

THE TRAJECTORY OF THE ARGENTINE ECONOMY FROM 2001 TO THE PRESENT:
WHAT COMES NEXT?

by
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ABSTRACT

MARY MORGAN GLADNEY: The Trajectory of the Argentine Economy from 2001 to the present: What comes next?
(Under the direction of Gregory Love)

This thesis looks at global economic factors and Argentina's internal economic policy and political conditions of the last decade to determine the near-term future of the economy. By analyzing the factors that previously influenced the trajectory of the economy of Argentina, I will try to answer this question: What is the trajectory of the Argentine economy in the current political climate? In 2001 after a ten-year period of economic policy reform, the Argentine economy collapsed. Over a decade has passed since the crash of 2001, and now Argentina is once again in a precarious position. The dependent variable of this study is the macroeconomic condition of Argentina. More specifically, I will use the information gathered about the global economic climate and internal economic policy to draw a connection to GDP per capita, growth rates, and unemployment rates that resulted. I will also analyze the patterns of change in these figures over time. Then, I will use these findings to predict how these rates will change in the future.

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CHAPTER I. Introduction

A. Research Question: What is the Trajectory of the Argentine Economy?

In 2001 after a ten-year period of economic policy reform, the Argentine economy collapsed. With a convertibility law that set the peso equal to the US dollar, Argentina has unparalleled rigidity in monetary policy and declining influence in the global economy by the late 1990's. Over a decade has passed since the crash of 2001, which was the most significant economic collapse of an IMF-backed economy up to that point. Now Argentina is once again in a precarious position. The exchange rate is unstable, and unofficial black dollar exchange rates are nearly double the government published exchange rate ("Dollar Tourists" 2013). As the government tries to pay off debts, the Central Bank of Argentina is hoarding dollars, and inflation rates have climbed to near 20% ("Flying Solo" 2011). All signs point to instability.

This thesis looks at global economic factors and Argentina's internal economic policy and political conditions of the last decade to determine the near-term future of the economy. I compare the current global economy to that of the late 90's and early 2000's to determine congruent factors and generate a short to mid-term macroeconomic prediction. I also analyze the economic policy put in place by the Kirchner regime and how it relates to Menem's presidency and the convertibility law. By analyzing the factors that previously influenced the trajectory of the economy of Argentina, I will try to answer this question: What is the trajectory of the Argentine economy in the current political climate?

B. A century of the Argentine economic cycle

Argentina has long experienced cycles of economic growth and collapse. The country was a particularly successful emerging economy until the Great Depression. In 1946, Juan Perón was elected president by an urban working class constituency that benefitted from his clientelist politics after the devastating depression. With the implementation of social spending and import substitution industrialization, the nation's economy saw little post-Depression Era growth under Peronist rule (Auyero 2001). Argentina has a wealth of natural resources, as the country is primed for agriculture, forestry, and mining, with abundant sources of petroleum, gas, and uranium. Additionally, it was an early-industrialized country relative to the rest of the region, and the nation had significantly more manufacturing than most of South America. Despite plentiful resources and industry, the economy has been dominated by long periods of financial crisis with rare bright spots. Perón died on July 1, 1974 while serving a third presidential term, and his wife succeeded him in office. Her administration was undermined by economic downfall as inflation skyrocketed and GDP contracted. The military dictatorship that superseded her in 1976 prolonged a great economic decline during their rule until 1983, and the decline continued for some time after (Kydland 2013). The corrupt policies of financial liberalization put in place under the military regime discouraged growth and increased debt immensely. Over 400,000 companies went bankrupt under dictatorship rule. Capital flight was a widespread response to economic decline, and it partly prevented economic recovery until 1990. In an attempt to create confidence in the peso and repair the economy, Domingo Cavallo, Minister of the

Economy, established the Convertibility Plan in 1991. It set the Argentine peso equal to the US dollar and lasted until 1998. Economic success immediately followed as inflation rates decreased, but the Convertibility Plan was not a permanent fix. By 1995, the economy was crumbling, and it finally collapsed in 2001 (Mussa 2002). A detailed description of this is provided in Chapter 4: The Menem Era.

The Peronists have dominated Argentine politics for decades. Carlos Menem served as president from 1989 to 1999 during part of the crisis but predating the peso crash of 2001. After a brief two-year interlude, the Peronists returned to prominence when Nestor Kirchner became president in 2003. He served until 2007 when Cristina Kirchner, Nestor's wife and fellow Peronist, took office. She has served as president since then. Since Perón came to power in 1946, there has been virtually no ten-year period without a financial crisis (Auyero 2001). This is observable especially over the last decade. Since defaulting on \$100 billion in debt in 2001, Argentina has been cut off from international capital markets and is considered a risky place to invest ("Official Statistics" 2013). The country's population is resilient, having withstood financial crises for many decades, but once again, the current state of the Argentine economy is precarious. After Cristina Kirchner's reelection in 2011, she condemned the sale of dollars at the official exchange rate to protect dwindling reserves. Argentine national reserves have slid significantly as they have been used to pay off the nation's immense debt. Reserves typically used to stabilize currency fell by nearly \$5 billion in the first five months of 2013 and are predicted to continue falling at this rapid rate; expectations are a

staggering \$9.7 billion in 2014. A sudden 25% loss in savings led to an even higher demand for black market dollars (“Fistful” 2013). Though the official Argentine conversion rate has been maintained at about 5 Argentine pesos to 1 US dollar for the last several years, the unofficial blue dollar rate at which many Argentines buy and sell dollars jumped to 10.45 in May 2013. These shocking trends do not seem as if they will slow significantly or stop any time soon. (“Fistful” 2013) Figure 1 shown below portrays the actual exchange rate versus the black market exchange rate.

“Dólar oficial,” the green line, represents the official exchange rate over a year and a half beginning in January 2011. The blue line, “Dólar informal,” represents the black market exchange rate over the same time period.

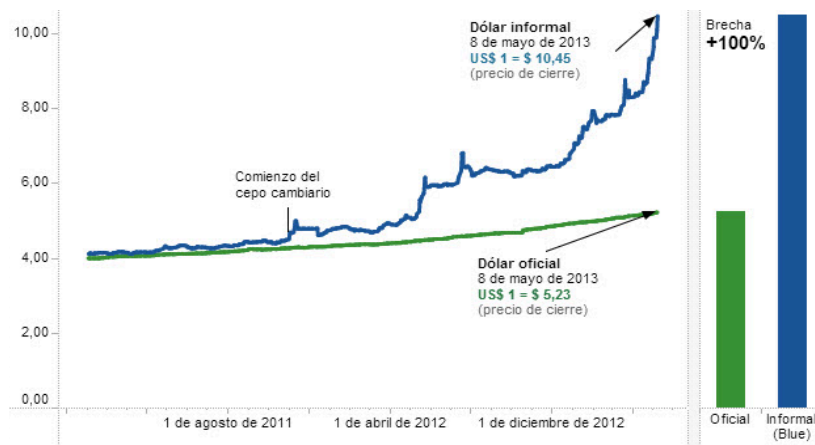


Figure 1. Actual versus Official Exchange Rate (2010-2) (Durden 2013)

Turmoil surrounding the exchange rate is nothing new to Argentina. Many current issues go back to the largest economic crisis the country has ever faced. The peso crisis of Argentina culminated in 2001 when its economy collapsed. The Convertibility Law (1991), championed by President Carlos Menem and his Minister

of the Economy Domingo Cavallo, set the Argentine peso equal to the US dollar. This meant that the exchange rate was fixed at one to one for eight years. Dollars and pesos were virtually interchangeable, and both could be withdrawn from ATMs across Argentina. Citizens were encouraged to convert all their dollars to pesos since the two were now equivalent. Although four years of growth followed the 1991 mandate, the law caused a problem unforeseen by the IMF, the dollarization of Argentina (Truman 2002). Argentina's economy was ill equipped to rise to the US dollar's value and purchasing power. When the rising value of Argentine exports caused by a global increase in commodity prices limited the buying power of many trade partners, the economy suffered a sudden stall in growth and eventually stagnated (Quiroga 2006).

