibility, the demand for dollars had far outstripped the South American country's capacity to generate such currency. The financial crisis deepened throughout 2002 and gave rise to a climate of solid mobilisation and protest.

After a period of price stability started in 2003 with Nestor Kirchner's government, thanks to a model of economic development with investments and increased exports, inflation returned to be a matter of national concern in 2007, when the annual rate exceeded 20%. These inflation levels characterised most of the years of Cristina Kirchner's government, Peronist politician and wife of former President. While Néstor had favoured the stability of the dollar and the Central Bank reserves, Cristina did the total opposite. De facto, she went for devaluation and intervened in Central Bank reserves. Unfortunately, data on price raises of these years were not to be found in official price indicators, which the administrations systematically altered until 2015. According to private estimates, between January 2007 and November 2015 the annual inflation rate averaged 24.3%, whereas according to INDEC, it only averaged 11.5%. The distortion of economic statistics also helped the Kirchner government to show higher economic growth and low poverty rates (Ocampo, 2015). The following administration, led by Mauricio Macri, had to cope with the inflationary effects of exchange rate unification and updating utility tariffs - which had been virtually frozen for over a decade. At the end of Macri's mandate, it was clear that the government had failed to reduce these figures. (CaCESF, 2018).

**Figure 4: Inflation in annual percentage, 1990 – 2022 (BCRA-REM)**



**Source: Clarin, “Calculadora online de inflación”, 2022.**

[https://www.clarin.com/economia/inflacion-problema-historico-argentina-ano-naciste\\_0\\_li3QHIBpwT.html](https://www.clarin.com/economia/inflacion-problema-historico-argentina-ano-naciste_0_li3QHIBpwT.html)

In summary, since the 1970s, various programs have been implemented in the country to curb the inflationary spiral with, however, short-lived successes. Successive administrations have struggled to keep the country’s finances in check during economic turmoil. As a result, Argentina has often failed to pay its international creditors, risking cyclical defaults (CFR, 2022). Hence, why has every measure taken by each Government to tackle inflation failed? Why did the early promise of rapid economic growth at the turn of the century not translate into modernisation and sustained development?

When analysing the economic failure of a country with those favourable initial conditions, various factors need to be considered. Indeed, while there is excellent consensus among academics about Argentina’s origins of growth in the nineteenth century, the explanations of the causes of economic stagnation and crisis are more complex, and the theories are varied. After analysing and collecting opinions and theories of different economists, the second part of the chapter will focus on two main characteristics as an explanation for the Argentine economic decline. Therefore, it will argue that at the root of Argentina’s economic issues, among which there is inflation, are its struggles with bad governance – fuelled by corruption- and unstable democratic and economic institutions. Economic failure in Argentina is thus a consequence of multiple factors that trapped the country into an anti-trade equilibrium that limited its economic growth, exposing Argentina to economic shocks. A closer look at these two factors will now be taken.



## 1.2. Weak institutions: the demise of checks and balances

According to some academics and economists, Argentina was a country made temporarily rich by an abundance of high-quality land and transportation technologies but, despite its wealth, lacked the key ingredients to foster its economic growth. In other words, the country failed to generate stable and growth-oriented economic and political institutions, which, too weak to produce a welfare-enhancing bargain, led to a progressive decline in economic growth (Glaeser et al., 2017). According to Mariano Tommasi<sup>14</sup>(2010), any governmental system can fail to achieve economic stability and sustainable growth if it lacks specific essential capacities, such as equal opportunities to invest, secured property rights, a stable government capable of enforcing its constitution, and an impartial judicial system. Institutions and pro-growth public policies are fundamental tools for a country to achieve sustained economic growth. Without these, economic stability and sustainable growth are jeopardised. Tommasi blames the deficiencies of the Argentine institutional system on three main aspects: too much liberty of the executive, a weak enforcement of judicial power and lousy quality and effectivity of public administration.

Indeed, these three characteristics reiterate throughout Argentina's economic history. The external shocks undoubtedly had an impact on the performance of the Argentine economy. Nevertheless, as the global environment was not so dissimilar for other countries which managed to sustain growth and effect a shift from growth to development, the critical explanation must lie within domestic institutions (Lewis, 1998). According to Professor Diego Sánchez-Ancochea, Head of the Oxford Department for International Development, "*There were periods of calm in Argentine's economic history, but the structural issues were never resolved. The crisis keeps returning because it never went away*"<sup>15</sup>.

The real watershed in Argentina's economic history is agreed to be in 1930, the year in which the country experienced a significant reversal in its transition to open democracy, with the collapse of the democratic institutions and an inward economic turn (Alston, Gallo, 2007). With a military coup, the conservative political alliance known as *Concordancia* perpetrated electoral fraud and installed a military regime which, for the period known as "*the infamous decade*", implied severe consequences on the system of checks and balances and thus on the

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<sup>14</sup> Mariano Tommasi is a professor of the Department of Economics at the University of San Andrés in Buenos Aires and director of the Centre for Studies on Human Development, Argentina. In his academic paper "Un País sin Rumbo", he argues that one of the reasons for Argentina's economic and social misfortunes lies in the instability and low quality of its public policies. These, in turn, are the consequence of a policymaking process in which the main actors have little incentive to cooperate, leading to short-sighted actions. His work will be taken as a guide for the following subchapter.

<sup>15</sup> Quote from El País: "Argentina's perpetual crisis", 2021. Available at <https://english.elpais.com/usa/2021-03-05/argentinas-perpetual-crisis.html>

correct functioning of democratic institutions. The institutional environment leaned heavily toward corporatist principles<sup>16</sup>, with substantially less economic and political freedom than the previous regime (Spruk, 2019). State intervention and electoral fraud led to institutional disadvantages over the long term, blocking Argentina's transition to an open democracy under the rule of law (Spruk, 2019). The Concordancia regime ended with another coup in 1943, inaugurating a populist regime that led to the emergence of Juan Domingo Perón. As Alston and Gallo (2007) argue, Argentina's failure to sustain the transition to a system of checks and balances and the fraudulent elections of those years led to the rise of Perón and the new Peronist institutions.

Therefore, the appeal to Perón was in part a reaction to the electoral frauds during the decade of the 1930s but also to the lack of democratic participation (Alston, Gallo, 2007). With the new populist leader, pro-labour legislation was put into place, which, however, did not stop the demise of the rule of law: institutional breakdowns took place because of clientelism, political favouritism, and the populist redistribution of income and wealth in the name of social justice (Spruk, 2019). As discussed in the previous section, Peronism widened state intervention in the economy through nationalisations, introduced a regulatory framework that distorted property rights and freedom to contract, and used central banks to cover provincial debts, all leading to rampant inflation and subversive macroeconomic instability. Essentially, instead of overcoming the weaknesses of the institutional environment, the Peronist government exploited them.

The first institutional weakness of Argentina relates to the national Congress, which has been shadowed by the executive as important space for congressional debate and elaboration of public policies. In fact, Congress in Argentina is a very weak space in the policy formulation process, it is not institutionalized and is not the place where policy expertise resides. For Tommasi (2010), it is an institution with weak legislative capacities, also because legislators do not stay long in charge. Moreover, the legislators' incentives to create public policies are tied to the interests of the provincial governments. For instance, concerning international trade negotiations policy - a crucial area for a country like Argentina- there is no formal deliberative policy-making process; within the executive branch, the rule has been overlapping functions, interagency competition and inter-bureaucratic bickering. This means that the effectiveness of routines and procedures depends heavily on particular circumstances, leaderships and personalities.

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<sup>16</sup> Corporatism is a collectivist political ideology that advocates the organisation of society by corporate groups, such as agricultural, labour, business, scientific, or guild associations, based on common interests.

Fragmentation in the policy formulation process is reflected in inadequate coordination and diffuse assignment of responsibilities, in a context of scarce human and material resources (Tommasi, 2010).

Following Tommasi's argument, another major problem of the institutional setup of Argentina is the weak enforcement of judicial power. Argentina's judiciary is in principle independent and institutionally differentiated in federal and provincial justice systems. However, it remains heavily influenced by political authorities and in part is still plagued by corruption, delays and inefficiency (BTI, 2022). With Perón, it is clear how the judiciary did not operate as an efficient institution that checks on the executive's actions, and the reason lies more in historical political issues than jurisprudential ones. The Supreme Court of Argentina has never been a solid and impartial arbiter of political, constitutional, and legislative arrangements. In 1930 the Court openly approved the conservative military *golpe*, facilitating the path towards populism and institutional reforms of Perón. Besides, from 1940 to 2001, no Argentine President has ever governed with a Court whose majority he would not have created, manipulating its composition. In this scenario, the Peronist government not only replaced Supreme Court Justices with others who were friendly to the party but also jailed its political opponents<sup>17</sup>(Alston, Gallo, 2007). Without an independent judiciary - continuously jeopardised by the executive –the principle of separation of powers is at risk. Institutional volatility ensued without the court as a backstop, and the path towards the rule of law, economic liberalisation and open democracy were far from being realised.

As the second chapter will highlight, corruption continues to be a significant issue nowadays, impeding development in Argentina and nowhere is this more evident than in the judiciary. Declining faith in the judiciary is yet another lightning rod that amplifies the class conflict in Argentina. Even though Argentina formally transitioned to democracy in 1983, institutional breakdowns emanating from the instability of the Supreme Court, political favouritism, and recurring absolutist rule remained deeply embedded in the political culture and institutional framework of the country, thereby undermining the foundations of long-run growth and development (Glaesier et al., 2017).

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<sup>17</sup> 1946 impeachment of supreme court's justices: Perón's goal was to transform the basic institutional framework in Argentina. Following the impeachment, the Peronists began to craft a new Constitution that, without a backstop of an independent judiciary, allowed them to have their way until the subsequent military coup in 1955 (Alston, Gallo, 2007).

For what concerns bureaucracy, Argentina once again looks like an outlier. For Tommasi (2010), the main issue goes back to the same institutional political power, which was not rooted in national arenas but in provincial political spaces with little interest in the quality of public decision-making at the national level. This factor was reinforced by the capacity and tendency of the executive branch to act unilaterally. De facto, the executive had too much discretionality and constitutional capability in unilaterally promoting public policies. While Congress did not have a prominent role in the debate and elaboration of those policies, this work was done mainly by the provincial powers. Congress's inability to monitor and control the budget had given the broad executive discretion in managing public funds. Moreover, given that Argentine legislators did not stay long in Congress and did not specialise in parliamentary committees effectively, their incentives were tied to the interests of provincial governments. The independence of the Central Bank has also been questioned, which has complicated the fight against inflation (Tommasi, 2010).

To sum up, in Argentina, the institutions that should have facilitated political discussion and the enforcement of agreements, such as a strong judiciary, and independent legislative branch and an effective public administration, have always been lacking, with the subsequent consequence of enhancing instability instead of maximising growth. Institutional fragility limits the capacity to respond efficiently to a shifting global and internal environment (Lewis, 1998). Therefore, we can affirm that the Argentine's economy's volatility has always been accompanied by the decomposition of political and economic institutions.

### **1. 3. Bad Policies: a pendulum between expansionary populism and free-market neoliberalism**

Analysts across the field agree that Argentina's main issue and the main obstacle to development is political, not economic: for most of the second half of the twentieth century, Argentina was plagued by military coups, contrecoups, violent oscillations between left and right, unprecedented institutional instability, and frequent turmoil that brought it to the edge of civil war several times (Spruk, 2019). Between the inauguration of the first administration of Juan D. Perón in 1946 and that of Raul Alfonsín in 1983, there had been 13 military coups, 19 presidents and 38 Ministers of the Economy, with only one president managing to serve a full constitutional term (Lewis, 1998). Thus, as it can be easily inferred, a notable characteristic of Argentine polity is its instability.

Indeed, the ruling class in Argentina seems not to have agreed on many things, especially regarding economics: policies continued to oscillate over the years, sometimes towards privatisation, others towards protectionism, and others more towards trade liberalisation.

As Spiller and Tommasi (2003) argue, the volatility of public policy strategies has profoundly impacted Argentine economic performance since the mid-20th century. Between 1970 and 1999, Argentina looked like one of the countries with the most volatile policies in the world. Shifts such as privatisations in the nineties and the recent renationalisation put the country as one of the most unstable cases in its political economy, with some of the effects of this volatility observed in monetary and exchange rate policies which produced high inflation and sharp devaluations. (Alston, Gallo, 2017). Inflation was commonplace for most of the period between 1946 and 1990, arguably for political reasons, and became a permanent component of Argentina's outlook (Glaesier et al., 2017). The subject of analysis in this section will be the various governments' economic policies used in the past to curb the inflationary spiral.

Above all, the focus will be on the two most dominant approaches since the 1940s: a populist expansionary program and an economic neoliberalist approach, as these were recurrent in the stabilisation attempts and played a substantial role in the manifestation of the main adverse developments in the Argentine economy.

Argentine politics has been dominated over the years mostly by two main parties: the Judicialist -or Peronist- and the Radical Civil Union (UCR). The rise of Peronism marked the birth of the populist model in Argentina. The Judicialist party was the largest for nearly forty years until it lost its congressional majority in 2021, while the UCR has long been the main opposition of the Peronists and various military-led regimes. Its leaders have won the presidency close to ten times over the past century, most recently in 1999. Today, it is a centrist, progressive party that draws its support mainly from the urban middle class. It comprises half of the Juntos por el Cambio alliance, whose one of the main leaders was Mauricio Macri. Recurrent cycles of populist economic policy lasted until 1989, when Menem's neoliberal approach suddenly burst out. Populism strongly came back from 2003 until 2015 with the Kirchner family, then replaced by neoliberalist reforms with President Macri until 2019.

The Judicialist parties favoured greater economic interventionism and social welfare spending and draw support primarily from the working and lower classes. The two principal objectives of the expansionary program carried on by populist leaders in the 20<sup>th</sup> century were to reduce income distribution inequality and to attain full employment. Their banner was strong interventionist, protectionist, and redistributionist policies and massive government spending.

The objectives were achieved by granting more extensive social benefits and wage and salary increases and by assuring a high level of demand. Other principal instruments of expansionist, or populist, economic policy include manipulating foreign exchange rates and controlling the prices of goods and services rendered by both the private and the public sectors to keep the cost of living low.

Instead, the neoliberalist approach was mainly based on market-based reforms directed to open the country to the global economy via agricultural exports and drastically limit government spending to reduce the national debt (Ocampo, 2015). In the case of Argentina, neoliberalists supposedly wanted to defeat structural heterogeneity, and economic unbalances inherited from state-led industrialisation. However, contrary to what they thought, their approach tended to strengthen the position of Argentina in the global economy as a peripheric country and deepen social and economic inequality.

Under populist governments, protectionism was the central policy implemented. The closed economic model introduced a set of measures that restricted foreign investors' access to the country, thus reducing foreign trade exchanges and nationalising some services and companies. As various economists have described, the populist governments intentionally distorted producer prices by setting import tariffs and export duties and maintaining a dual exchange rate mechanism. These distortions altered the allocation of resources in the economy, resulting in a progressive deterioration of the domestic economy. Under protectionism, the economy ironically remained dependent on the outside world – dependence on exports was replaced with dependence on capital imports and foreign debt (Hedges, 2002). Besides, Argentina experienced an unsustainable foreign debt due to continued borrowing.