The peso's monetary value was equal to that of the US dollar, but its intrinsic value was not. This means that Argentine currency was not as valuable as the US dollar, but the global currency market did not reflect this. The over-valued peso had another effect on Argentine terms of trade in that it made imports and debt cheaper. Since the peso was directly linked to the dollar, markets assumed the riskiness of the peso was equivalent to that of the US dollar. This led to massive public and private debt on imports when other nations exported goods to Argentina on loan that Argentines could no longer afford when the economy started to decline. When the Convertibility Law was reversed, Argentines were expected to continue paying the same dollar price for goods even though their currency was on the edge of collapsing. At this point, import debts soared, and an outright crisis resulted (Pou 2000). The economic crisis caused a drop in the standard of living, negatively

affecting every aspect of Argentine life. Government salaries and benefits underwent drastic cuts, leaving many citizens wanting. Argentines victimized by government spending cuts withdrew savings in pesos and exchanged them for US dollars (Quiroga 2006). They believed the peso was doomed to be worthless. Deposits originally made in dollars could now only be withdrawn in pesos, and the conversion rate was four pesos to one USD. Interest rates for loans were so exorbitant that obtaining a loan was virtually out of the question (Salazar 2004).

During the era of the Convertibility Law, profitable national sectors like YPF (an oil refinery) and Aerolíneas Argentinas (a national airline) were privatized, which provided for dramatic growth in unemployment rates with national rates up to 20%. This privatization was the result of policy changes during Menem's presidency when Argentina implemented many of the policy recommendations that would be labeled the "Washington Consensus," an IMF-backed plan that received wide support from economists. Since the International Monetary Fund showed support of Menem's policy making from the start, Argentine authorities were able to approach the IMF for augmentation of financial support in January 2001. The IMF subsequently loaned over \$22 billion to Argentina under the pretense of rigid guidelines by which Argentine officials must abide to receive continuing support. IMF officials sought to repair the convertibility regime in order to renew stability, but they found this policy unsound and ineffective. The IMF abandoned this course of action in December 2001, and within a month, "economic, social, and political dislocation occurred simultaneously, leading to the resignation of the President, default on Argentina's sovereign debt, and the abandonment of convertibility"

(Salazar 2004). Under the weight of this devastating debilitation, the IMF could do little to help and largely stood by as the crisis unraveled. Thus, common citizens were trapped by high prices, unemployment, and limited access to money (Salazar 2004).

These trends determined the trajectory of the Argentine economy over the last decade, and their influence is evident still today. This pattern will continue influence the macroeconomic conditions of the near term future. The Argentine economy is currently the fifth largest in the Western Hemisphere and trades most often with even more powerful economies, like the US and Brazil. Its mark on the global economy is significant. Therefore, for trading partners, so is the state of its national economy. With a large population and a dominant influence on South America, the state of the economy matters to many. The 2001 crash seemed to occur due to a combination of the global economic decline and internal economic policy—the convertibility between the US dollar and Argentine peso, privatization fueled by corruption, and growing debt. The Mundell-Fleming model, or the economic theory of the unholy trinity, states that a country cannot succeed with a fixed exchange rate, free capital flow, and sovereign monetary policy. Under this premise, Argentina was destined for failure. The effects of its 2001 crash were far reaching, and today, the nation's economy still rests precariously on the edge of recession. Policy and economic trends from 2001 to the present will be discussed in detail in the following chapters, perhaps providing insight into why the economy is still in disrepair. Knowing what will happen next in the Argentine economy will give significant insight in to the economic state of Latin America and the global economy.

CHAPTER II. Macroeconomic Theory: The Political Business Cycle

Macroeconomic theory helps explain why the boom and bust cycles have occurred in the Argentine economy recently. In order to determine the trajectory of the Argentine economy, current economic policy and the macroeconomic theory on which it is based is crucial. There are a few theories that will be of importance to this study. First is the political business cycle theory.

Dr. Paul M. Johnson defines a political business cycle as:

“A business cycle that results primarily from the manipulation of policy tools (fiscal policy, monetary policy) by incumbent politicians hoping to stimulate the economy just prior to an election and thereby greatly improve their own and their party's reelection chances. Expansionary monetary and fiscal policies have politically popular consequences in the short run (tax cuts, falling unemployment, falling [interest rates](#), new government spending on services for special interests, etc.)” (Johnson 1994).

William Nordhaus first published the concept of PBC theory in 1971 as a single chapter in a compilation entitled *Readings in the Theory of Growth: A Selection of Papers from the 'Review of Economic Studies.'* This chapter helps to outline a novel explanation of economic growth (or lack thereof). The detailed description, accompanied by empirical evidence, explains exactly how politicians use the political business cycle. Also, Nordhaus explains the far-reaching effects of policies enacted under the premises of the political business cycle. The general premise is that democratic politicians undervalue future consumption. Though the private sector and individuals within a democracy are able to focus on

long-term investments and future payoff, politicians rarely do the same. Instead, they spend conservatively towards the beginning of a term and abandon austerity towards the end of a term when running for reelection. Actions that coincide with PBC theory include flooding the market with cash to generate jobs and lower unemployment, spending on social interests, and cutting taxes. In the short run, interest rates and unemployment almost always fall, but the theory predicts recession in the long term (Nordhaus 1971). Nordhaus's work provides great insight into how choices made by the Menem and Kirchner regimes affected the Argentine economy. "Flying Solo: Argentina's Presidential Election," published in *The Economist* shortly before Cristina Kirchner's reelection to the presidency in October 2011, describes the nature and atmosphere of the primary elections. Much of the article speaks to her likelihood of winning office based on economic success. Without mentioning PBC theory, the article outlines just how Kirchner is taking advantage of the political business cycle to appease voters. It mentions her refusal to make spending cuts and tax increases. It even mentions the fictionalized inflation rates published by the government as they continue to flood the market with pesos ("Flying Solo" 2011). The economic analysis provided demonstrates the immediate future for Argentina, easily predicting correctly what has occurred over the last few years. Though the Kirchners' constituency may not recognize the cyclical pattern created by PBC politics, the economic events of the Kirchner regime indicate that the political business cycle could be occurring.