The following governments tried to solve the fiscal problems by printing more and more money – the hyperinflation reached 3000% in 1989. When the fallings of the state-run economy had become too big to ignore, in the 1990s, Argentina again opened its economy, instating a comprehensive program of free-market reforms, thus transforming its economy from a state-run to a market-driven one. Markets were open to the outside world, tariffs were reduced, price controls were eliminated, and capital controls were lifted (Hedges, 2002). It was the start of the neoliberalist approach, which would last until 2002. In 1991, President Menem and economic minister Cavallo successfully ended hyperinflation with the discussed Convertibility Law. Since the Central Banks were not allowed to print more pesos without having higher dollar reserves, inflation slowed dramatically.

Nevertheless, convertibility was not all flowers. One inevitable consequence of the plan was the impossibility of the government to control its money supply and thus adjust its monetary policy to external shocks. This was a significant reason for Argentina's decline (Hedges, 2002). Due to external events such as the Mexican banking crisis – also known as the tequila crisis – and the devaluation of the Brazilian currency in 1999, Argentina was powerless to devalue its currency to remain competitive in the international market. Thus, international investors had fewer incentives to invest in the country. Furthermore, since for every peso a dollar was required, maintaining the convertibility was a considerable cost to the Argentine government and contributed to the ever-growing debt. Argentine debt reached 52% of its GDP in 1999, which furthered the investment exodus (Hedges, 2002).

Capital flows resulted from an expectation of devaluation, with Argentines beginning to send their money outside the country. In response to this phenomenon, in 2001 President de la Rúa froze citizens' bank accounts, placing limits on the amount Argentines could withdraw – they were allowed to withdraw a maximum of 250 pesos or dollars in cash per week from their accounts, an amount that did not cover most of the population's income at the time (Hedges, 2002). Argentine's money transfers abroad were also prohibited, and the Bank converted private debts and savings in dollars into pesos, thus decreasing many personal savings (Hedges, 2002). This led to social outbursts and looting, with hundreds of people crowded outside banks, banging at their doors, and demanding their money back<sup>18</sup>. The inability of the country to repay its debt led to default and devaluation. By September 2001, it became clear that the fiscal targets were impossible to achieve, and the IMF decided not to complete the disbursement of the last scheduled loan, forcing Economy Minister Domingo Cavallo to declare a default on the foreign debt and to decouple the peso from the dollar, thus putting an end to the currency board.

Again, Argentina's economy was damaged by its dependence on the outside world, this time due to inflexibility of the convertibility and the resulting inability to adjust to external events, which raised interest payments to a level at which the debt burden could not be overcome (Hedges, 2002).

Privatisation, a reform by Menem's government, was another central Argentina's economic policy of the 90s. In the minds of the ruling class, selling state industries to private firms would have increased productivity and decreased government debt spurred growth and showed investors Argentina was taking things seriously (Hedges, 2002). The government privatised telecommunications, petroleum, airlines, railroads, televisions, roads, electric, gas and many other companies for a turnover of US\$18 billion, or 7.6% of the 1993 GDP (Hedges, 2002).

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<sup>18</sup> Corralito was the informal name given to the restrictions imposed by this economic measure.

However, the Argentine privatisation process did not follow two essential requirements for it to work efficiently: the government did not set up an essential regulatory system for the new private firms and did not require competition. Basically, what privatisation did was change ownership from public monopolies to private monopolies. Moreover, since most private companies were foreign-controlled, the lack of regulations allowed profits to leave the country instead of being pumped back into the domestic market. Eventually, privatisations increased unemployment exponentially, and the country failed to reemploy the workers effectively (Hedges, 2002).

The 2001 crisis, the harshest in Argentina's history, contributed to the unpopularity of these policies. Populism strongly came back from 2003 to 2015, with the Kirchner administration gradually reversing the previous policies— including some nationalisations and the return of import permits and exchange rate controls. The economic policy took a strongly expansionary turn, both on the fiscal and monetary fronts, producing good results in an economy deeply depressed by the most accentuated economic crisis in its history (Trombetta, 2012).

The situation, however, would change a few years later. In both 2007 and 2011, public spending soared – from 28% of GDP in 2007 to 40% in 2015 - mainly due to the expansion of social plans and increased public procurement. The vicious inflationary process that the economy was undergoing at the time, coupled with a certain degree of financial instability caused by capital outflows and the dollarisation of portfolios, made it more difficult for spending to be translated into output increases. Kirchnerism had to resort to its entire arsenal of subsidies to guarantee reelection (Trombetta, 2012). However, this demand-driven growth proves illusory when looking at the macroeconomic framework; in particular, this process's most critical limitation became apparent in 2006, when the annual inflation rate broke through the double-digit barrier.

Furthermore, as mentioned before, in early 2007 the government intervened politically in INDEC data, and the entire structure was dedicated to producing price indices by placing it under the control of the Ministry of Economy's Secretariat of Commerce. In other words, the government's response to the inflation problem was to deny its existence. (Trombetta, 2012). The fiscal deficit was covered yearly with monetary issuance and domestic debt. With its departure, the CFK administration left debt maturities totalling 52.5 billion dollars (Pontificia Universidad Javeriana, 2020).



Mauricio Macri's winning in the 2015 election was unexpected. A pro-market businessman interrupted fourteen consecutive years of Peronist government by initiating a plan of neo-liberal measures. During his campaign, he promised to eliminate exchange restrictions that prevented the free purchase of dollars, getting out of default, eliminating export taxes, achieving a zero-poverty rate and eliminating inflation. Unfortunately, and as expectable, these expectations failed to materialise. The gradualist economic plan was based on the gradual withdrawal of the state from the economy - through privatizations. However, with annual inflation of 240%, gradualism proved to fail. The weak fiscal performance in the first year of the mandate forced the Government to balance the books in the same way as in the past: monetary issuance and debt (Pontificia Universidad Javeriana, 2020). The situation had become unmanageable and, desperate for relief, in 2019 Macri was forced to play its last card to avoid default: the IMF. Showing its support for Macri's government, the fund issued what amounted to a \$57 billion loan, the largest in its history (Pontificia Universidad Javeriana, 2020).

## CHAPTER 2

### Argentina today: persistent challenges

*“Milagros, uno no hace”- I cannot work miracles.”*

(Trade Secretary Roberto Feletti, answering on which measures the Government can take against inflation, March 2022).

As it has become evident throughout the first chapter, Argentina's bad economic performance starting from the second half of the 20th century is surprising, but it is not inexplicable. It is the outcome of a weak institutional framework, adverse shocks and policies responding to those shocks. The problems of contemporary Argentina do not differ much from those of thirty or forty years ago. The challenges the country faces today are the accumulation of the decisions and blunders of its political class, the IMF, private investors, and the other players on this grand chessboard. As Tommasi (2010) argues, a country's social and economic outcomes do not depend so much on the “*labels*” of policies - whether the pension system is or is not “pay-as-you-go” or privately funded. Instead, they depend on characteristics that influence their implementation, such as stability, rapid adjustment to changing circumstances and enforcement. From the economic policy spectrum, these characteristics are definitely lacking in Argentina. While a succession of governments picked policies that appeared not designed to maximise growth, at the same time, many presidents and finance ministers used inflation as their flagship to justify stabilisation, adjustments, or austerity measures (Rapoport, 1975).

On the one hand, Argentina has a historical current account deficit; in other words, the country sends more money overseas for goods and services than it receives. This deficit generates external constraints: there are not enough dollars to sustain the economy through capital flight or debt repayment. This imbalance generates distrust in the local currency, causing Argentines to save dollars and not pesos to keep their savings stable and safe from inflation. As a matter of fact, inflation has led to constant and progressive deterioration of the Argentine currency accumulated during the last two decades. On the other hand, as historical references demonstrated, Argentina has the oldest fiscal deficit in the South American region, meaning the state has a budget shortfall. Essentially, the government spends more than what is able to collect through taxes.

A government experiencing a budget deficit of great magnitude has various options to repay for the fiscal gap. One way is printing more banknotes with the risk of generating inflation. Another option is getting into debt with organisations such as the IMF. This option, however, may lead to the Government's inability to repay the loan, causing the economy to collapse - as has happened so many times in Argentina. The last possibility is raising taxes. However, the tax burden in this country is already one of the highest in the region. Today, the country has been left without access to external financing markets. Thus, Argentina can only finance itself through multilateral organizations – the IMF -, by issuing bonds indexed to inflation in the local market because nobody wants to take exposure in pesos directly, or by printing money - the central bank issues pesos to cover expenses. The last option has been growing a lot, indubitably, feeding inflation expectations in the future. Argentina is facing economic turmoil again due to a three-year recession and sharp increases in government spending - notably, an inability to control provincial spending- leaving the country with 128 billion dollars in debt. Due to government mismanagement, the risk premium went up, and interest rates increased. In addition, inflation is becoming a chronic problem due to the inability to find an agreement over a consistent monetary and fiscal policy that can be sustained over time.

The following chapter will focus on analysing the persistent challenges of the former Fernandez administration. The main argument is that the instability of public policies, their lack of consistency, the excessive discretion given to the executive and the lack of political representativeness, together with considerable corruption, have contributed to the undesirable economic and social results we keep seeing. Initially, the measures undertaken temporarily achieve some degree of trustworthiness. However, resorting to highly rigid mechanisms can eventually incur enormous costs. Another obstacle to development is opportunism and the failure to fulfil promises made during electoral campaigns. All these defective elements are a constant in Argentine history, leading to a non-cooperative outcome of the policymaking game and thus to a deterioration of Argentina's economic condition.

By recalling many of the characteristics already narrated, it will demonstrate that despite time going by, one thing remains the same: the supremacy of political interests over citizens' needs.

## 2.1. The tango with the IMF

Argentina's history with the IMF is one turbulent love story. As with a typical couple, their relationship has been marked by several ups and downs.

It was in 1958 when its citizens heard through the radio the name of the International Monetary Fund for the first time, enunciated in an official speech of the Minister of economy Alsogaray with the famous phrase "*hay que pasar el Invierno.*"<sup>19</sup>. Throughout its cyclical backdowns, the Latin American country has signed 22 agreements with the Organization, of which, eventually, only two were kept. The rest were either patched with other programs with the Fund or with banks' creditors and powerful countries' rescues or led to devaluations, defaults and crises of all kinds.

The IMF-supported programme during Macri's Government in 2018 was a Stand-By Arrangement – SBA<sup>20</sup>. The \$57 billion deal represented the IMF's largest loan in history, surpassing previous experiences such as that of Greece in 2013 and the Portuguese Republic in 2014. The accord was designed with the stated objective of helping Argentines overcome the economic crisis based on four pillars: restoring market confidence, protecting the most vulnerable, strengthening the credibility of the central bank's inflation targeting framework, and progressively easing the balance of payments pressures (IMF,2022). Unfortunately, none of the programme's objectives was achieved in the economic sphere as well as in the social and financial spheres, leading to its failure in 2019 – it was formally abandoned on June 24, 2020. Neither confidence nor market access was restored; output contracted sharply, and inflation rose; employment fell, and poverty increased; the exchange rate depreciated; the absence of measures to manage capital flows and the disbursements financed a capital outflow of historic magnitude; debt increased as a percentage of GDP, and due to the then authorities' decision not to restructure foreign currency denominated debt, its sustainability worsened (Guzmán,2022).

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<sup>19</sup> "We must make it through the winter". With this phrase, Alsogaray justified the orthodox adjustment policies prescribed, together with the IMF, to overcome the country's economic crisis.

<sup>20</sup> SBAs are loans granted to solve temporary balance-of-payments problems scheduled to be repaid over five years.

The fourth and final review was completed in July 2019, before Argentina's primary presidential elections, when the economic crisis worsened. In 2019, GDP contracted by 5.9%, private consumption and investment declined by 10.7% and 25%, respectively, while annual inflation reached 56% in June 2019<sup>21</sup>. Eventually, the IMF assessment failed to recognise that the guarantees of the loan and its interventions were based on a set of premises and assumptions that did not apply to Argentina's case, and the results had lasting consequences for the country.

Indeed, the IMF is often seen as a polemic organism in Argentina due to the austerity of its policies. Many criticisms have de facto been levelled at the Fund by international media and leading economists concerning its orthodox approach to Buenos Aires. Some theorists have argued that the IMF strategy is a coercive tool to intervene in weak economies, forcing them to implement neoliberal policies that mainly benefit the Fund's interests. For instance, IMF loans most commonly require measures that include wage bill cuts and freezes, increases to or the introduction of value-added tax, and general public expenditure cuts. In the Argentinian case of 2019, Brenta (2021) affirms that by forcing the data, IMF officials considered that the Government met the strict requirements needed to grant it exceptional access to the Fund's resources. Brenta analysed that in the periods under agreements with the Fund, the Argentine economy eventually accumulated recession, higher inflation, unemployment, poverty and distributive regressivity, which the permanence under IMF programmes made it difficult to reverse. During Macri's administration, although the programs enabled a brief period of capital inflows that increased the external debt, they did not improve the capacity to service it and aggravated the weakness of the balance of payments (Brenta, 2021).

The first criticism towards its approach to Buenos Aires is that Argentina's balance of payments needs exceeded the standard limits for accessing IMF resources. The second criticism was undoubtedly the increase in the level of debt, most of which was denominated in foreign currency (Guzmán, 2022). Initially, this was of no particular concern to the IMF's top management, who would focus more on the exciting inflation figures and the pace of privatisation.

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<sup>21</sup>Data from World Bank Organization. Available at:

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=AR&type=points>

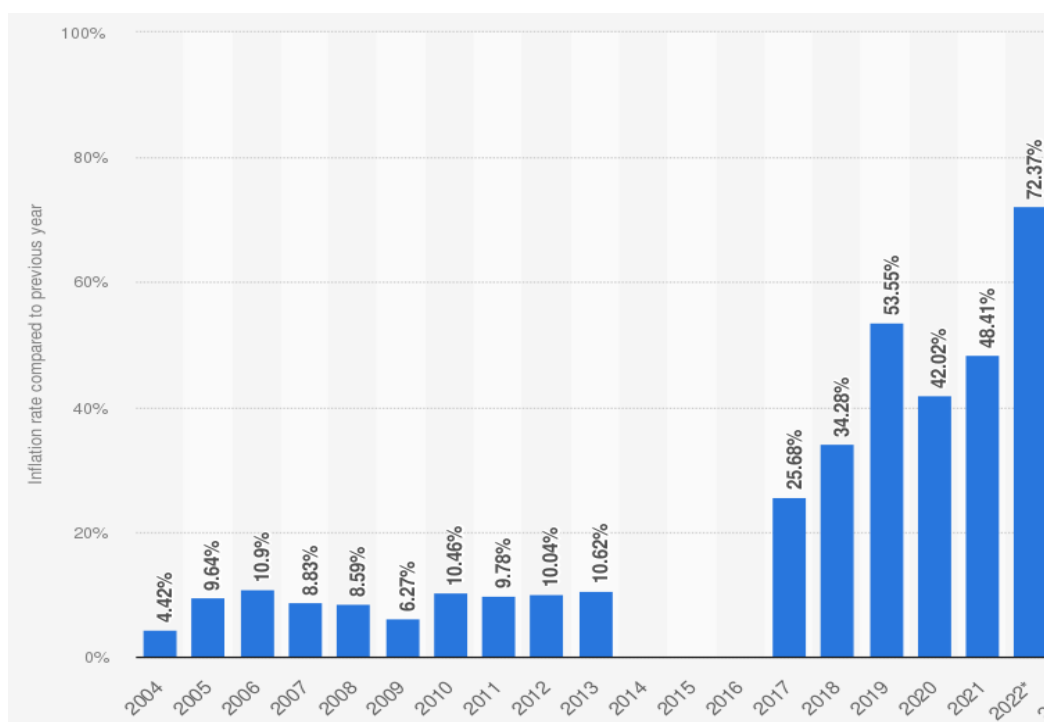
It is important to emphasise that the success of fiscal policies - in all economies - is all the more satisfying the lower the level of debt. Given the restrictions on the use of monetary policy due to the currency board, such success was implausible.