When tactics like flooding the market with cash to generate jobs and temporary cash flows are used before elections, recessions often follow (Nordhaus

1971). If pursued to excess, this sort of policy can have unfortunate long-term consequences. Flooding the market with cash will most likely devalue the peso and create inflation. In turn, the economy can also experience a low rate of savings, damage to the trade balance, and job loss. Below is a chart of Argentine government spending surrounding the reelection of Cristina Kirchner in 2011. Figure 2, seen below, demonstrates that spending increased prior to her reelection and subsequently decreased after the election. This plainly follows PBC theory.

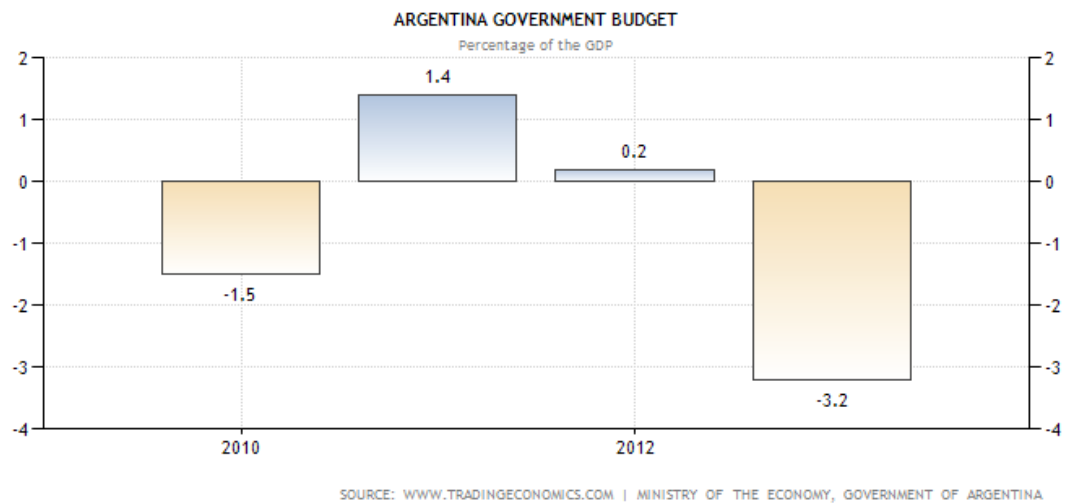


Figure 2. Government Budget (2010-2) (TradingEconomics)

After elections, newly elected (or reelected) officials typically turn these policies around by tax increases, spending cuts, etc. Often this results in a boom and bust cycle that comes around every election time (Nordhaus 1971). This is not necessarily how things went for Argentina under the Kirchners though. Instead, Cristina Kirchner maintained use of PBC tools to create an artificial boom. Another April 2011 article from *The Economist*, "Lies and Argentine Statistics: Stalinist Practices in Buenos Aires," describes just how rampant corruption runs in Argentina.

Written just prior to Kirchner’s reelection in 2011, the article mentions how inflation rates published by the government have been doctored for years (“Lies and Statistics” 2011). Below, Figure 3 shows inflation rates published by the government over the last several years. Private researchers estimate actual inflation rates are about double this amount.



Figure 3. Inflation Rate (2012-3) (Trading Economics)

After Kirchner used fiscal policy to maintain an artificial boom, the Argentine economy reacted as PBC theory would predict, with excessive inflation and higher unemployment rates that are causing inequality and unrest. With the economy on the brink of collapse, Argentine citizens started asking questions and pointing fingers. The government reacted by suing all private firms who published their own, likely much more accurate, calculations, threatening the accuracy and readiness of statistical information. Recognizing these government actions is vital to understanding how the executive powers handle economic distress. It displays an obvious corrupt nature of those in power and threatens democratic freedom (“Lies and Statistics” 2011).

The Political Business Cycle theory predicts increased chances of default for governments and nations where it is utilized. It proposes the incumbent party will make use of policies that have a better short-run trade-off in order to appease voters, but the party is then unable to follow through with these policies after reelection (Nordhaus 1971). PBC theory states that leftist governments, like those of the Partido Justicialismo, historically have stronger correlations to market failure than do more conservative governments. Also, the theory implies that voters vote retrospectively, voting either for or against the incumbent (Nordhaus 1971). Here, Argentine voters generally either approve of the current economic state and vote to reelect whoever currently holds office, or they vote against this incumbent based on a disapproval of the current economic state. Just prior to the reelection of Cristina Kirchner, current president of Argentina, *The Economist* stated that, “it would be unfair to attribute Ms Fernández’s (Kirchner) looming victory to luck,” (“Flying Solo” 2011). Although the Argentine economy was widely considered to be on the brink of collapse, Kirchner proceeded with policies that emphasized social spending and increasingly subsidized energy and transportation. Through her handle on the central bank, she continued flooding the market with cash, producing inflation rates estimated around 20%. To maintain an image of a flourishing economy, she introduced policies to freeze prices and expand welfare benefits and pensions for government dependents (“Flying Solo” 2011). She even gave government employees raises of up to 30% (“Lies and Statistics” 2011).

The PBC model promotes that there is a trade-off between inflation and unemployment rates. “The reason for this phenomenon is that in both competitive

labor markets and in unionized sectors a low unemployment rate means a higher demand relative to the labor force and a higher cost of strikes” (Nordhaus 1971). Individuals logically prefer times of low unemployment rates. Although individuals would naturally prefer periods of steady prices or at least stabilized inflation rates, the PBC model assumes the average voter’s knowledge of this topic to be negligible (Nordhaus 1971). Therefore, as seen in Kirchner’s policymaking and subsequent success, voters respond well to lowered unemployment rates and increasing inflation from a flooded market. As seen in Figure 4 below, unemployment rates decreased significantly around the time of Kirchner’s reelection in 2011 and rose subsequent to her regaining office.



Figure 4. Unemployment Rate (2010-3) (Trading Economics)

The long-term effects of enacting political business cycle policy are overwhelmingly negative. Argentina lost \$2 billion of capital monthly leading up to the reelection of Cristina Kirchner due to flooding the market with cash and increasing social spending. (“Flying Solo” 2011) This consequently led to a rise in inflation rates that

might have demonstrated to her constituency a growing threat to economic stability, had they been motivated to be well informed or even able to find accurate statistical information. As the government from 2007 up until Kirchner's reelection published falsified numbers, people turned to private economic analysts. When, in 2011, private economists published an estimated inflation rate of 25% when the government stated inflation was around 10%, the government investigated and fined analyst firms ("Lies and Statistics" 2011). A September 2013 article from *The Economist*, "Argentina's Official Statistics: Warranting Attention" had a particularly intuitive outlook on this situation. To be sure, Kirchner was reelected in 2011 with 54% of the vote. There are obvious discrepancies between official inflation and GDP rates and those published by the Argentine government. The situation is more severe than the publication of false data, though. The government is paying higher payouts to its citizens based on the falsified published GDP growth rate ("Warranting Attention" 2013). Therefore, in very literal terms, the government's falsified numbers are costing them. Their budget deficit is growing, and foreign reserves are dwindling. It is crucial to consider the government's motives in publishing incorrect numbers and jeopardize the wellbeing of the nation, both economically and politically.

CHAPTER III. Research Data and Methodology

Essentially, this thesis seeks to measure the threat to the economic wellbeing of Argentina. Undoubtedly, a variety of macroeconomic factors will influence the nation's near-term economic conditions. Internal fiscal policies heavily influence the trajectory of the economy as well, and as previously stated, many present-day policies are jeopardizing the current economic state. To forecast Argentina's immediate economic future, I selected independent variables that will predict an effect on the dependent variable.

A. Dependent Variable

Dependent Variables: GDP per capita, growth rates, unemployment

The dependent variable of this study is the macroeconomic condition of Argentina. More specifically, I will use the information gathered about the global economic climate and internal economic policy to draw a connection to GDP per capita, growth rates, and unemployment rates that resulted. I will also analyze the patterns of change in these figures over time. Then, I will use these findings to predict how these rates will change in the future.

B. Independent Variable

Independent Variables: Argentine market and policy type

To determine the future of Argentina's economy, I first analyze the past. Two main factors are relevant here: the Argentine market and policy type. Obviously looking backwards is relatively easy. There are various reliable sources with data on the global market over the years. A number of publications detailing the reasons

for the 2001 economic crash are available. Pedro Pou's article "Argentina's Structural Reforms of the 1990s" for *Finance & Development* gives a sense of the IMF-backed policy in Argentina prior to the 2001 crash. This article was published in the IMF quarterly magazine a year before Argentina's economic crash. It outlines in great detail the economic policy established and sustained by the International Monetary Fund in Argentina. It is divided into sections: Trade liberalization, tax reforms; Financial system reforms; Banking regulations; Payment system reforms; Ongoing reforms. This provides a reliable scholarly source for any necessary details regarding the policy that predated the crash. Further, the article ends with a section entitled "Some concerns remain," which provides a unique pre-crash perspective about what might go wrong. This will allow for a thorough evaluation of what happened before and after the crash in terms strictly regarding economic policy (Pou 2000). Additionally, Edwin Truman wrote an article in 2002 for the Inter-American Development Bank entitled "Fixed Exchange Rates: The Lessons From Argentina" about how the Convertibility Plan affected the economy. This article was written at the most depressed moment of the Argentine economic crash by an expert on international economics. Truman details the economic policy that allowed for the crash, outlining events from 1991 to 2001. He explains how the powers that be determined the future of Argentina. He notes exactly how the fixed exchange rate caused lasting damage for the nation (Truman 2002). His expertise and insight proves useful in analyzing the roots of economic strife that still affects the nation. It will also help in demonstrating how the government creates policies that are not in the best interest of Argentina.

Next, I observe economic statistical data from 2001 to the present. This era is dominated by Kirchnerism since either Nestór Kirchner or his wife Cristina Kirchner has served as President since 2003. Their brand of economic policy is unique, and there is a wealth of data to analyze. These economic and financial periodicals are up to date on the most recent events with any possible effect on the Argentine economy and write on them with accuracy and brevity. For example, Cristina Kirchner is currently utilizing a program to combat the black market for dollars that offers a trade-in for the suspected \$160 billion illegally held by Argentine citizens (“Fistful” 2013). Few suspect it will work. In an interview with *Reporte Inmobiliario*, a property journal, Daniel Muchnick, an economist, wondered: “Who, how and in what way is someone going to want to take their illegal money and enter into the conventional world? And moreover, who is going to want to invest their assets in a place where foreign currency can enter, but it will not be allowed out?” (“Fistful” 2013). Though this article presents an obvious bias, citizens presumably mistrust their currency since they are hoarding dollars illegally.

These insecurities are telling of what is to come for Argentina. In the face of economic distress, citizens refuse to give up their dollars in exchange for rewards from the government since they view the peso as having a huge risk premium. Mistrust at this level displays how Argentina will react when teetering on the edge of collapse. Further, it explains how the average Argentine views the government. The far-reaching effects of this phenomenon are just now revealing themselves. *The Economist* article, “Argentina’s Dollar Tourists: A Vacation from Inflation,” addresses how desperately Argentina is trying to hoard dollars by monitoring

international tourism, especially to the United States. In order to purchase US dollars, citizens must apply through the agency months before their scheduled departure. The likelihood of receiving money in the amount requested is so little that most travelers turn to the black market, but the exchange rate is nearly double the official rate (“Dollar Tourists” 2013). Therefore, the obvious inference is that the Argentine government actively tries to prevent its citizens from visiting the United States. The effects of this policy reach the economy, preventing many Argentines from being able to travel to and from the US.

Another determining factor in the trajectory of the Argentine economy will be the profitability of energy. An article from *The Economist*, “Flogging a Dead Cow: Argentina and the YPF” provides a sense of the relationship between the nation’s oil refinery YPF and the government. This article outlines the nationalization of YPF, Argentina’s oil company, and its economic effects. The energy industry is dwindling, destroying a major sector of Argentina’s former GDP. The discovery of new oil may change the economy for the better, but political direction from Kirchner could sabotage the benefits for the nation (“Flogging a Dead Cow” 2013). This article not only highlights an important event in the economic goings on, but it displays the extent to which the government manipulates economic policy for its benefit. Here, a deal with Chevron might subject economic development in Argentina to foreign investors. The article provides a good sense of the grasp of the Argentine democratic system on economic prosperity.

Besides this, political policies and the motives that drive them are studied. Though Menem and the Kirchners all represent the same political party, Partido

Justicialismo, their policies and constituents are vastly different. While Menem found support in rich business owners and middle class professionals, the Kirchners are supported by the urban lower class (Stokes 2001). In *Mandates and Democracy*, Susan Stokes demonstrates the tendency of Latin American presidents, once in office, to make drastic changes to economic policy promises made before they are elected. She highlights how Menem did so and was still able to get reelected. She uses models to demonstrate how pro-market policy changes are frequent and may be eroding democracy throughout Latin America. Much of her work highlights how Menem managed to win reelection after making such drastic changes to his promises and which sectors of the population are voting for whom (Stokes 2001).

“Perverse Accountability: A Formal Model of Machine Politics with Evidence from Argentina”, an article written by Stokes, provides further insight into how political machines like the Partido Justicialismo get elected. She discusses in detail the loyalty of voters to a certain party from which they are receiving certain benefits. Further, it highlights how accountability is used to circumvent secret ballot and insure votes. This situation is exemplified in Argentina, showing how PBC theory is applicable in Argentine politics (Stokes 2005). The article tests the effectiveness of machine politics on voters and vice versa in Argentina. In addition to Stokes’ work, Javier Auyero explores the central relevance of clientelism in Argentina. It studies the long assumed theory of clientelism in buying votes and questions the theory’s accuracy. Auyero suggests a different theory, asserting that voter-politician relationships are complex, deep seated, and emotional. He shows how, in Argentina, despite the actions of government officials, voters feel an emotional tie to these

certain people. Motives behind voting are not what have long been assumed in Latin America and Argentina (Auyero 2001). This book is crucial to the study of voter motivation and reelection.

C. The significance of the study's postulations

Though the topic of this thesis, the trajectory of the Argentine economy, is narrowly focused, it has significance. As previously mentioned, Argentina is the fifth largest economy in the Americas and the second largest in South America specifically. Just as it is affected by the global economy, it has a great effect the global economy. This study will serve to provide a better sense of the economic trajectory of the region as a whole. Its status as a major power in Latin America has been unwavering despite the cycle of crisis. Argentina is an important trading partner of Brazil, Mexico, and the United States. Currently, Argentine companies that defaulted on debt in US markets are involved in lawsuits in the United States. This is blocking them from capital markets, naturally affecting the possibility for prosperity. There is no doubt this will have an effect on the trajectory of the economy.