Consequently, the increase in debt has slowly diminished the Government's ability to use the instruments of fiscal policy. Moreover, no clause limiting external public indebtedness was set, causing robust debt expansions, leading to payment crises and intensified recessionary adjustment (Brenta, 2021). Even the Independent Evaluation Office of the IMF stated that the IMF's most serious mistake was not considering the implications of increasing debt levels on fiscal policy (Mutone, 2009). The third criticism over the approval of the SBA is the conviction of the Organization that the borrowing country would have sufficient access to private capital markets on a scale that would allow it to service its debts to the IMF - a risky projection for the future. Finally, the staff believed that the economic programme was feasible and that adjustment could be implemented and managed institutionally and politically. Of these four criteria evaluated, only the first was compelling (Brenta, 2021). Eventually, the Fund's mistake was not to provide an alternative – thus an emergency- plan despite the riskiness of the strategy implemented.

Undeniably, when the new administration took office at the end of 2019, Argentina was amid an economic and social crisis. By the end of that year, the economy had contracted by around 5% since 2017, and inflation had reached 53.8% (IMF,2022). Furthermore, social conditions had deteriorated sharply: poverty was above 35%, unemployment was close to 10%, and real wages had fallen by more than 15% from 2017 levels (Guzmán, 2022). As shown in Figure 5, although inflation significantly lowered in 2020 thanks to the austerity measures, these did not stop the inflationary process, which came back preponderant in 2021. Less than 100 days after Alberto Fernandez, leader of the Peronist party Frente de Todos, took office, the COVID-19 pandemic compounded Argentina's challenges despite significant efforts to safeguard health and employment. The 2020 pandemic was de facto unpredictable. Indeed, the collapse of economic activity worldwide, including in Argentina, made IMF projections and the performance criteria even more unrealistic. (Brenta, 2021). Hence, the debt burden proved unsustainable for the country's development capacity, again generating a deep dependency on the Agency with which the country has had a long experience of failed programmes.

**Figure 5: Argentina's inflation rate from 2004 to 2022 (compared to the previous year)**

World Economic Outlook Database. Data collected until October 2022.



**Source: Statista 2023 (no data available from 2014 to 2016 due to manipulation of data)**

<https://www.statista.com/statistics/316750/inflation-rate-in-argentina/>

The decision to restore once again to the prosperous fund of the Organization was formally announced by President Alberto Fernandez on March 18, 2022. After almost two years of negotiations, the Argentine Senate approved with 56 votes in favour, 13 against and three abstentions the new accord, which foresees the refinance of the \$45.5 billion debt with the Organisation. As part of this support, Argentina formally requested an extended arrangement under the Extended Fund Facility for 30 months (IMF, 2022). The Technical Memorandum of Understanding, which elaborates on the specific objectives that the Government is committed to achieving under the IMF arrangement, sets out the understanding regarding the definitions of the performance criteria and indicative targets that will have to be applied. It also describes the methods to assess the program's performance and the information requirements to ensure adequate monitoring of the targets (IMF,2022).

With the new deal, Argentina pledged to reduce the deficit to 0.9% of GDP by 2024, bring inflation down from 52% year-on-year, increase central bank reserves and gradually eliminate energy subsidies (Cenetenera, 2022). On its side, the IMF will progressively disburse the 44.5 billion dollars over two and a half years with quarterly reviews of the targets and conditional on fulfilling an economic programme established for that period. The Government will have a grace period of four and a half years before starting to repay the new loan, with the first instalment due in 2026. Mr Fernandez's commitments to the IMF are now to reduce money printing and, simultaneously, lower the fiscal deficit and shore up international reserves.

Regardless of the challenges of the war in Ukraine, all quantitative performance targets were met until end-September 2022, including the primary fiscal deficit, thanks to solid expenditure controls and actions to improve the targeting of subsidies and social assistance. By December 2022, an Agreement on the Third Review Under the Extended Fund Facility Arrangement has been reached. The program objectives remained unchanged during the remainder of 2022 and 2023. Progress has been made; however, macroeconomic conditions are still fragile and strong program implementation is essential. In particular, it will be critical to continue with the fiscal consolidation process that envisages a reduction of the primary fiscal deficit from 2.5% of GDP in 2022 to 1.9% of GDP in 2023 (Guzmán, 2022). The process should be supported by efforts to mobilise revenues further, strengthen expenditure controls, and promptly improve the targeting of subsidies and social assistance while providing space for social and infrastructure spending (Infobae, 2022).

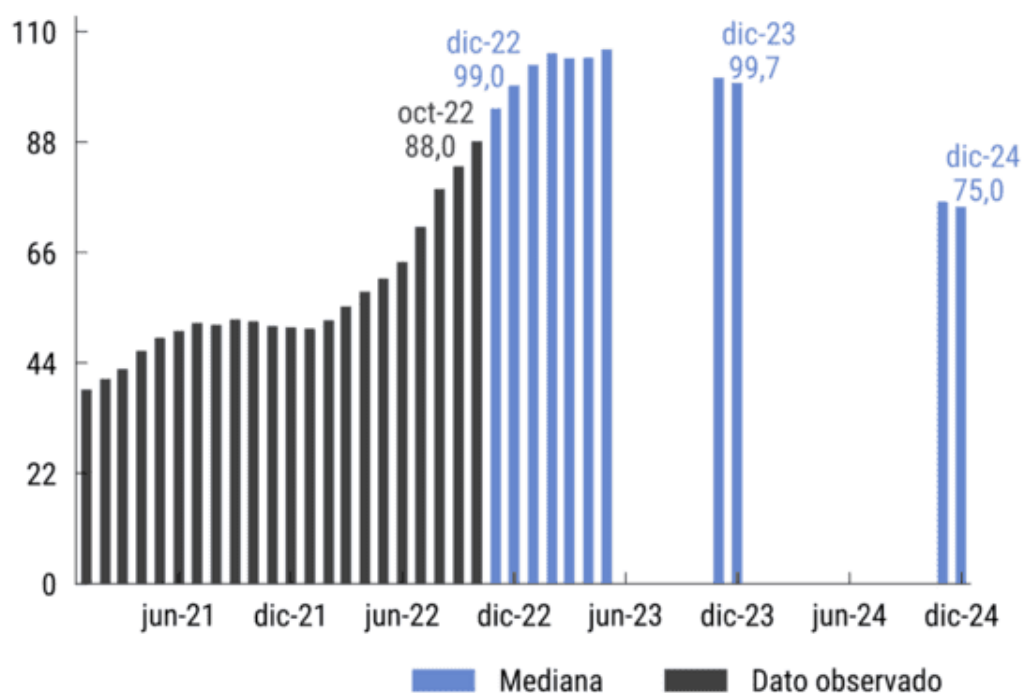
Nevertheless, despite the new agreement and the improvements made, according to forecasts by economic analysts participating in the December Relevamiento de Expectativas de Mercado published by the Central Bank (2022), inflation in Argentina will reach almost 100% annually in both 2022 and 2023<sup>22</sup>. As shown in Figure 6, results will mainly be seen in the following years. If things do not go as the IMF planned for Argentina, it would be the second bankruptcy after the devastating one of 2001. It could deprive the great South American country - 43/44 million inhabitants, fourth GDP of the entire continent - of any source of funding, to the point of determining its financial drift and pushing it into a political-economic seism of unpredictable consequences.

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<sup>22</sup> According to private estimates, Argentina closed 2022 with annual inflation of 95%, the highest in the last 32 years



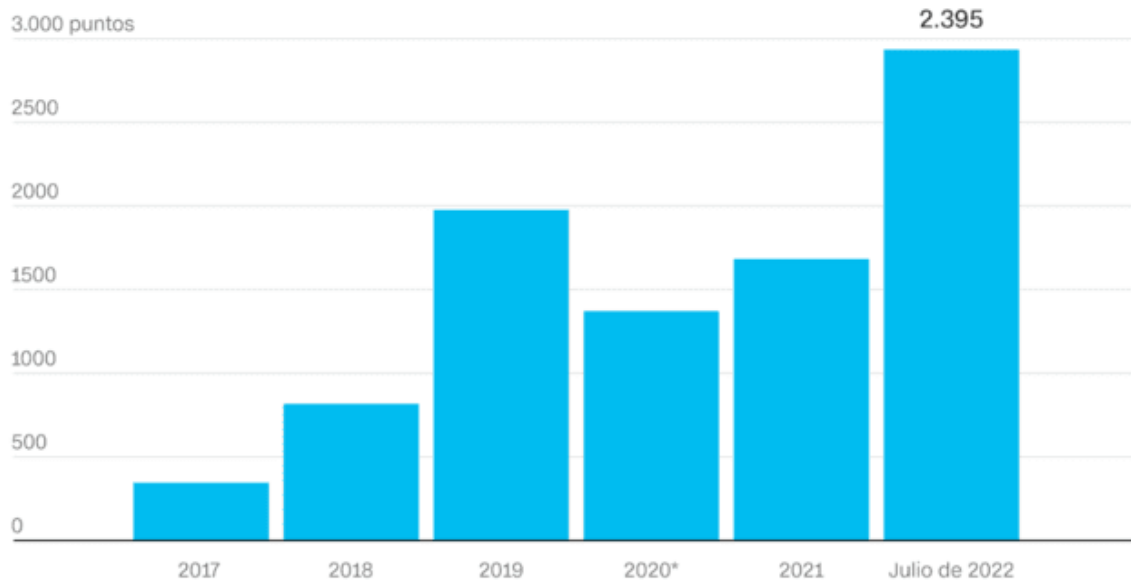
**Figure 6: Annual inflation expectancies – CPI General level (var. % i.I.)**



**Source: REM – BCRA (November 2022)**

Another significant issue is the distrust of international markets in the country. According to a study by JP Morgan, Argentina is the third riskiest country to invest in Latin America, only below Venezuela and el Salvador (Infobae, 2022). The bank periodically compiles this index which serves as a benchmark when measuring the total yield of international bonds issued by different governments and evaluates the possibilities of recouping an investment. Recently, the country risk index rose 79 units for Argentina and stood at 2,395 basis points – as shown in figure 7-, a maximum it had never reached. It denotes that the index is now higher than before when Alberto Fernández's Government agreed to restructure debt with private creditors for more than USD 100 billion in September of the same year.

**Figure 7: Argentina country risk**



**Source:** CNN Español (2022). <https://cnnespanol.cnn.com/2022/07/27/crisis-economica-argentina-5-graficas-orix/>

Additionally, to protect domestic production vis-à-vis imports and preserve its foreign exchange reserves, Argentine Government imposed import barriers and regulatory burdens that adversely affect foreign products and services. Importers experience delays or denials of licenses to import intermediate goods and inputs and face strict limitations on their ability to access foreign currency to pay for imported goods or services (International trade administration, 2022). Therefore, in order to continue taking on debt, the country has to pay much higher interest rates than others.

Consequently, in the second part of this chapter, the structural weaknesses of the Argentine governmental system that are still a source of political and macroeconomic instability will be identified.

## 2.2. Discontinuity in the Government's decisions

As mentioned in chapter one, a notable feature of Argentine public policy is its instability: the country continuously struggles with political dysfunction and financial crises. Policy volatility shortens economic and social actors' horizons and reduces policies' effectiveness, leading to less-than-desirable economic and social outcomes (Tommasi, 2010). According to the Fraser Institute's Index of Economic Freedom<sup>23</sup>, as of 2022, Argentina ranked fourth in the world in volatility and 161 over a total of 165 countries in economic freedom. In 2000, it was positioned at number 37 over 165. Nowadays, the country continues to struggle with economic mismanagement and political dysfunction due to the selection of economic policies that often do not survive government changes.

Political polarization is a recurring issue of this instability. The split between the dominant political ideologies, Peronism and radicalism, often led to democratic dysfunction and policy reversals whenever a new administration took power. Eventually, Argentina's rulers changed the economic model every 10 to 15 years: one closes the country, the other opens it up indiscriminately; one imposes controls, the other deregulates everything; one encourages imports, and the other promotes them. For instance, President Fernandez has undone many of his predecessors' policies. Thus, economic problems, such as inflation, have always been challenging to manage, with most of the solutions focusing only on the short-term. (CFR, 2022). After three years of President Mauricio Macri's centre-right Government, polarisation returned during the 2019 election year due to the country's deteriorating economic situation and ongoing financial volatility (BTI, 2022). This time, however, it manifested within the party itself, which split between the moderate and radical wings of Peronism. Hence, the root of the current instability is the weak and divided administration that President Fernandez is heading. Fernandez owes his job to the decision by Cristina Kirchner, Peronism's most powerful figure and representative of the Peronist leftist movement, also known as Kirchnerismo, to pick him as the candidate and to run herself to be his vice-president.

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<sup>23</sup> In an economically free society, the primary role of Government is to protect individuals and their property from aggression by others. 5 According to the Fraser institute, the cornerstones of economic freedom are (1) personal choice, (2) voluntary exchange coordinated by markets, (3) freedom to enter and compete in markets, and (4) protection of persons and their property from aggression by others. In order to receive a high EFW rating, a country must provide secure protection of privately owned property, a legal system that treats all equally, even-handed enforcement of contracts, and a stable monetary environment. It also must keep taxes low, refrain from creating barriers to domestic and international trade and rely more fully on markets rather than government spending and regulation to allocate goods and resources. Available at: <https://www.fraserinstitute.org/studies/economic-freedom>.

At the end of 2021, the coalition started to show signs of tension and disintegration after the problematic handling of the covid-19 pandemic and its strong impact on Argentina's economy. Since then, it has been divided into two factions, neither powerful enough to act unilaterally, but both powerful enough to block the other. The ongoing lack of consensus inside this bipartite Government has undermined efforts to restore the market and public confidence needed to help Argentina find a way out of the crisis. (BTI, 2022). For instance, Ms Kirchner's allies voted against the agreement with the IMF, requiring the Government to rely on the opposition (The Economist, 2022). The result has been paralysis and indecision: a coalition not unified over a big-picture plan to cool inflation and grow the economy makes it harder to find a consensus over a stabilisation plan. Moreover, there is a lack of clarity among the various political and social forces about how to eliminate democratic defects and the importance of institutions and how they should be strengthened, especially concerning the judiciary (BTI, 2022).

In a constant loop, the administration is going through turbulent times and continues to implement cabinet changes to try to control an economic situation on the brink of stagnation. Following a reorganisation of the federal cabinet in the summer of 2022, some critical areas of Alberto Fernández's Government have changed format and names. On July 2 2022, Martin Guzmán, the economy minister, published a seven-page resignation letter in which he suggested that the spats between his superiors had prevented him from doing his job (La Nación, 2022). The ministries of Economy, Productive Development and Agriculture, Livestock and Fisheries, as well as relations with international, bilateral and multilateral lending organisations such as the IMF, were then given under the authority of Sergio Massa, ex-president of the Chamber of Deputies. Sergio Massa's arrival at the new "Super" Ministry of Economy partly averted the possibility of a crisis, but difficulties persist. Mr Massa is essentially in charge of the overall economy and is focused on defeating the main enemy: rising prices. His first challenge is to build confidence in the peso by reducing public spending and boosting foreign reserves (De Marco, 2022). In the immediate future, the iceberg Fernandez and Kirchner are desperately trying to avoid - though not at any price - is the default of the unpayable debt inherited from Macri's administration. Argentina's political leadership will have to strike a difficult balance, implementing IMF-recommended economic adjustments and preserving Central Bank reserves, all while mitigating the social impact of rising inflation, a devalued currency, and the value of the U.S. dollar. Moreover, the country faces a general election in October 2023, which the opposition is widely expected to win.

Putting together an economic plan when the Government leaves in a year is very difficult, even more, when there is no unity to face it. Hence, for the current one, “*the aim is to survive because they do not govern,*” says Luis Tonelli, a political scientist closer to the opposition (The Economist, 2022). Delaying the exchange rate is one of the favourite formulas of any government in the run-up to an election, and 2023 will be no exception. It is a strategy that still has its risks, especially if there is an increase in the exchange rate gap, which remains at high levels, close to 90%. The significant accumulation of peso debt maturities continues to be the main danger the Government will face next year. The electoral uncertainty is a significant obstacle that Massa will have to face to refinance debt, considering that in the months before the primaries, there are millions of maturities of close to USD 3 billion per month (Infobae, 2022).

### **2.3. Short horizon policies and lack of macroeconomic policy consistency**

According to experts, one of the reasons why stabilisation plans in Argentina do not last is that most of the time, they are carried out of the political necessity of last resort and not out of conviction to lower inflation, given their perverse effects on the economy (Cachanosky, 2022). Short opportunistic behaviours of political actors led to short-run projections instead of long-run goals, what Tommasi calls a *short-term profit maximisation strategy* (Tommasi, 2010). “*The various anti-inflationary instruments applied by Argentina only had short-term results. Moreover, the effects of these programmes are becoming shorter and shorter,*” warns economic historian Claudio Bellini (Centenera, 2022).

One of the measures implemented by Fernandez and his Ministry of Economy to prevent a wholesale collapse is the “*precios justos.*” With this policy, the Treasury seeks to decelerate the cost of a basic basket of food and essential goods through the commitment to fixing the prices for four months. One of the objectives of the new price freeze plan is to slow down the upward inertia, but fundamentally that 2022 closes with a percentage increase that is not in three digits. The program -which so far provides for a basket of 1,879 household goods at fixed prices for four months - is already in operation, as well as the application designed for consumers to monitor it. For the companies remaining outside the initiative, it provides a 4% monthly price increase for their products. Resolution 823, published in the Official Gazette of the Argentine Presidency, states that “*the purpose of the program is to guarantee the sale to the final consumer of certain products at a fixed price or a constant and previously agreed variation for a determined term that provides predictability.*”

The program will be extended between November 2022 and February 2023 (Boletín Oficial de la Republica Argentina, 2022). Nevertheless, the country has been here before: *precios justos* is the same measure many administrations repeatedly use when facing inflation; what changes is just how it is called. It was “*precios cuidados*” in 2021, but the same idea was also proposed during the Kirchner administration and again by Peron from 1946 to 1955 (Cachanosky, 2022). The experience of the last century and the most recent one show that price controls are not an effective anti-inflationary policy. Nowadays, Peronism’s penchant for protectionism, subsidies and holding down the exchange rate means that Argentina suffers chronic fiscal deficits and shortages of hard currency (The Economist, 2021). As the Buenos Aires Stock Exchange (2022) affirmed in a press release, there is a diagnostic error in its implementation: “*it considers price rises as the causes of inflation, while instead, they are its consequence.*”<sup>24</sup>. These mechanisms only attack inflation at particular moments, and their sole purpose is to buy time until the time comes to implement concrete measures (BCBA, 2022).

The main weakness of the measure is that it acts belatedly on the consequences of inflation and not on its causes. Thus, the ruling class not only focuses on short-term policies, but these decisions are reused from Government to Government and eventually only serve "to gain time" until the time comes to apply concrete measures. “*There is no economic logic; it is all communicational and political,*” said Federico Sturzenegger, a former Central Bank President (The Economist, 2021). The BCBA affirms that the cause of inflation is the steady and progressive deterioration of the Argentine currency accumulated over the last two decades, not the rising prices. Furthermore, it states that inflation is also becoming a chronic problem due to the lack of a consistent monetary and fiscal policy that can be sustained over time.

Another measure pursued by President Fernández immediately after taking office was to push an emergency fiscal consolidation package through Congress. However, instead of closing Argentina’s massive budget deficit, which is at the heart of many of the country’s problems, the Government reverted to an economic model based on government spending and subsidies to boost domestic consumption (BTI, 2022). Nevertheless, the state’s Treasury must be adjusted to attenuate the fiscal deficit. Reducing some spending variables- wages, pensions, transfers to the provinces or subsidies- is necessary.

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<sup>24</sup>Press release available at: <https://www.labolsa.com.ar/sitio/descargas/La-suba-de-precios-no-es-la-causa-de-la-inflacion-sino-su-consecuencia.pdf>

These have been growing structurally at rates of between 70% and 90% per year and are facing an accelerating inflation rate (BCBA, 2022). Eventually, the Government itself is why Argentina has the highest inflation of any of the world's more significant economies (The Economist, 2021). Hence, the former Government looked more interested in a short-term policy, allowing it to bring citizens on its side.

Argentine President Alberto Fernandez's administration has been implementing several other measures which, regrettably, appear unsuccessful: the left-wing Government has been trying to stabilise both the currency and the economy by restricting or taxing exports of the country's primary commodities — agricultural goods such as soy, meat and wheat, by putting price controls on household goods, enormous subsidies for public transport and energy services and monthly adjustments to minimum wages. However, critics affirm that those protectionist measures have only aggravated Argentina's economic misery (De Marco, 2022). The Argentinian Government is single-minded in its mission to cut wages and keep up the pressure on tax collection, which only fuels a flight of capital that cannot be reversed with help from the IMF. Furthermore, the many tax rules, inflexible labour laws and strict currency controls pose severe barriers to business, with restricted access to capital preventing Argentine entrepreneurs from transforming that potential into greater added value.

To attack inflation, a State needs to have reserves, of which the Central Bank is experiencing a shortage to meet debt payments, and a more or less stable exchange rate, which is also lacking. As of January 2023, gross international reserves stand at USD 37 billion, a low since October 14, 2016, almost six years ago (Centenera, 2022). Meanwhile, strictly liquid reserves are negative, and net reserves are only supported by IMF SDRs - Special Drawing Rights. and gold holdings. Like several of its predecessors, Fernandez's administration finances itself partly by printing money. All this generates inflation, which the government masks with multiple exchange rates, offering cheap dollars for selected imports and discriminating against exports. The second problem is that it shields vested interests—such as uncompetitive industrialists and union barons—who receive unaffordable subsidies and privileges, prompting a chronic fiscal deficit. Treasury has to face maturities in addition to accumulating a selling balance in the official market. On the first day of February 2023, the BCRA had to sell US\$ 42 million after accumulating a balance in the red for the last month of US\$ 190 million (Gabin, 2023). In addition to this, Argentina cancelled a US\$ 650 million principal maturity with the IMF and also paid close to US\$ 700 million in interest to the Fund on Wednesday, implying an interest charge of more than US\$ 2.4 billion this year.

The increase of more than US\$ 700 million in the annual interest bill to the IMF due to the increase in global rates is another stress factor for reserves, which are at their lowest levels since the end of December (Gabin, 2023). In January, the BCRA already lost about US\$ 4.5 billion of its net reserves due to Payments to the IMF, Bond payments, foreign exchange intervention and Bond repurchases. By continuing to issue pesos to support peso bonds, liquid reserves are once again at their lowest levels. At this point, investors on the run would only be able to believe again in the Central Bank only if a concrete economic plan was announced, with spending cuts, especially in politics (Gabin, 2023).

## **2.4. Corruption and insecurity**

As already mentioned, another persistent challenge and one of the reasons why stabilisation plans are so challenging to implement and to make them last in Argentina is the endemic corruption and low levels of public trust. In 2021, the country ranked 96 out of 180 countries on the corruption perception index of Transparency International, falling back 18 positions from 2020 (CFR, 2022). According to Transparency International, the reasons for Argentina's fall in the annual ranking were mainly the situation of those accused of corruption and the Government's relationship with the judiciary. Indeed, corruption scandals are widespread in Argentina. The lack of transparency, weak institutions, and an often ineffective and politicised judicial system undermine the favourable functioning of the administration. Precisely, almost every Government in the past has been deeply infiltrated or at least lapped by inefficiencies and corruption, which has given free rein to tax evasion and capital flight. Those with the closest relationships to local governors tend to prevail in the competitions to become federal judges in the provinces, and cases of abuse by public officials tend not to result in penalties (BTI, 2022).

Corruption is even more robust at the national level. Indeed, several political class members, including former presidents, were indicted. The last national corruption scandal occurred recently in 2022 when Argentina's most powerful politician was found guilty of fraud. On December 6, a Federal Court convicted Cristina Kirchner of defrauding the state on public-works contracts worth \$ 1 billion. The verdict was a six-year jail sentence and permanent disqualification from public office. The Argentine leader has spent 30 years in the public eye, including as a first lady, president and currently as a senator and vice president. During that time, she was investigated on roughly a dozen charges, mainly related to corruption.



However, four cases have been dismissed, and she has been acquitted in two others, with this being the first investigation to make it to trial (Chaves, 2022).

According to a report by the Geopolitical Intelligence Services, the low quality of institutions and the rule of law lead to increased corruption, leading to the programme's consequences: economic stagnation and social exclusion (De Marcos, 2022). Furthermore, a constant failure of the governments is the incapability to keep promises, with the formula illusion-disillusion from which most governments have emerged anything but unscathed. Sure enough, lowering inflation needs credibility. Thus, Mr. Massa's biggest challenge will be rebuilding trust in investors' and citizens' eyes, which will take time, consistent effort, and strong political support. As if that was not enough, decades of high inflation have generated an inertia that is difficult to stop. Inflation expectations have become ingrained in society, and people are sceptical of government and central bank promises. Everyone believes that prices will remain high next year, and no one wants to lose: employers protect themselves by raising the value of their products and trade unions to fight for wage increases equal to or higher than the Consumer Price Index. Opacity in handling public money has affected the quality of Argentina's democracy to the point that the Government is hesitant to go all out against corruption to avoid the economic – and, therefore, electoral – consequences it could cause (De Marco, 2022). Meanwhile, social disenchantment and distrust in the political system continue to grow.

Another potentially corrupted sector is that of public accounts. In recent years, transactions between the public and private sectors have grown exponentially as a result of increased public works and subsidies. In the framework of a State with low-quality of management control like Argentina, this type of linkage generates opportunities for both public and private agents to obtain illegal income through the misuse of State funds. In addition, the use of the discretionality generated by resources such as the Economic Emergency Law and the superpowers of some administrative areas also lay the groundwork for less transparent behaviour in the administration of public accounts (Brodschi et al., 2019). Data collected by D'Alessio IROL and Berensztein (2020), which analyzed the social and political humor of Argentines and their perception on corruption and transparency indicates that, after an improvement towards the end of the century, the perception of corruption and its control worsened significantly. In addition, corruption is seen by Argentine society as one of its main issues of concern, so reforms aimed at reducing or controlling it could have a high level of social acceptance, making them easier to implement and sustain.

## CHAPTER 3

### **Consequences of inflation: impact on daily lives and expectations**

*“The first thing Argentines look at on their phone when they wake up in the morning is the weather and the value of the dollar”.*

(Soledad Zapiola, director of the International Program at Universidad de San Andrés, February 2022)

In Argentina, inflation is not just an economic and political phenomenon. As for being part of everyday life in the country, it has inevitably become a way of living, transforming how people spend, save, and think, being a recurring theme in Argentine conversations. Doubtlessly, inflationary experience is cross-cutting: the commodities' price increase impacts people's pockets, daily orders and time devoted to relationships. The instability and the constant mismatch between income and expenditure also generate uncertainty: in a survey conducted by the School of Interdisciplinary Advanced Social Studies at the University of San Martín, which evaluates the impact of inflation on everyday life <sup>25</sup>, 83% of respondents affirmed they have had to take adjustment measures in the face of inflation, while 69% of the people surveyed believed that they would have moved down in social class in the coming months. Concerns about the future of prices reached 83.8% of Argentines interviewed (IDAES/UNSAM, 2022).

The approval of the IMF economic plan has been a thorny path for Fernández and one with undesirable political and social consequences. Many Argentines were sceptical that the country was ready to take the necessary difficult decisions to curb the inflationary process, and discontent towards the deal was manifested on the streets of Buenos Aires. On the same day of the agreement signing – March 3<sup>rd</sup>, 2022 - thousands of protesters called by left-wing parties gathered in front of Congress with banners reading "*no to the payment of the debt*" and "*the debt is with the people, not the IMF*". In the protesters' view, by signing the deal, the current government recognises a previous debt considered illegitimate, fraudulent, and scandalous (Multisectorial de Derechos Humanos de Paraná, 2022).

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<sup>25</sup> This research worked on a survey of 800 cases in the AMBA conducted in July 2022. The questionnaire asked about domestic adjustment measures in the face of rising prices, the impact of inflation on daily life and family relationships, and future economic prospects, among other issues. From: <http://noticias.unsam.edu.ar/wp-content/uploads/2022/08/CsSocTiempoReal-Inflacion-1.pdf>

In an article published in the newspaper La Nación, economist Ariel Coremberg pointed out that the largest holders of Argentine debt are the Argentines themselves because most of the public debt in pesos is domestic debt, i.e., in the hands of the Argentine people, so any inflationary liquefaction means liquefying their savings, the main source of financing for investment and growth. (Coremberg, 2022). What they demand from the ruling class is, instead, that those who enriched themselves and benefited from the swindling of the people pay for the current crisis, and “*not the working class that urgently needs a salary above the cost of the basic basket of goods*” (Multisectorial de Derechos Humanos de Paraná, 2022). Indeed, the debt phenomenon has a massive influence on the daily problems of Argentinians, having to do with health spending, education spending, and spending on all social services. Malpractice in development and public policy has had inevitable economic and social consequences. Mauricio Macri left the state with debt interest already eating up \$1 out of every \$5 of the national administration's spending (Coremberg, 2022). The recent debt, and precisely the phenomenon of debt interest, is affecting what retirees earn, what teachers earn, what all public administration employees earn, affecting all the potential for growth based on the domestic market. Among the many problems still persistent in Argentine society linked to inflation, we find the lack of quality jobs creation, a fall in the average productivity of labour which deteriorates real wages, and the increasing income gap between the highest and lowest-paid workers (ODSE, 2022). The protests on the streets of the capital and the failed attempt to assassinate Vice President Cristina Fernández de Kirchner by a far-right extremist on September 1 2020, are only the latest and most dramatic expressions of this tense scenario.