There are many factors that will determine the trajectory of the Argentine economy. As I progress in this economic analysis, PBC theory will be central to my study. The graphs shown above provide a sense of the analysis I will continue to build upon. Inflation rates, exchange rates, government spending, and GDP per capita will be crucial to determine the trajectory of the economy. An analysis of major trends seems to point towards Argentina being on the brink of another financial crisis. Further analysis will hopefully prove this assumption correct.

CHAPTER IV. Menem Era (1989-1999)

For most of the period between 1975 and 1990, Argentina experienced annual hyperinflation averaging 325%, negative GDP growth, and a lack of confidence in national bank and central government. These problems culminated during the presidency of Raul Alfonsín (1983-1989) when inflation reached 5000% in 1989. With the economy crumbling around him, Alfonsín resigned five months early in July 1989, and Carlos Menem assumed the role of president. Carlos Menem's presidency lasted ten years until December 1999. His time in office was characterized by a moderate Peronist program that called for a free market economy (Pou 2000). On the campaign trail, he assured voters that he would not use "the hunger of the Argentine people" to pay the nation's debt (Stokes 46). This initially meant lowering trade tariffs based on a wage-price pact between labor, business, and government. He ran as a Peronist, representing a traditional Peronist constituency. At the time, this meant urban laborers, industrialists, and residents of rural provinces. The urban poor fought for higher wages, industrialists sought promotion of local businesses, and rural provinces hoped to attract attention and draw budgetary resources. Menem promised his constituents these reforms in typical Peronist fashion, promising to repair the economy, but not at the cost of the people (UNC).

To help carry out his economic scheme, Menem unexpectedly enlisted the aid of former top-level executives from Bunge y Born, a major agribusiness and one of Argentina's leading corporations (Pou 2000). Miguel Roig, former Bunge y Born

vice president and an “outstanding symbol of vendepatria [sellout] capitalism to all Peronists” was named Minister of Finance (Stokes 46). This initial shock to Menem’s Peronist constituency was met with other cabinet appointments from Bunge y Born. Their plan consisted of three primary parts: 1) currency devaluation, 2) privatization of government-owned industries, including telecommunications, airlines, television and radio stations and petrochemicals, and 3) phasing out of export taxes and import tariffs. Menem considered his austerity plan a severe but necessary adjustment, referring to it as “major surgery [with] no anesthesia,” (Stokes 47). He no longer championed the Peronist ideals with which he won the presidency, but instead drastically shifted to neoliberalist policies in hopes of repairing the economy. When inflation persisted and the Bunge y Born plan manifested its shortcomings and ineffectiveness, Menem called on Domingo Cavallo to serve as Minister of Finance in 1991 (Pou 2000).

Domingo Cavallo had a plan of his own, and he took measures to implement a far-reaching program of economic stabilization that also enhanced revenue collection and prevented tax evasion (Pou 2000). The Convertibility Plan was grounded in the idea of removing state influence over the economy, and this was manifested in three overarching goals: 1) privatizing of government industries and public services, 2) transferring these functions and services to the private sector, and 3) reducing the fiscal deficit (Quiroga 124). Cavallo continued with the privatization of major government-owned businesses started during the first few years of Menem’s presidency, marking the move towards neoliberalism in Argentina (128). Privatization represented an effort to reduce the fiscal deficit and establish

macroeconomic equilibrium, and its immediate successes were evident (128).

Privatization in Argentina can be characterized in three ways: 1) comprehensive, 2) fast, and 3) supported by the public (Ariceta 53). In three or four years, nearly every government owned entity was privatized. The public's positive perspective remained unchanged initially because the first privatized sectors had little to no effect on the consumer prices. When oil, gas, and other similar sectors were privatized, the government lost the capacity to influence commodity prices in the economy (53). Citizens began to take notice due to the rapidity with which privatizations occurred. Menem acted hastily for two reasons. He wanted to prove his steadfast determination to improve the economy and close the fiscal deficit, and he had to take advantage of the window of opportunity that might close at any moment (53). Since public services had deteriorated, support for Menem's plan was widespread. Although experts advised a slow transitional restructuring of enterprises, Menem instead acted swiftly before losing the people's support (53).

The privatization of Yacimientos Petrolíferos Fiscales (YPF), one of the world's largest petroleum refineries, occurred in June 1993 under Cavallo and Menem. As profits soared, thousands lost their jobs when YPF fired at least 40,000 Argentine employees. Aerolíneas Argentinas, the primary Argentine airline, had already undergone privatization in November 1990. Apart from the opposition of government employees, most citizens initially viewed the first wave of reform favorably. Besides these government industries, many public services like health

and education were privatized as well. In 1992, these responsibilities were transferred to the provinces and municipality of Buenos Aires (125).

Government reform intended to reduce the fiscal deficit centered on creating financial autonomy through a free market and open trade (Quiroga 131). The linchpin of Cavallo's plan was the establishment of convertibility between the Argentine peso and the US dollar (Pou 2000). Argentina's currency board established a fixed pegging of one-to-one parity between the peso and dollar that guaranteed full convertibility of pesos into U.S. dollars in hopes of establishing international credibility. In 1989, the value of the peso in comparison to the US dollar was 0.18 to 1. It rose to 0.56 to 1, but the Convertibility Law that doubled the value of the peso making the rate 1 to 1 was still drastic (Saxton 5). Reforms in Argentina's economic system were faster and deeper than any country outside the former communist block (5). The plan also forbade flooding the market with cash by requiring increases in the money supply to be backed by foreign reserves (Stokes 47). The currency board regime intended to stabilize the peso, encourage both foreign and local investment, and foster sustained economic growth. The plan was enacted in March 1991, and by August the annual inflation rate had fallen to 1.5 percent, the lowest in 17 years. Capital flight was reversed, and in 1992 Argentina emerged with a reformed and apparently stable economy (Pou 2000). The initial success of the Menem era was, without a doubt, the stabilization of the economy through inflation control and reliable currency (Quiroga 131). Figure 5 below shows the drastic drop in inflation rates after the introduction of the Convertibility Law in the early 2000's.