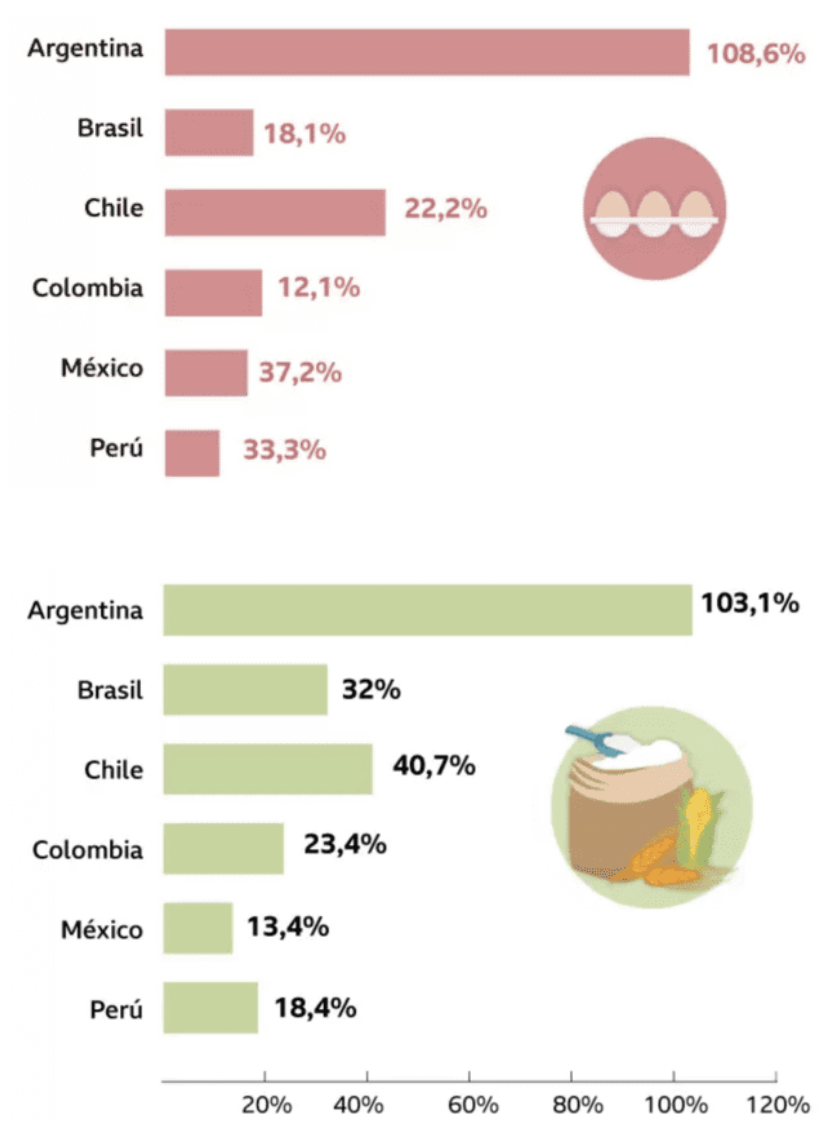
To further comprehend the real tangible impact of Argentine inflation on its citizens, the following graph – figure 8- created by BBC Mundo will be used to show the real and astonishing price increase of two essential commodities in Latin America in a year-time <sup>26</sup>.

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2 This considerable increase in prices is calculated through a basic basket of goods and services that each country prepares according to household consumption. This basket includes hundreds of products and services ranging from spending on health, rent, or education, to the price of fuel and food. BBC Mundo chose eight basic products of mass consumption to take the pulse of the impact of the rise in some prices on people's daily lives.

As can be easily inferred from the graph, in Argentina the price of two elementary and essential products, such as eggs and flour, has skyrocketed compared to the other Latin American countries. In the case of flour, the 103.1% interannual price increase also affected the price of bread and derivatives such as arepas and tortillas, while eggs are the commodity that soared the most, with a 108.6% rise compared to 2021. Rising egg prices are hitting hardest the most vulnerable families who depend on eggs as a meat substitute and the only source of low-cost protein (Barría, 2022).

**Figure 8: yearly percentage increase in egg and flour prices in Latin America (July 2021 – July 2022).**



**Source: BBC Mundo investigation with official data from each national government.**

<https://www.bbc.com/mundo/noticias-62716386>

Not only prices are increasing, but real wages are decreasing. According to data collected by Statista, Argentina has the second lowest minimum wage in dollars in Latin America.

The minimum wage in January was \$65,427 Argentine pesos, which is equivalent to USD 344.02, or USD 182.7 at today's blue dollar rate (Infobae, 2023). The cost of living has reached record levels not seen in decades; thus, a spontaneous question arises: how do citizens manage their lives with such astronomical inflation? Argentine's response to rising prices varies mainly depending on the income revenue. Some buy in bulk and spend as fast as they can to anticipate an increase in prices, but those on a lower income must reduce the quantity and quality of the products they buy and eliminate some spending. The Guardian and The New York Times<sup>27</sup> describe in detail the citizen's unusual relationship with their local currency. Argentines do not trust banks and hardly use credit; there is a culture of consumption because the general feeling is that today's pesos will be worth less tomorrow. Accordingly, one of the long-lasting effects of chronic high inflation is losing the price perception and, thus, the sense of the currency's value. After years of constant price increases, citizens have little idea how much things should cost and what is or should be expensive or cheap (Nicas, Lankes 2022). Therefore, uncertainty about what goods and services are worth — and fear of overspending as a result — are commonplace.

Among the recurrent tactics people use as a buffer to protect themselves from the price rising, the articles highlight stockpiling of nonperishable goods, instalment financing, constant renegotiation of salaries, and taking out loans - provided the interest rate is lower than expected inflation -, holding money in international bank accounts, hiding them in safes or literally under their mattresses (Larsson, 2022). To protect their savings, many people with higher wages will generally change pesos into US dollars- or any currency that devalues less than the peso- as soon as they receive the salary. Businesses also had to adapt to survive. The price distortion, which makes consumers no longer know what things should be worth, leads merchants to also improvise the values of their products according to the cost they estimate they will have to pay at the end of the month to replenish that product (Nicas, Lankes 2022).

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<sup>27</sup> Links to the articles: <https://www.theguardian.com/artanddesign/2022/oct/08/argentina-100-percent-inflation-photo-essay-irina-werning>, <https://www.nytimes.com/2022/08/06/business/inflation-argentina.html>

Furthermore, to gain inflation, some use profitable tactics such as permanent discounts, through which stores can hike prices to then offer markdowns. A supermarket might offer a 40% discount on wine on weekends; a credit card might grant 20% off on clothing on Wednesdays. That leaves Argentines marking the days in the calendar by the discounts that will be available. As follows, grocery shopping in Argentina can be a real full-time job.

Argentines are increasingly frequenting more and more channels -three to four on average- to do their routine shopping: whether is the supermarket, the Chinese store, or the greengrocer. Although diversification of purchases is a global trend, the constant economic crises in Argentina have taken this practice to levels that are not usually seen in other countries. The need to regulate consumption generates the illusion of that people are buying at the best price, while it is very common to find the same item with a 70% -100% price difference between different stores.

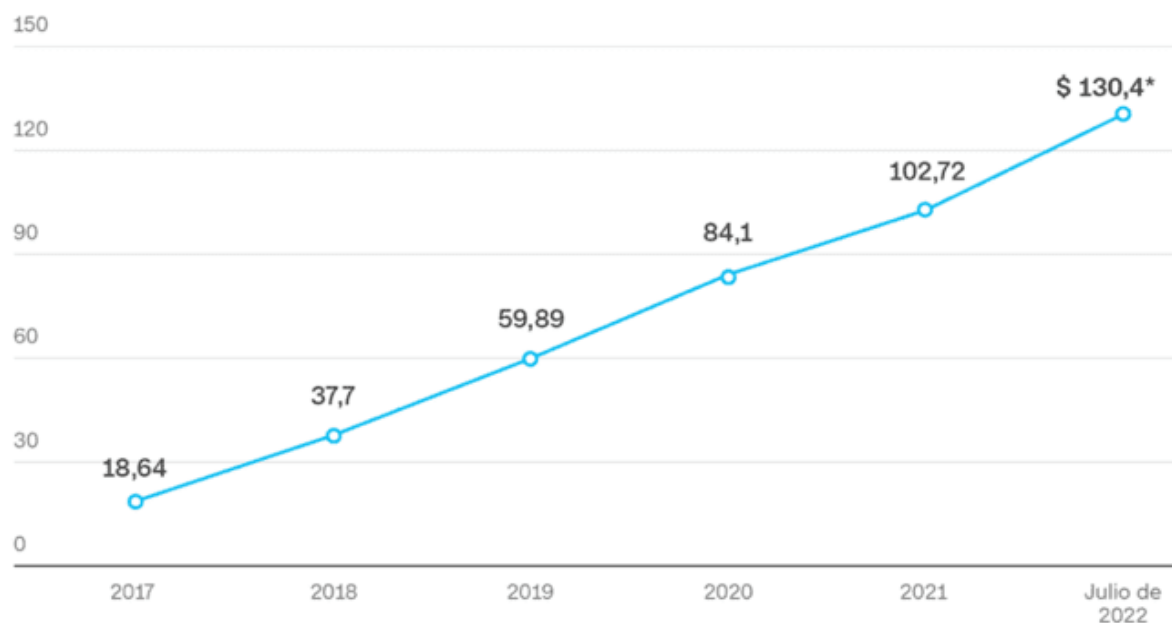
### **3.1. Obsessed with the dollar.**

As the opening quote of the chapter suggests, Argentines have a pathological relation with the dollar, always thinking of their economy in “green bills”. It is a relationship based on a situation of constant political and economic instability that has been going on for centuries. As figure 9 shows, the devaluation of the peso throughout the years has been constantly increasing as a natural consequence of high inflation. For instance, according to a report of La Nación (2022), in 2016 with 1000 pesos Argentines could buy 69.5 sachets of milk. Instead, in May 2022, with the same bill, they could only take 8<sup>28</sup>. In five years the \$1000 bill, the highest denomination banknote, has already lost 90% of its purchasing power. Clearly, the currency has lost one of the attributes required for it to be considered as such: today it is not a store of value. Consequently, it cannot function as a savings instrument, nor can it be used intertemporally as a unit of account. De facto, almost all major purchases in Argentina - land, houses, cars, expensive art - are made with stacks of US currency.

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<sup>28</sup> According to estimates from the Argentinian Central Bank, as of January 30<sup>th</sup>, 2023, the official exchange rate between the two currencies is 1 US dollar = 184.25 Argentinian pesos.  
<https://www.bna.com.ar/Personas>

**Figure 9: peso's currency devaluation at the official exchange rate (data until July 2022).**



**Source: Argentine's Republic Central Bank. Graph by CNN.**  
<https://cnnespanol.cnn.com/2022/07/27/crisis-economica-argentina-5-graficas-orix/>

In the absence of anchors against the disintegration of the peso's value, Argentines save and think in dollars, the currency that has historically been the country's benchmark and store of value. Hence, Austral citizens are used to buying US dollars as a means of protection from devaluation, because saving in pesos will just mean sitting there while watching its value fall. The greater distrust of Argentines in their currency and the accumulation of foreign currency in local bank accounts has been reflected in recent months with a new increase in the number of dollars under the mattress and deposits abroad. According to the data of the National Institute of Statistics and Census (INDEC, 2022) on its balance of payments report, between July and September 2022, the number of banknotes and deposits in foreign accounts by Argentine residents exceeded 246.87 billion dollars. In other words, the trend of foreign currency held by Argentines outside the local financial system reached 60% of the total assets held outside the country (El Cronista, 2022). Because the State cannot produce the necessary dollars to supply the strong demand of its population and its economy -dependent on imported inputs for its production-and to avoid capital flight, governments impose capital controls - "*cepos*" - and fix the price of the dollar. In an attempt to stabilize markets, the Government allows its citizens to buy only up to 200 dollars a month, with 75% taxes on top of that, this way disincentivizing the trading of the other currency (El Cronista, 2022).

Nonetheless, Argentina is stocked with parallel lanes and illegal channels through which the economy circulates, with the buying and selling of foreign currency being the most common. In fact, millions of Argentines use the black market to evade government restrictions on the purchase of U.S. dollars. In Buenos Aires, for instance, Calle Florida in the city centre is where one hears the word “Cambio” – exchange – more often, where people offer to buy dollars at a rate that is roughly double the official one. To contain the outflow of such currencies from the country and preserve the Central Bank's reserves, President Fernandez’s administration has implemented a strategy to devalue the peso by sectors, leaving the country with more than a dozen parallel exchange rates, each with different values and taxes. As Figure 10 shows, so far, seventeen exchange rates are circulating in Argentina's financial market, making the south American country the one with the most exchange rates in the world (El Cronista, 2022). Nevertheless, this measure raises the risk of a potential currency devaluation, which has provoked social tension. The expectation of a devaluation is causing more people to buy dollars, hold exports or speed up imports, exacerbating the Government's greenback drain.

Sergio Massa, the new Superminister, coined the “soy dollar” in September 2022 to counter the trend for soy exports and to rebuild reserves. The initiative guaranteed a fixed above-market peso price against the dollar for soybean grain producers. Eventually, it only served to incentivise the liquidation of soy stocks (De Marco, 2022). In addition, the Government has also established a "tech dollar" for the high-tech industry and the "Coldplay dollar," which refers to the rate for paying admission to international shows – such as the recent run of 10 concerts put on by the British band Coldplay. There is also the "Qatar dollar," named after the host of the World Cup starting on November 20. This exchange rate hit Argentine tourists who use credit cards abroad with a higher tax rate on those purchases (De Marco, 2022). A blue dollar, instead, is a U.S. dollar bought on the streets of Buenos Aires and used for trade operations outside the formal market, which is basically accessible to everyone and is the exchange rate most used by foreigners once they enter the country.



**Figure 10: types of dollars in Argentina with their respective exchange rates**

(Data collected until October 8, 2022)

<b>TYPE OF DOLLAR</b>	<b>EXCHANGE RATE</b>
<b>Dólar mayorista</b>	\$186.36
<b>Dolar blue</b>	\$379.00
<b>Dolar minorista (oficial)</b>	\$185.25
<b>Dolar MEP</b>	\$353.93
<b>Dolar tarjeta qatar</b>	\$338.19
<b>Dolar CCL</b>	\$370.13
<b>Dolar turista</b>	\$339.62
<b>Dolar coldplay</b>	\$240.82
<b>Dolar netflix</b>	\$209.06
<b>Dolar ahorro/solidario</b>	\$318.86
<b>Dolar turistas extranjeros</b>	\$354.00
<b>Dolar CEDEAR</b>	\$295.00
<b>Dolar cripto</b>	\$228.84
<b>Dolar ADR</b>	\$235.00
<b>Dolar lujo</b>	\$373.12
<b>Dolar tecno</b>	Access to up to 70% of the dollars exported at the wholesale exchange rate.
<b>Dolar soja</b>	\$230.00

Source: own table with data collected from El Cronista and BCNA

<https://www.cronista.com/finanzas-mercados/cuantos-tipos-de-dolar-hay-en-argentina-asi-queda-la-lista-completa-de-todas-las-cotizaciones/>

In a country with an exchange rate gap of this magnitude, any company or individual will try to use all possible devices to buy dollars at the official exchange rate and sell them at parallel exchange rates. Without significantly reducing it, it will be impossible to accumulate international reserves. Hence, the economic policy objective should be to lower the gap, improve the real exchange rate and start rebuilding reserves. This should include a significant reduction of the fiscal deficit and monetary emission, a significant increase in the interest rate, perhaps a realignment of the official dollar, and making all the necessary efforts to comply with the IMF program. However, what is surprising is that, until now, no comprehensive plan is being implemented concerning this issue.

Instead, as of today - February 2023-, the economy is held together by a battery of price and exchange controls. Again, these short-term measures to replenish the country's reserves and to maintain debt repayment schedules, only increase inflation and reduce certainty, predictability and stability. According to private estimates, 2022 has closed with an inflation rate of 94.8%, and in the "black market", the peso is worth less than a quarter of its value three years ago (Molina, 2023) Regarding the foreign exchange market, the new Minister Massa announced that his objective "*is to build a path that will lead Argentina to a regime of exchange rate normalisation and access to the capital market*" (The Economist, 2022). Nonetheless, by now, the possibilities to unify Argentina's foreign exchange market are scarce. The exchange rate split is a symptom of the current disorder, not the disease. It is thus challenging to unify if the fiscal disorder, which is the disease, is not solved. To unify the exchange market, confidence must first be created, and to regain confidence in the peso, a credible policy to reorganise the state is needed. This means balancing the public accounts, but not with traditional recipes of wage and pension delays, delayed payments to suppliers or the creation of new taxes, but with tax simplification and functionalization of the three levels of Government - nation, provinces and municipalities (Molina, 2023).

### **3.2. Poverty and inequality**

Leonardo Gasparini, in his book *Desiguales* (2022), argues that while inequality in Latin America is lower today than it was 30 years ago, in Argentina it remains similar. Income poverty in the region has fallen since the beginning of the 1990s, but in THE Latin American country, the current figures are higher than they were at that time. Few countries in the world have not made progress against income poverty in the last decades, and even fewer have suffered increases. Constant inflation and economic volatility have created two different Argentinas, or better, two different faces of the same country. Although inflation affects the lives of all Argentines, the impact is very different depending on their social status: those who have salaries that increase at the same rate as inflation live one reality, and the vast majority, who lose purchasing power month by month, live another.

The former group is largely responsible for the consumption boom in Argentina, a phenomenon that surprises many, who wonder how it is possible that restaurants are jammed and shopping malls are always full in the midst of the economic crisis. Or that the British band Coldplay has managed to sell out ten concerts in the huge River Plate stadium, an absolute record for this country.

The explanation is that most of the society with high or medium-high incomes, and even people with more modest incomes, are choosing to consume rather than save (Smink, 2022). As described in the previous subchapter, with limited access to the buying of dollars, many opt instead to buy durable goods to maintain the value of their money or spend it on activities that give them pleasure, such as going out to eat, seeing a show or travelling. “*It is strange because you are poorer in real terms, but you are trying to spend all the time to protect yourself from inflation*”, says Irina Werning in an article published by The Guardian (Larsson, 2022). This has allowed Argentina to maintain a good level of economic activity, with a growth of over 6% in the first half of the year and low unemployment at 7% (Smink, 2022).

But on the opposite side of this opulent Argentina, millions of people cannot make ends meet and are increasingly having to tighten their expenses, even cutting back on basic products (Smink, 2022). The result is that in the wealthier areas of the Argentine capital, construction continues apace. The fanciest barrio of Buenos Aires, Palermo, has restaurants and bars on every road, with some of the most famous fully booked for the incoming months. In the poorest neighbourhoods, instead, people collect scrap metal or recyclables from the bins to sell – the *cartoneros*-, pool their money to buy food and trade used goods to avoid using pesos. Many, still, have more than one job or need to work overtime to get through the month. Argentina's poor typically do not have jobs with automatic wage increases and certainly do not own extra money to buy U.S. dollars. That means they earn a few pesos, while everything around them becomes much, much more expensive. In short, what is happening is that the most vulnerable people get more vulnerable, and the richest people get richer (Nicas, Lankes 2022).

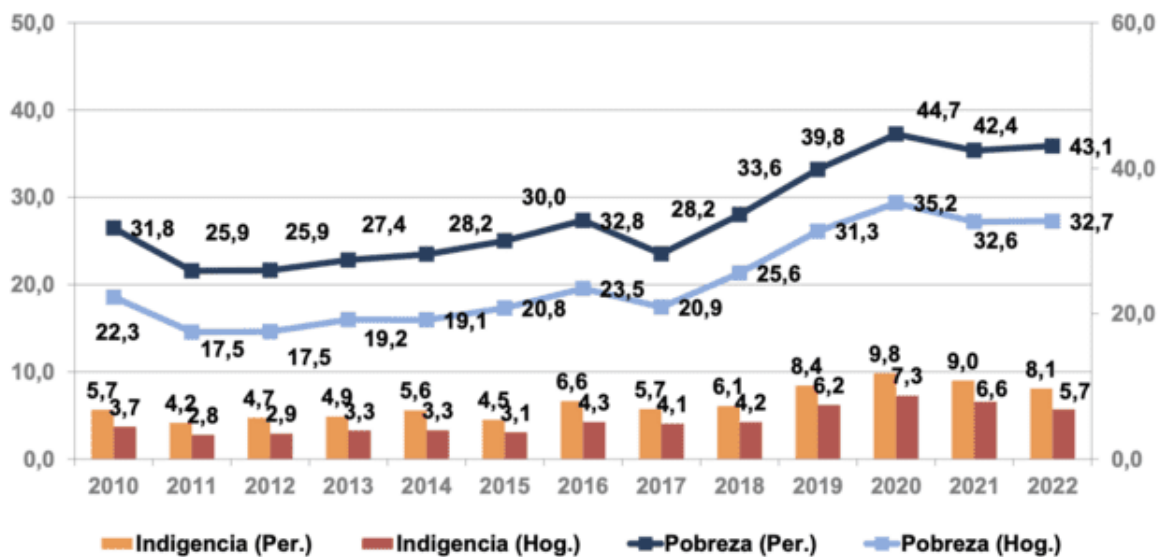
The notions of poverty and indigence used by INDEC for calculating incidence correspond to the indirect measurement method of the *poverty line*<sup>29</sup>. The method, also called the *income approach*, consists of calculating the minimum income, or poverty line, above which all basic needs are satisfied and identifying those households or individuals whose income is below this line. This imaginary line includes not only minimum food consumption but also other basic non-food consumption and represents the value of all goods and services considered necessary for the household to satisfy basic needs (INDEC, 2022).

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<sup>29</sup> [https://www.indec.gov.ar/ftp/cuadros/sociedad/EPH\\_metodologia\\_22\\_pobreza.pdf](https://www.indec.gov.ar/ftp/cuadros/sociedad/EPH_metodologia_22_pobreza.pdf)

According to data published by the Observatory of the Argentine Social Debt (ODSA, 2022) – see figure 11-, more than 40% of the urban population is reportedly affected by fundamental economic deprivation, with monetary and non-monetary poverty affecting about 4 out of 10 people: more than 17 million people. Indigent people represent, instead, 8.1% of the urban population. According to economist Jorge Colina, inflation increases poverty when the prices of necessary goods and services are above the incomes of those considered poor (Escobar, 2022).

**Figure 11: evolution of indigence and urban poverty tasks in Argentina. Percentage of population (Per.) and households (Hog.).**



Source: Observatorio de la Deuda Social Argentina, UCA, 2022.

INDEC reported that the basic food basket increased by 4.5% in December 2022, meaning that a family with two children needed an income of \$152.15 that month in order not to fall below the poverty line. In the same way, that household needed \$67.187 to not be considered indigent. The statistical agency's report showed that in annual terms, the total basic food basket had an increase of 100.3% in 2022, in the context of a general inflation of 94.8% in the same period (Infobae, 2023). The indigence line, on the other hand, had an increase of 103.8% last year. Today, the minimum wage does not cover half of a basic food basket, as the food and essential goods required by a typical family of four members are known. In other words, even a couple with a registered job does not have a guaranteed minimum income to avoid falling into poverty.

In 10 years, monetary poverty has grown by more than 15 percentage points. These *new poor* are mainly represented by the working classes of the middle and popular sectors, the first who saw their purchasing power affected by inflation (ODSA, 2022). In fact, 17.7% of formal workers are below the poverty line due to the acceleration of inflation. This figure comes from the CIFRA-CTA study, which analyzes the incidence of poverty among employees based on the Permanent Household Survey - EPH - of the INDEC (Escobar, 2022). Basically, almost one in five wage earners is poor, and a third of all employed Argentines live in poverty, according to research conducted in 2021 by the Center for Distributive, Labor and Social Studies – Cedlas- of the National University of La Plata and the Observatory of the Argentine Social Debt of the Argentine Catholic University.

The second most affected sector is represented by the retired worker, who saw how the pace of price increases is greater and faster than income increases. They are followed by the most vulnerable: the unemployed and the youth. Child poverty affected 61.6%, or 5.54 million children under 17 years of age, of whom 1.38 million are indigent (INDEC, 2022). In terms of age, children and adolescents aged 0-17 are the most affected. The winners, on the other hand, are concentrated in 2 actors: foreign companies and the political opposition (IDEAS/UNSAM, 2022). According to ODSA estimates (ODSA, 2022) cycle after cycle, Argentine society has been accumulating chronic and persistent structural poverty<sup>30</sup>, with growing inequality gaps that inhibit growth and put-up barriers to social and political agreements. De facto, Argentine society has accumulated several decades of failed policies in terms of sustained growth and income distribution, which have led to a significant deterioration in human development capacities and social integration.

With monetary poverty increasing in Argentina in both relative and absolute terms, social deterioration is evident. The Observatory of Social Debt in Argentina's report accuses that the structural cause of poverty in the country has been and continues to be the lack of balanced growth between dynamic sectors and traditional sectors together with the incapacity to integrate the labour force as a whole (ODSA, 2022). The result is a sustained increase in the "absolute surplus" of the population. Argentina's growth has been based mainly on domestic consumption, and much less, or very little, on exports and investment.

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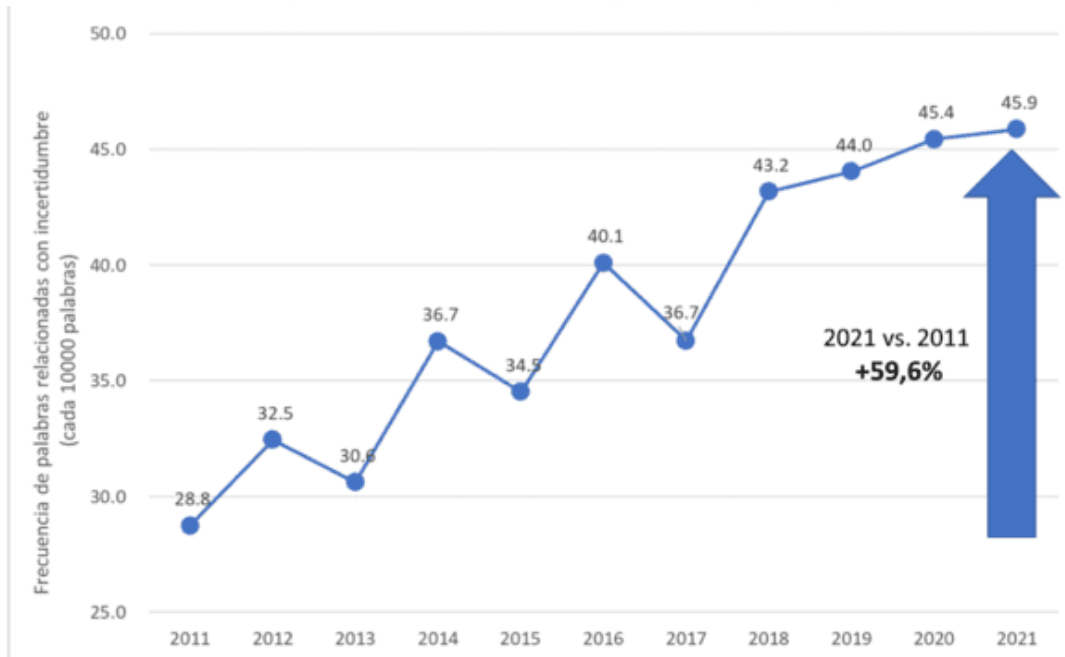
<sup>30</sup> Structural poverty = persistent defect in the economic structure, permanent situation of millions of Argentines who for a long time have had no access to goods and services and, above all, with very little prospect for the future.

The consumption mechanism prevents the collapse of the social system, but its systemic abuse is the cause of continuous fiscal imbalances or cycles of internal or external indebtedness. All of this, sooner or later, leads to inflation, monetary instability, lower investment, greater labour informality and an increase in poverty and social inequality (ODSA, 2022). Although external restrictions have not ceased to operate, the sacrifice of investment or exports for domestic consumption, to avoid greater social hardship, has become the cause of chronic and structural hardship. The result has been the formation of an increasingly heterogeneous economy at the productive level, but also in social, occupational and distributive terms in terms of savings capacity and welfare, both at the level of the social and regional structure.

One of the main direct effects of inflation on the population is growing uncertainty. Undoubtedly, the Argentine economy has been undergoing high levels of uncertainty, especially in the last years. In other words, families, companies and investors are experiencing serious difficulties when projecting future economic conditions. The economic-occupational crisis has an impact on the mental health of people in the middle strata, with greater psychological distress, reaching historic values (ODSA, 2022). These difficulties are relevant since high levels of uncertainty harm activity levels, investment decisions and the functioning of the financial system. The Center for Economic and Business Analytics of the Catholic University of Argentina (UCA, 2022) has constructed an indicator to provide valuable information on the trajectory of economic sentiment and its link to changing economic conditions. The index, called Economic Uncertainty Index, describes the economic opinions transmitted by Argentine users on the social network Twitter. The proposed methodology, which uses natural language processing tools, is transparent and easy to interpret.

The main finding of the research is that increased economic uncertainty slows economic growth and tends to increase unemployment. Taking a long-term perspective, the index provides a disturbing representation of the economy's trajectory over the last few years - see Figure 12. The value of the index in 2011 was 28.8. That is, out of every 10,000 words, 28.8 were associated with uncertainty. After an upward trend, in 2021, the value of the indicator was 45.9. In other words, there was an increase of 59.6% (UCA, 2022). The index provides novel descriptions that, properly interpreted, can improve our understanding of the ever-changing trajectory of the Argentine economy.

**Figure 12: Economic Uncertainty Index UCA – annual percentage.**  
 (On the Y axis: frequency of the words related to uncertainty - every 10000 words).