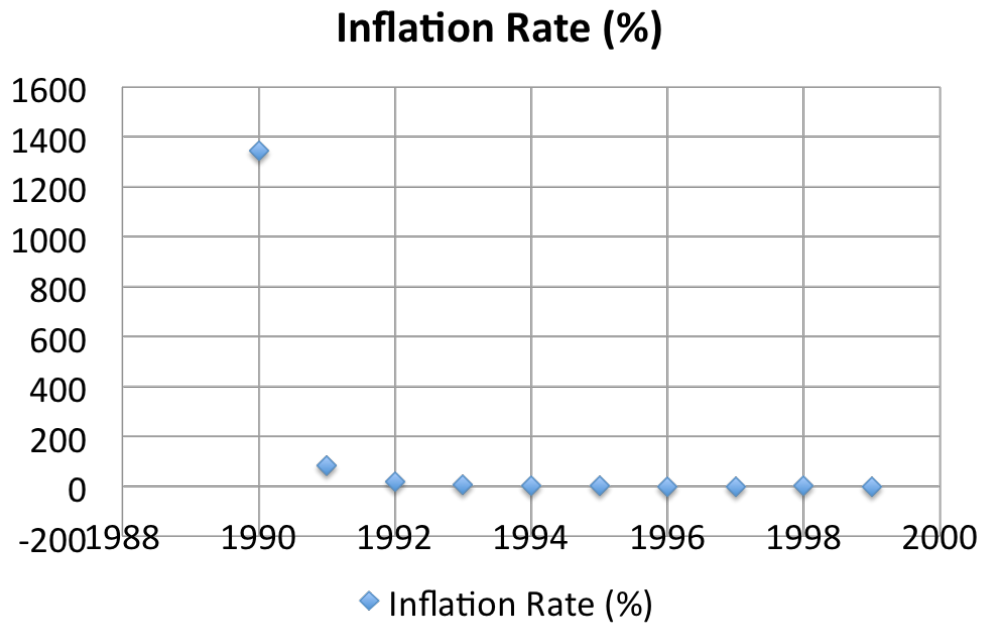


Figure 5. Inflation Rate (1988-2000) (Pou 2000)

In 1993 the ruling Peronist Party launched a campaign for a constitutional amendment that would permit the president to run for an immediate second term (Pou 2000). Menem’s popularity provided a path to rewrite the constitution and modify presidential term limits in order to run in 1995 (Stokes 47). Ex post support for neoliberal policies that drove Argentina’s economic turnaround sustained his eventual reelection (138). In elections held in October, the Peronists gained a majority in the Chamber of Deputies but still needed support from the Radicals to change the constitution. Former president Alfonsín eventually consented to support the reforms in an agreement called the Olivos Pact (Pou 2000). The new constitution, enacted in 1994, had few changes aside from the newly written provision for presidential term limits allowing consecutive terms. Although public unease about rising unemployment was a factor, Menem made a campaign promise to “pulverize

unemployment as we pulverized inflation,” (Stokes 139). With this assurance, Menem decisively won reelection in 1995.

The beginning of his second four-year term in 1995 was marked by the impact of the “Tequila Crisis” in Mexico, a currency crisis resulting from the devaluation of the Mexico peso in late 1994, foreshadowing the 2001 Argentine crisis (Pou 2000). When the Mexican government imposed an abrupt devaluation of the Mexican peso, limited Mexican buying power had a significant effect on the South American economy and Argentina in particular. Many feared that Argentina would face devaluation similar to Mexico’s even though its monetary system was fundamentally different (Saxton 6). With the Argentine peso pared to the US dollar, the currency was overvalued and increasingly fewer Latin American economies could afford to purchase Argentine goods and sustain their economic growth and stability. The Mexican crisis had far reaching effects on most of Latin America, and the value disparity between the peso and dollar led to an eventual 1995 recession. Though the peso was overvalued from the start, the Mexican crisis crippled many Latin American economies, weakening their buying power, especially relative to overpriced Argentine goods (7). After a brief recovery from the Mexico crisis, recessions in Russia and Brazil, Argentina’s major trading partner, led to another brief Argentine recession. Brazil could no longer trade with Argentina in high volumes as it had previously done, and Argentine interest rates peaked (7). The fiscal deficit resurfaced and continued growing throughout the rest of Menem’s presidency (Quiroga 131). Convertibility, although initially successful, could not guarantee growth. In the end, Menem could not meet the overarching goal of fiscal

control (131).

The popularity of the Menem regime began to erode early in his second term when unemployment rates and accusations of corruption noticeably increased. Unemployment was manageable at a rate of 6.0% in 1991 with the establishment of Cavallo's Convertibility Plan, but it rose to 16.6% by 1995 when the Tequila Crisis occurred (Saxton 5). Figure 6 plots unemployment from 1989 to 1999, peaking after a wave of neoliberalist reforms and the Mexican peso crisis.



Figure 6. Unemployment Rate (1988-2000) (Pou 2000)

Menem's increasing disagreements with Cavallo over economic policy did not affect Menem's political control and the economy temporarily stabilized when Menem dismissed Cavallo in July 1996 (Pou 2000). Within a year, however, a recession related to the Brazilian and Russian recessions took hold of the nation's economy, made worse by the overvalued Argentine currency. Menem strove to

make further constitutional amendments so he could run for a third consecutive term, but his efforts were fruitless (Saxton 6). He tried and failed to persuade interest groups to follow his cause, and this ultimately led him to make questionable decisions for the majority of Argentines regarding the economy (6).

His policy changes did not resemble the campaign promises he employed to win the presidential election of 1991. In order to attract foreign investors during his first term, he lowered labor costs and minimized the rights of his primary constituency, the urban working class. Labor rights were drastically reduced, and many employed by the state were left unemployed when the government fired nearly 150,000 lower level employees. Although Menem spoke out against his predecessor's attempts to privatize government industries, he proceeded with deregulating the majority of government owned entities. Privatization contributed to unemployment when Menem left the working class at the mercy of foreign investors. He even raised income taxes, directly contradicting his campaign promises (UNC). His constituency now consisted of a coalition of factions that excluded his urban poor voters. Military officials pledged their support to Menem's new regime, along with those who found favor in his neoliberal economic policy. Foreign creditors and investors profited from Menem's implicit cooperation in negotiating profitable investments, and large national industrialists with the capacity to purchase government businesses benefitted from his ideological shift. After opening the economy to free trade, Menem gained the support of commodities exporters who mostly exported wheat, beef, and grain (Huber 23). Workers, the middle class, and small business owners were hung out to dry after Menem's shift

away from traditional Peronist politics.

Throughout his presidency, Menem was known for taking extraordinary measures to make economic reform. He laid claim on “*poderes excepcionales* [exceptional powers]” to accomplish his plan, claiming that the widespread inflation and uncertainty necessitated extreme measures (Quiroga 124). Menem made laws by emergency decree instead of the normal law-making process. Even within Menem’s Peronist party, there was strong opposition to many reforms, but he acted on behalf of a few big business constituents. Privatizations were particularly controversial because they lacked transparency and often favored monopolies. Large companies retained autonomy and power within Argentina, becoming profitable sectors and benefitting the wealthy owners and overseas investors. Further, outsourcing from privatization caused job displacement for many, likely negatively affecting the aggregate unemployment rate. Rising unemployment contradicts traditional PBC theory, but his actions on behalf of big business constituents afforded him many personal gains, displaying tendencies that might be in line with the political business cycle.

Privatization is one primary source of corruption that caused many Argentines to lose faith in the Menem regime (Saxton 7). Extensive investigations of government officials were pursued, and many revealed unsavory results. Market reform was facilitated by state intervention in law making and the privatization of public sector, and this reform process provided opportunities for corruption. The sale of public enterprises, for instance, gave Menem and Cavallo discretion over the reallocation of profitable commodities, widening their scope for personal gain and

increasing the likelihood of clientelistic behavior. This control over huge streams of future income could have been used to obtain exorbitant bribes or extort powerful citizens for political support, as is said to have occurred during the first privatization deals concluded by the Menem administration. Thus, it is likely that persistent state interventionism with little accountability and minimal discretion might account for an increase in corruption during the enactment of Menem's market reform (Weyland 1998).

Biddings over government-owned businesses like YPF occurred in a politicized environment where international third party bidders used connections to influence the decision-makers heavily and set contracts on favorable terms (Ariceta 53). Although privatization aided in repairing the macroeconomic conditions of Argentina, the process by which privatizations were dealt out to bidders destroyed Argentina's confidence in the government, which seemed to be controlled by a few powerful groups (55). Most of the hired bidders once served as government contractors, and, often, representatives of the bidding private companies helped the government design the bids. Even companies like German industrial giant Siemens have in recent years admitted to collusion with the Menem regime, revealing they paid government officials \$40 million to secure a billion dollar contract for ID cards (AFP 2008). When Siemens sought exposure to the Argentine market, Menem personally signed a contract with Siemens officials to forge Argentine identification to ease their troubles of doing business in a foreign country and purportedly received \$2 million in the exchange (AFP 2008). The Argentine people sensed that privatizations were often inappropriate, and

corruption became more and more evident as these patterns continued (Ariceta 53). Menem was also accused of holding two illegal undeclared Swiss bank accounts of \$10 million that cannot be tracked. His obvious corrupt behavior contributed to a nationwide lack of confidence in Menem's ability to govern, and repercussions of these illicit dealings were widely negative.

Menem's clientelist politics favoring his big business constituency provided for easy reelection. In summary, his policy making, centered on the Convertibility Law that overvalued the peso, created economic strife when combined with unfavorable macroeconomic conditions that destroyed Argentina's purchasing power. Further, privatization eventually led to increasing unemployment rates, and other similar constituency pleasing policies also contributed to Argentina's economic downfall. When Menem took actions in hopes of getting reelected, he played in to PBC theory and contributed to the 2001 economic downfall. This pattern consequently affected the Kirchner era economy.

CHAPTER V. Kirchner Era (2003-present)

The economic crash that devastated Argentina's economy lasted for approximately four years from 1998 to 2002. As Menem's presidency came to a close and his unrealistic dream of a third consecutive term died, the state of Argentine politics was uncertain. Two presidents served during the interim from December 1999 until May 2003 when Peronist Nestor Kirchner was elected. Menem defeated Kirchner in the first round of elections but subsequently dropped out, leaving Kirchner to serve as president until December 2007. Kirchner assumed the position amidst social turmoil spurred by the crisis, and a run on banks sparked outright violence when Argentines attacked foreign-owned banks ("Should I stay?" 2002). The peso was devalued, and Argentines lost their private savings while the federal government was in the process of defaulting on \$80 billion of debt. The banking system was near destruction when Nestor Kirchner started his presidential term in 2003, so naturally his brand of Peronism was starkly different from that of his predecessor. Kirchnerismo, a play on the name of the political dynasty, evokes memories of Peronsimo at its height when Juan and Eva Perón ruled together. Urban working class poor and youth dominate their constituency. Peronism defined the population in new terms; the social groups targeted were not the traditional beneficiaries of government favor, but Peron strived to find a place for the rural and urban poor. Kirchnerism has not matched the proactive aide Perón gave to his constituents, but it has sought to reconfigure social imbalances with the provision of social goods.

From 2003 to 2007, Nestor Kirchner sought to repair the economy by enacting responsible, conservative policies. Kirchnerism rejected the harsh neoliberal policy introduced by Menem, calling instead for industrialist developmentalism that disallows the importation of goods produced at home. The goal is to protect and foster local industry and lower unemployment rates, and the maintenance of a SCRER (Stable and Competitive Real Exchange Rate) helps to insure growth in the public sector. Further, Kirchnerismo has opposed free trade agreements proposed by the United States, particularly in 2005 when Kirchner refused to sign the FTAA (Free Trade Area of the Americas) agreement. He tried to place political limits on the free reign of the market to protect Argentina from the foreign industries that privatized and outsourced a huge percentage of the work force under Menem's regime. Kirchner departed from Menem's old practices of clientelism by instating neocorporatism as a means of dealing with the private sector. Neocorporatism can be defined as, "a pattern of peak-level negotiation in which monopolistic unions, business associations, and the government coordinate on minimum wage floors" (Wylde 6).

Links between the administration and private industry have mostly weakened, but unlike Menem, Kirchner did not abandon the labor movement, instead giving them an activated and centralized voice (7). Naturally, this means that Kirchnerism has found widespread support in the growing unionized labor movement, but Kirchner's rapport with the 'pueblo' is second to economic stabilization. A moderate balance between selected protectionism and state intervention was Nestor Kirchner's aim, and it is representative of his efforts to

please his urban poor constituency while maintaining cautious economic development.

Nestor Kirchner's most significant piece of economic policy involved the 2005 debt restructuring that attempted to find solvency in the billions of US dollars of debt on which the national government defaulted four years earlier. In desperation, the government borrowed approximately \$23 billion from the IMF during 2001, but this did nothing to prevent the default. In 2002 and 2003, foreign investors fled the country, taking the flow of capital that sustained Argentine laborers with them. In 2002 alone, the peso/dollar exchange rate fell to four pesos per US dollar, resulting in inflation rates over 40% and an 11% drop in real GDP. Creditors denounced the default, and George W. Bush vetoed proposals to create sovereign debt restructuring that would destroy the value of the \$550 million owed to American investors (Hornbeck 5). Most investors (about 70-75%) accepted an exchange for new bonds worth approximately 35 cents on the dollar, and the debt swap involved 152 varieties of paper in six currencies under eight jurisdictions. Though Nestor Kirchner declared it a "triumph," bondholders were devastated. Vulture funds picked up discarded bonds for 20 cents on the dollar, attempting to exchange them for peso denominations worth approximately 35 cents, but this was the only profitable outcome of the debt exchange. The 2005 exchange, though significant, left many creditors wanting. A 2005 article from *The Economist* describes the relative success of the exchange with an accompanying chart. The article states:

"Even after the swap, Argentina's debt will be more than \$120 billion.

Indeed, the 152 varieties of bonds eligible for the exchange amounted to just 55% of its total debt last year. Argentina owes \$13.8 billion to the IMF and another \$15 billion to other multilateral institutions, such as the World Bank.

During its economic crisis the government shouldered the debts of the provincial governments and stuffed the country's banks and pension funds full of bonds, called BODENs, which were then forcibly converted to pesos." The chart shown demonstrates these discrepancies ("A Victory?" 2005).