**Source: Centro de Analítica Económica y Empresarial, Universidad Católica de Argentina (2022)**

The systematic and lasting reduction of poverty is one of the main challenges facing Argentina today, and what the Argentine State has yet not been able to achieve. The difficulties in combating poverty in the country are not due to insufficient public spending, given that Argentina is the second country in Latin America that invests the most in social protection. Accordingly, Argentina has 141 programs of state aid, and 45% of its population depends on State assistance (UCA, 2022). On the one hand, there are public policies aimed at sustaining and lowering indigence and guaranteeing access to food, such as the Alimentar Card, bonuses, and income reinforcements for the most vulnerable population. (Escobar, 2022).

On the other hand, there is a regressive distribution of income, so from that point of view, more proactive policies are needed to improve wages. According to a study conducted by the CIAS University Institute (Schipani et al, 2021), three main findings have been identified in the evolution of public investment in the fight against poverty in Argentina. First, investment in non-contributory pensions is greater than all other social spendings as a whole. This implies that spending on poor elderly far exceeds spending on poor children. Second, programs for cooperatives for informal workers have become a central element of social policy as of 2016.

Finally, the State invests -within the framework of direct and urgent social assistance- more and more in policies aimed at the popular economy , such as cooperatives or ventures, and less and less in policies that focus on the formal economy and seek to insert the most vulnerable sectors into formal employment (Schipani et al, 2021).

With the conditions imposed by the IMF, debt maturities, and the international situation that boosts the prices of raw materials, it looks like the deterioration of the economic situation is going to continue. The only issue that may alleviate the situation a little is that being 2023 an election year, the Government will increase social aid, but in general terms, many believe that it is going to be a difficult year because the economy is cooling down. Inflation is easing but at the cost of low consumption (Escobar, 2022). Neither economic liberalisation policies nor nor improvised state interventionism with its social assistance policies are sufficient on their own to promote a balanced development model in the productive and social spheres, with the capacity to include productive agents, labour sectors and the state in the same political-economic project, integrating the excluded into the social model both socially and in terms of employment (ODSE, 2022). It would instead have to envision a model – as outlined by the Economic Commission for Latin America and the Caribbean – that sets clear benchmarks for “*productive growth with equity*” (BTI, 2022): It is impossible to expect progress on inequality and poverty in the context of recurrent crises and high inflation.

### **3.3 Is there a way out? Policy recommendations**

Having analyzed the problem, it is time to look at the possible solutions. As already pointed, Argentina is in the middle of a dramatic financial crisis. The one-million-dollar question now is how to definitely leave inflation behind, not only to solve the current crisis but also to build a more stable Argentina in which inflation will not be cyclical anymore. Some say that every crisis opens the opportunity for a new beginning, and the 2023 elections – which will define who will be in charge of the next government - may represent this opportunity.

For nearly a century, the economic transformation has been stagnant and locked in a constant mode of improvisation and experimentation. Government decisions oscillated between crude and distorted (neo)liberal reforms and generally populist state interventionism, the latter of which ended in unsustainable debt that then again required neoliberal-style adjustments (BTI, 2022). In other words, Argentina is still unaware of which path to choose, and its government is unable to discuss its dilemmas without ending up in the familiar mutual recriminations. Consequently, it has been unable to find sustainable solutions.



Despite President Fernandez's efforts to engage the other political parties and create some consensus on fundamental issues, his attempts to build bridges within the coalition, work with other moderate political forces and include the radical Peronists had largely failed (BTI, 2022). To reiterate, the central cleavage in Argentina is socioeconomic with political connotations and characterized by a high degree of polarization between and inside the parties. The issue, as vast and widespread as it is, requires a multifaceted response because no univocal solutions can be found to finally get rid of inflation. Notwithstanding, the way forward surely calls for cooperation and multilateralism among politicians, institutions and the businesses. Finally, after a careful analysis of various economists' and politicians' opinions, the last part of this chapter will focus on the search for a way out of this economic and political impasse and the possibility to find a successful stabilization plan. Specifically, based on the findings, three popular proposals will be outlined and discussed.

- **Dollarize the economy**

With the 2023 presidential elections approaching, outsider political figures such as libertarian Javier Milei have emerged as contenders, bringing with them ideas for radical solutions to inflation, such as the dollarization of the Argentine economy. The official proposal was launched through a bill on March 28, 2022, by the opposition deputy of the right-wing coalition Juntos por el Cambio, Luis Alejandro Cacace (Sputnik, 2022). Specifically, the bill proposed to establish the US dollar as a legal tender of the Argentine Republic, meaning it will come to fulfil the three basic characteristics of currency for the country: unit of account, means of payment and store of value. Solving inflation by exchanging the Argentine peso for the dollar or adopting a bi-currency system are scenarios that seemed unthinkable a couple of years ago. This debate over the possibility of dollarization and its feasibility seemed to have been buried with the collapse of the neoliberal governments of the 1990s but has taken back centre stage in the last few months. Countries in Central America like Panama, Ecuador and Costa Rica, for instance, have already established the dollar as a mandatory means of payment. Nevertheless, these countries have completely different economies from Argentina's one, and the dollarization process has not always gone smoothly, nor has it been implemented without any issues<sup>31</sup>.

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<sup>31</sup> For instance, in 2022 Ecuador defaulted, and despite being a dollarized economy, it is in serious difficulties. In other words, dollarization does not guarantee success.

This vision has become more and more popular, generating deep divisions between experts, economists, and politicians: those who see it as a solution to the problem of inflation and those, on the other hand, who describe it as the definite destruction of the austral country's economy. Concerning the advantages that sustain and defend a reform of this category, taking an external currency as legal tender, and preventing the Central Bank from issuing currency, would eliminate the possibility of inflation and achieve price stability. The advocates of dollarization state this process will allow greater integration of Argentina into the world market, a reduction of transaction costs, eliminate a series of restrictions that operate in the economy, and positively affect the real wages and purchasing power of Argentines (Sputnik, 2022). Furthermore, some argue the Argentine economy is already going through a process of informal dollarization due to the deterioration in the purchasing power of the local currency, as many products and services are already quoted in foreign currency: rents, car prices or household goods. Thus, officially dollarizing the economy would only be the next logical and consequential step (Marra, 2020).

Conversely, for some, the solution seems to be worse than the problem. Former Minister of Economy Martín Guzmán defined the adoption of the dollar as legal currency a delirium, affirming it would mean accepting the formal defeat of Argentina as a country (BaeNegocios, 2022). De facto, dollarization would mean the Central Bank will lose control over its currency and use its monetary policy, reducing the possible margin of action of the States. Indeed, for Argentina, it would be much harder to cushion external shocks, and this would negatively affect employment and growth. In a dollarized economy, with no monetary policy capacity, periods of recession are paid for with adjustments in the level of activity: wages or jobs, which has an impact on consumption and, consequently, on GDP. For instance, with rigid downward prices, an unfavourable variation in the terms of trade would generate a quantity adjustment which translates into higher unemployment and greater recession (BaeNegocios, 2022).

Without dwelling too much on the implementation of this measure, which deserves separate research, it should, however, be reiterated that today there are still not the political conditions for something of that nature to occur. Also, dollarization per se does not lead anywhere, if is not implemented together with other measures first, such as putting the macroeconomy and especially the fiscal deficit in order. *“If they were to put a monetary straitjacket on the country by dollarizing the economy, this would not solve the fiscal deficit issue, nor would it solve the debt issue”*, warns economist Steve Hanke (Barría, 2020).

- **The necessity of structural reforms**

Among various, Rodriguez Larreta, Argentine economist and head of government of Buenos Aires, claims that Argentina needs to implement far-reaching structural reforms to be able to get out of its cyclical impasse and achieve a stronger and more inclusive economy. This view emphasizes the imperative to build an agenda of structural transformations to stabilise the macroeconomy, reactivate investment and make it possible to create more and better jobs. Specifically, supporters of this solution claim that economic reform is needed to lift structural barriers that impede Argentina's export potential and to facilitate doing business by reducing restrictions and obstacles (Georgetown American Institute, 2023). Reducing inflation, removing export barriers and providing a stable investment framework are considered key aspects for the country to attract foreign investment. Accordingly, these investments are necessary if Argentina is to meet growing demand in sectors where it already has a competitive advantage.

Another essential point to correct the fiscal imbalance is the creation of a new redistributive pact that integrates the right to decent work and social security. A labour reform and a deeper income policy would allow making the labour market more flexible and generate much more employment. This way, under new political and social agreements, the ruling class could offer an agenda of transformations and policies for growth, employment and economic, social and human capital investment (ODSE, 2022). What is lacking, is a sustainable model based on the creation of genuine jobs. Some of these reforms advocated are already envisaged in the deal with the IMF, including the liberalization of key areas of the economy, such as finance, trade, product markets and labour deregulation. Nevertheless, the achievement still looks quite far away from being realized.

That said, all these structural reforms cannot be achieved without first structurally reforming the public sector. A long-term sustainable fiscal adjustment via a reduction in public spending is required, and not, as the international agency has been advocating until now, through tax increases that would further stifle the private sector. As extensively discussed in the second chapter, due to Argentina's almost unending cycles of economic crisis, there has been a general tendency by political and social actors to reach agreements through short-term deals. This has long undermined the ability of public institutions to enforce a long-term commitment to reform that extends beyond individual electoral cycles (BTI, 2022).

What Argentina needs now, is more incentives to invest in the development of long-term policymaking capabilities, and not short-term adjustments.

As a result of constant misguided economic policies, inflation has become a chronic and structural problem whose solution does not lie in measures that function as temporary "patches" but in initiating as soon as possible a comprehensive reorganisation of the public sector and balancing the public accounts. It is worth insisting that the recurrent failures of stabilisation plans in Argentina are because there is no spirit of structural reform, but rather to temporarily overcome the political problem generated by inflation and then return to the ways of spending, fiscal deficit and populism. Indeed, recovery will depend on the political viability of the necessary economic reforms.

- ***“Un cambio de rumbo”*: a political turnaround**

In the past, Argentina has been unable to sustain reform agendas because of the country's polarization. Chapter two outlined how, still now, part of the problem is the politicians' inability to discuss and agree on central economic and social issues, and thus sustain an economic policy course over time. What has been argued throughout this paper is that the main difficulty of Argentina's impasse is political, not economic. Hence, the solution closer to the author's point of view is that today, the economic problem requires a political turnaround.

Consolidating democracy should be one of Argentina's development goals. Alberto Fernández tried to pursue a strategy of moderation, bridge building and ad hoc alliances, but repeatedly encountered obstacles. Several of his policies were partly blocked in Congress or lacked the necessary majorities, vetoed or obstructed by his vice president and her radical followers in the Government and Congress. This group included a proposal for higher taxes on agricultural exports; attempts to close the gap between the official and free-market exchange rates; and efforts to address the economic and social impact of the COVID-19 pandemic (BTI, 2022). This eventually forced him to cut back on his plans, postpone decisions, subordinate himself to the radical Peronist left wing under Cristina Fernández's leadership, adopt a more radical position and even capitulate. Moreover, Fernández had better relations than his predecessor with organized labour, but a more complicated relationship with companies, especially in the export-oriented sector (BTI, 2022). What the current government is lacking, is leadership with the capacity for political management and a patriotic commitment to building strategic consensus solutions (ODSE, 2022).

Economic policy in Argentina and everywhere else in the world is subordinate to politics. The resignation of Guzmán as Minister of Economy was not an isolated event but is proof of the emergence of a very deep political crisis in which different groups within the government do not agree on the course to follow to stabilize the economy.

Chapter two also demonstrated that another major obstacle to Argentine success lies in the relatively low quality of government institutions, which has undermined the government's strategic capacity for long-term planning (BTI, 2022). “*Wanting to cure poverty or inflation without first repairing the system is like wanting to cure a fever with ice*”, affirms Diego Berazategui, Argentine and Australian citizen, and Director of the energy consulting firm Akrom (Sabat, 2022). Tommasi (2010) argues that political-institutional actors such as Congress have often tried to make the president's life as difficult as possible through blockages and highly uncooperative behaviors. Nevertheless, this strategy is true also the other way around, where politicians exchange votes for cash in order to obtain major consensus inside the Congress. In either case, these behaviours reflect the absence of incentives to cooperate intertemporally in the construction of effective public policies. Argentina has been impoverished for decades because politicians have taken over the institutions and wasted taxpayers' money. With professionally managed institutions, independent of the power of the day, Argentina would be a prosperous country. Certainly, an effective measure would be to give more space to the national Congress to elaborate public policies and give less discretion to the executive.

Another issue that needs to be addressed is the political interference with the judiciary, which is detrimental to the rule of law and frustrates any attempt to govern the country in the long term. This would imply a firm conviction to end political interference in the judiciary and provide for a more neutral framework supporting a functioning rule of law. This should include improved – and publicly scrutinized – procedures for training and appointing judges. Finally, the judiciary must operate as a comptroller of the acts of other branches of government and play a strong enforcement role in political or policy agreements. In turn, only the presence of a reliable rule of law will provide incentives to invest sustainably or repatriate funds deposited abroad. (BTI, 2022).

As former minister of economy Guzmán declared: “*broad political support is needed because the economy works in a context of power*” (LAVOZ, 2022). Accordingly, to build political support is imperative to work over the government's credibility.

Nonetheless, a significant problem of the Argentine ruling class - apart from its lack of ability to create long-term political and economic strategies - is its lack of credibility. Sure enough, lowering inflation also needs credibility. Mr Massa's biggest challenge will be thus rebuilding this credibility in investors' and citizens' eyes, which will take time, consistent effort, and strong political support, especially given the persistent differences over the choices of economic policies within the governing coalition (De Marco, 2022). If Argentina wants to punish corruption and stop opacity, more social pressure must be generated. Citizens must show that fighting corruption will determine their vote and force politicians to push and reform laws, give more tools and budget to prosecutors and punish corrupt business people. The presidential elections in October 2023 offer an unparalleled opportunity to demand an end to impunity: they will be able to vote for senators, deputies and presidential candidates who promise to pursue bribery to the end.

Despite the difficult situation the country is facing today, the football team entering the World Cup victory has, at least for a moment, attenuated the general feeling of frustration and failure that the country was perceiving in the past years. With the winning, new hope and a sense of euphoria arrived in the cities — a feeling many in the country, marked by seemingly permanent economic crises and galloping currency devaluation, had not known for a long time. Although it is unlikely that the victory as such will make a tangible impact on the economic situation of the country and its people, of which nearly 40% live below the poverty line, the rediscovered hope and pride come at a moment when a new political and economic perspective for Argentina could be growing. The hope is that this year's victory will provide at least a good moral lift for a country in dire need of one (Von Den Burchard, 2023).

## Conclusion

Having reached the conclusion of this research work, it is now possible to trace the connotative aspects of Argentina's exceptionalism. After a careful historical analysis, it had been possible to denote that the country, despite being born with great potential in agriculture, renewable energy, manufacturing, and innovative services in high-tech industries, never managed to reach developing levels such as that of Australia or other promising countries. Yet, the goal of this research work was to show that Argentina's cyclical economic breakdowns and high inflation rates are not accidental, but are the historical result of a series of mistakes and missteps taken over and over again together with a weak structure of the institutional system.

The main argument of the thesis is that the instability of public policies, their lack of consistency, the excessive discretion given to the executive and the lack of political representativeness, together with considerable corruption, have contributed to the undesirable economic and social results we keep seeing. Still today, the country remains trapped in a persistent structural stagnation that has been mutually reinforced by political, economic, social and international forces. It is in itself a more far-reaching problem related to the specific political culture that is at the root of the country's transformation impasse. The Achilles' heel of Argentine democracy has for decades remained the rule of law, particularly an independent and truly functioning judiciary that can serve as an arbiter in the often fiercely fought political games, together with a weak and divided administration.

The incapability to create long-term economics plans, together with bad and corrupted governance, fuelled inflation and increased citizens' unease and uncertainty. For Argentines, today nothing is cheap. Or better, what is cheap is the salary. Making ends meet every month is more than just seeing time passing by, it is having to face the uncertainty of not knowing if the money will be enough to buy the same thing one bought last month, and knowing that even with the salary adjustments, the loss of purchasing power worsens daily. Argentines do not earn in proportion to what everything goes for, because wages are not increasing based on real inflation. In the third quarter of 2022, the unemployment rate – people currently not in employment, available for work and actively seeking employment, as a proportion of the economically active population - stood at 7.1%<sup>32</sup>.

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<sup>32</sup>INDEC data, available at: <https://www.indec.gob.ar/indec/web/Nivel4-Tema-4-31-58>

That said, citizens have also no incentive to save. Young people are aware that under the current conditions, they cannot even think about buying a house or a car. The financial system is weakened, there is no fixed income and therefore long-term investments are not sustainable. Putting money in the bank is making it lose its value and the only way for youths to feel that their work is worthwhile is to consume, go out and spend what they have left of the month in restaurants, clubs and shopping malls. Unfortunately, young people have no projections for their future.

Argentina has not only a debt with the IMF, but with its youth and their education. Indeed, the new generations are going to have to pay for the mistakes made by the previous ones. According to estimates by the NGO *Argentinos por la Educación*<sup>33</sup>, in 15 years the Argentine State accumulated a debt of \$3.4 trillion with education, equivalent to 5% of the GDP in 2020, i.e., approximately the educational investment in one year. In 2020, the debt owed to education amounted to ARS\$ 570 billion (Narodowski et. Al, 2023). Furthermore, even in the years in which the normatively stipulated percentage for education spending was met, the educational system posed problems of coverage, efficiency and quality.

Nowadays, it is no longer possible to adapt to the parameters of the current regime, first because the financial conditions for this are no longer in place. Argentina is therefore faced with the challenge of redefining its economic policy and at the same time overcoming the deep legitimacy deficit of the political system - and this is because of very narrow margins of action towards the outside world and, internally, blockages to the structural reform of the political system (BTI, 2022).

The ultimate goal of this work is to prove that inflation in Argentina is essentially a political problem, rather than just an economic one. The great deception to Argentines is the perseverance of the mistakes, which lies in a selfish and corrupt political class that adopts measures that continue to impoverish the quality of life of the people. Although there is not a single promising solution to overcome the crisis, if Argentina wants to change, structural reforms and a political turnaround are needed. In primis, consolidate democracy and the rule of law, finding an agreement between the different political voices.

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<sup>33</sup> The data are from the report "*Lo prometido es deuda (educativa). La impotencia para alcanzar el 6% del PBI para educación*", elaborated by the Observatorio de Argentinos por la Educación, prepared by Mariano Narodowski (Universidad Torcuato Di Tella), and Gabriela Catri and Martín Nistal (Observatorio de Argentinos por la Educación).



It is important to make Congress independent in the elaboration of public policies and to remove the excessive discretion of the executive branch to promote policies unilaterally. Secondly, a structural economic reform is needed. A long-term sustainable fiscal adjustment, the creation of a new redistributive pact that integrates the right to decent work and social security, a labor reform are only few examples of what the next government should try to put into place.

The biggest challenge the next administration will have to face, however, will be to regain credibility among its citizens. The new presidential elections, the end of the pandemic and the World Cup victory may bring a new breath of hope in the country. Nevertheless, “this time is going to be different” has often proved to be the four most dangerous words in the world of economics and finance.

Living in Buenos Aires for five months in 2022 as a foreign university student, I got to experience in first person the consequences and repercussions of inflation on daily life. Nevertheless, my economic situation could have never been comparable to the one of Argentines, being in a privileged position as a European citizen. For my participation in the exchange program, I received a scholarship of €2700 from MIUR and a €1250 scholarship from LUISS, which amounted to a total of €3950. Divided by the 5 months I had lived in the country, I was “earning” €790 a month, which is equivalent to ARS 162.030,16 at the official exchange rate, more than double the Argentine minimum salary. If exchanged at the blue market, it would have been equivalent to ARS 311.449,6, five times bigger than the minimum salary and double the salary of a qualified doctor. As if this was not enough, earning in euros allowed me to preserve the value of the currency I was using to exchange it for Argentine pesos whenever I felt it was more convenient. Argentines, instead, watch their currency burning in their hands every day.

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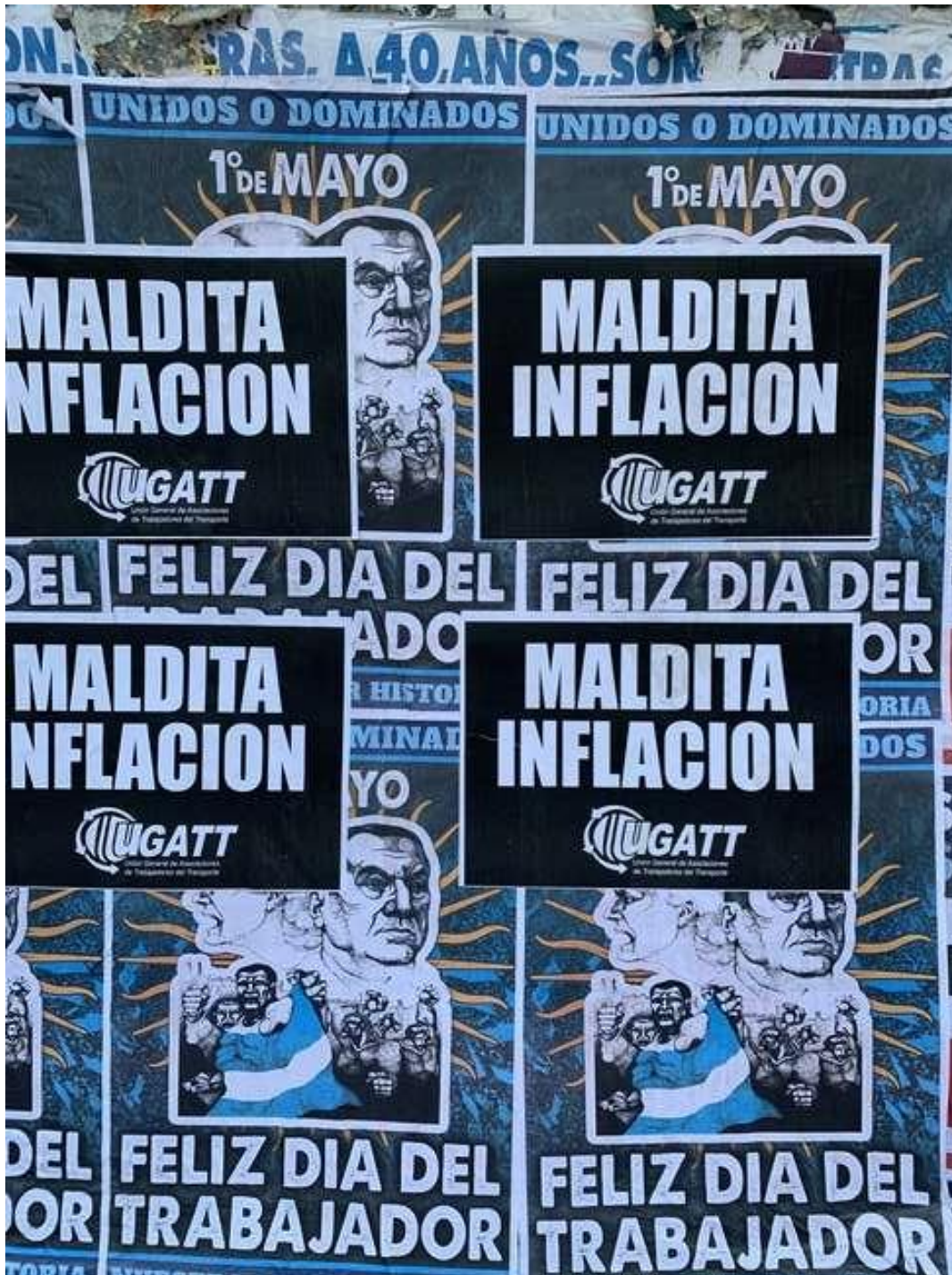


## ARGENTINA THROUGH MY EYES

Photos taken by the author between February and July 2022, Buenos Aires.

### 1. “Damned inflation”. 1st of May 2022. Buenos Aires

The Unión General de Trabajadores, one of the most famous trade unions in the country, stuck posters on top of the labour day ones to criticize the country's economic situation.







2. “No to the debt payment” and “the debt must be paid by those who defaulted on it”. 10<sup>th</sup> of March 2022. Buenos Aires. Protestors holding signs rejecting the agreement with the International Monetary Fund.





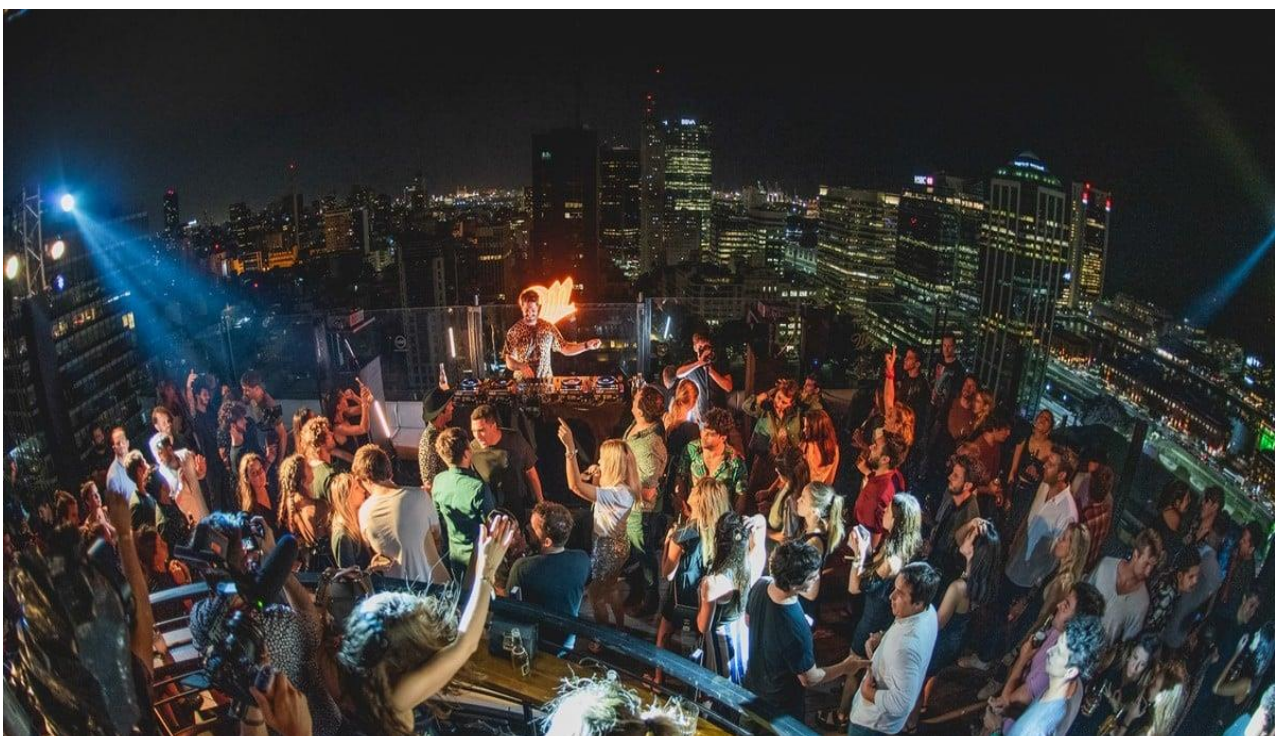


**3. Cartoneros and dogs walkers, Buenos Aires. Two of the most common precarious and temporary jobs in Argentina, as a consequence of the economic crisis and massive unemployment.**





**4. The two faces of Argentina: on one side, Villa 31, one of the most known slums of the city. On the other, people enjoy a party on the rooftop of one of the fanciest neighborhoods of Buenos Aires. The two districts are only 5 km apart.**



## *Executive summary*

### PROBLEM STATEMENT/ PURPOSE

A hundred years ago, Argentina was one of the wealthiest countries in the world, and yet with all its potential, the Latin American country is periodically mired in an economic wasteland.

**Its endemic disease is a chronic inflationary process.** Argentina has suffered from high inflation rates for the past 75 years and has defaulted on its external debt nine times since achieving independence in 1816.

The main questions this research sought to answer are: *Where does the curse of the Argentine economy stem from? What is the impact of the cyclical inflation and crisis on Argentine citizens? And, finally, is there a way out?*

### METHODS

The first part of the thesis takes an economic historical-diachronic approach through the study of Argentine literature, to trace the roots of inflation in the Latin American country. The second chapter analyzes various economists and academics' opinions, international and national newspapers, statistical data and official documents to give a snapshot of the current economic crisis, the tango with the IMF, and the persistent challenges the country is facing. The third chapter investigates inflation's repercussions on Argentine citizens' daily life, using as references statistical data and newspapers' articles.

### RESULTS

The causes and consequences of inflation in Argentina go far beyond macroeconomic theory, including first and foremost the political economy and political science domain. According to the author, the leading causes of Argentina's poor economic performances over the years can be summarized into two main factors (not mutually exclusive but rather correlated): **weak institutions and bad economic policies.**

As of today – 11th of February 2023, the challenges Argentina is still facing are the instability of public policies, their lack of consistency, the excessive discretion given to the executive, the lack of political representativeness and credibility, together with considerable corruption. These have contributed to the undesirable economic and social results we keep seeing.

For Argentine citizens, **inflation has inevitably become a way of living.** Uncertainty about the future, prices volatility and lagging wages led people to adopt some tactics as a buffer to protect their savings. With more than 40% of the urban population reportedly affected by fundamental economic deprivation, the systematic and lasting reduction of poverty and inequality are a challenge the Argentine State has yet not been able to win.

## **CONCLUSIONS AND RECCOMENDATIONS**

With the new deal signed with the IMF, Argentina has now a new opportunity to repay its debt and bring inflation back down. Nevertheless, discordant opinions exist concerning the effectivity of the agreement, with many affirming it will not solve the structural problems of the country. Finally, the author wonders about possible ways out of the current crisis, focusing on three main policy recommendations: **the dollarization of the economy, the necessity of structural economic reforms, and a political turnaround.**

According to the author's opinion, the economic problem requires a political turnaround together with some necessary structural reforms, to redefine Argentina's economic policy. Consolidating democracy should be one of the country's developments goals: eliminate political polarization and corruption, defeat political interference with the judiciary, create professionally managed institutions and independent of the executive, and rebuild credibility and trust among its citizens and investors.

The presidential elections in October 2023 offer an unparalleled chance to demand an end to the Argentine curse. Nevertheless, "*this time is going to be different*" have often proved to be the four most dangerous words in the world of economics and finance.