Kirchner's swap shop		
Argentina's public debt, \$bn		
	Dec 2003*	Post-swap†
Bonds eligible for the swap	104.1	36.2
BODENs‡	18.5	19.4
Provincial guaranteed bonds	9.7	10.5
IMF loans	15.5	13.8
Other multilateral loans	16.7	15.1
Guaranteed loans	14.1	15.0
Other loans	7.6	7.6
Short-term debt	2.5	3.2
Total debt	188.6	120.8
Hold-outs	-	20.8

*Corrected for the effects of peso-ification
†Assuming 80% participation
‡Bonds compensating banks for peso-ification
Sources: AGM; Ministry of Economy; *The Economist*

Figure 7. 2003 Debt Swap ("Argentina's Debt Restructuring" 2005)

The lingering debt after the 2005 exchange underwent another effort at restructuring in 2010 under Cristina Kirchner. After serving as first lady, Kirchner tried her hand at governance and has served as president of Argentina since taking over for her husband in 2007. Her economic policy strategy closely resembled that of her predecessor for her first term, which lasted until 2011. This is exhibited in the June 2010 bond exchange to resolve holdouts that resulted in Argentina decreasing its debt by \$12.4 billion. Argentine statistics estimated in 2010 that \$11.2 billion indebted to private investors remained after the exchange, an amount that has climbed to over \$15 billion with additional interest since then. The process depended on Kirchner's unyielding support to overrule legislature that prohibited

further debt restructuring after 2005. With necessary approval, the deal was finalized four months later (Hornbeck 10). After the completion of the 2010 exchange coupled with the 2005 exchange, an estimated 92% of bondholders traded in for newly issued debt, a reasonably “successful” exchange by most standards (Hornbeck 4). Though investors did not receive a 50% return on the bonds’ par value, the IMF was paid in full and the restructuring did not entirely bankrupt the nation (5). The Central Bank’s international reserves have steadily increased, up nearly \$5 billion after the 2010 exchange, but this does not necessarily signify improvement because the reserve-coverage ratio is climbing as well (“Argentina Financing” 2010). When *The Economist* made this assessment in 2010, budgetary plans utilized Central Bank-administered reserves to spur national industry growth (“Financing” 2010).

The BCRA (Argentine Central Bank) has a tight hold on monetary policy and possesses the ability to manipulate large-scale economic trends. To start, the Central Bank has significant control over interest rates and the amount of cash in the open market. Further, it can issue or buy bonds to manipulate market liquidity and devalue dollar purchases. (“Financing” 2010). This power is significant relative to that of the United States Federal Reserve, and government manipulation can be a dangerous force. Under the Kirchner regime, the Central Bank has confiscated private accounts and savings, imposed regulations that drove many entrepreneurs out of business, imposed price controls on commodity goods, and determined tariffs and export taxes. Its power has grown due to vast revenues from subsidized utilities and transportation. After Kirchner cut regulations that required Argentine

currency to be backed by international reserves in 2010, she has been spending excessively. In practice, she can now spend roughly double the previous limit. Though she argues the necessity of paying down debt, she has used her autonomy over the Central Bank to spend federal reserves on the welfare of her constituency (O'Grady 2012). *Wall Street Journal* columnist Mary Anastasia O'Grady described Kirchner's policy as manipulation and hinted at political business cycle theory when she stated, "The state creates the conditions for crisis. Crisis strikes. Politicians seize extraordinary powers. Crisis passes. Left behind is a popular perception that complete annihilation was averted due to government genius," (O'Grady 2012). This manipulation at the hands of the Central Bank involves other aspects of the economy as well.

The Argentine economy has been distinctly cash-based since the 2001 economic crash and subsequent instability. Naturally, citizens prefer liquid assets, usually in pesos or, preferably, US dollars, after many of their bank-held securities underwent extreme devaluation by government mandate. In 2010, Cristina Kirchner initiated certain measures to encourage citizens to rid themselves of hoards of cash stored in secret. In September, banks began to offer cost-free savings and checking accounts in hopes of increasing the number of bank customers. Further, banks reduced electronic banking transaction costs to ease the use of non-cash transactions. Although the government has made strides to shift away from a cash-based market, accomplishing this in full will be a challenge considering most real estate deals are still transacted in cash. These efforts caused a bit of controversy when, in 2010, Kirchner challenged the autonomy of the Central Bank

by paying off external debt with Argentine reserves. When BCRA president refused the government mandate, he was replaced. The new Central Bank president has alleviated tension with the national government by continuing to relax monetary policy and support spending on debt payments. The Kirchner regime interprets the role of the Central Bank differently than in the past and has proposed to add the “promotion of economic growth and job creation to its core function of preserving the value of the currency,” (“Financing” 2010). It is important to note that, despite these efforts, little progress has been made to stabilize the value of the currency, and official inflation statistics are widely considered to be inaccurate. Government statistics show an increasing inflation rate, but the acceleration at which the inflation rate is increasing has been discredited by private analysts (“Financing” 2010). Kirchner has worsened problems by showing a lack of interest in the increasing level of distrust among Argentine citizens towards her.

Argentina did not react strongly when it became evident that their government was doctoring inflation rates early in the Kirchner regime in 2007, but in 2010, inflation-linked bondholders lost at least \$2.3 billion due to incorrect numbers (“Lies” 2011). Accurate rates have not been hard to find since a plethora of private economists have hosted their own surveys and released more accurate statistics. In 2011 when “Lies and Argentine Statistics” was published in *The Economist*, private analysts estimated that inflation was about 25%, compared to a government-reported 10% (“Lies” 2011). The article discusses a looming presidential election that, although Kirchner won, could have been threatened by private economists’ published inflation rates. Leading up to reelection, this

situation was managed relatively undemocratically in light of how the Secretary of Commerce addressed private economists. The article states:

“That may be why Guillermo Moreno, the thuggish commerce secretary, is moving to stamp out the unofficial, but widely trusted, price indices. To do so he has dusted off a decree, penalizing misleading advertising, approved by a military dictatorship in 1983. In February he sent letters to 12 economists and consultants ordering them to reveal their methodology, on the grounds that erroneous figures could mislead consumers,” (“Lies” 2011).

The situation has considerably worsened in the last few years. Inflation has grown, and the government continues to publish inaccurate numbers. The graph below



shows the price gap, the discrepancy between the official and unofficial estimations of the percent increase of consumer prices (“Still Lying” 2013). This displays that the inflation rate is at least double the government published rate.

Figure 8. Price Gap (2006-12) (“Argentina’s Debt Restructuring” 2014)

These inaccuracies have cost the government more than just its credibility. When official statistics claimed that construction expanded by 4.7% in 2013, EconViews, a private firm, said the number was probably closer to 0.5%. Earlier in

Cristina Kirchner's term, this estimate varied by up to ten percentage points. Although the gap has narrowed, public numbers are still considered widely unreliable ("Still Lying" 2013). During the 2005 debt restructuring, GDP-indexed warrants were put in place so that if GDP growth exceeded certain limits, government payouts are necessitated. If economic growth exceeds a threshold of around 3%, Argentina must pay holders of the security an amount equivalent to a fraction of the difference between baseline GDP and actual output ("Warranting Attention" 2013). While private economists suspect that 2014 GDP growth will be about 2.8%, the government predicts a growth rate of 5.1%, or nearly double the more accurate rate. Though the gap is unsurprising, the \$3.5 billion payout that would be required of Kirchner seems a high price to pay for slightly higher GDP growth estimates ("Warranting Attention" 2010). Underestimating inflation has had quite a negative effect on official GDP calculations since the beginning of Cristina Kirchner's presidency in 2007. In September 2013, the government reported incredibly positive growth figures that will lead to the aforementioned payouts. It did so in the face of IMF criticism that could potentially cause its removal from IMF support ("Still lying" 2013). The graph below displays three factors manipulated by government statistics: the consumer price gap, GDP gap, and the gap in construction activity. All three statistical differences show that the Kirchner regime uses grossly inaccurate information as a basis for economic analysis and planning ("Still Lying" 2013).

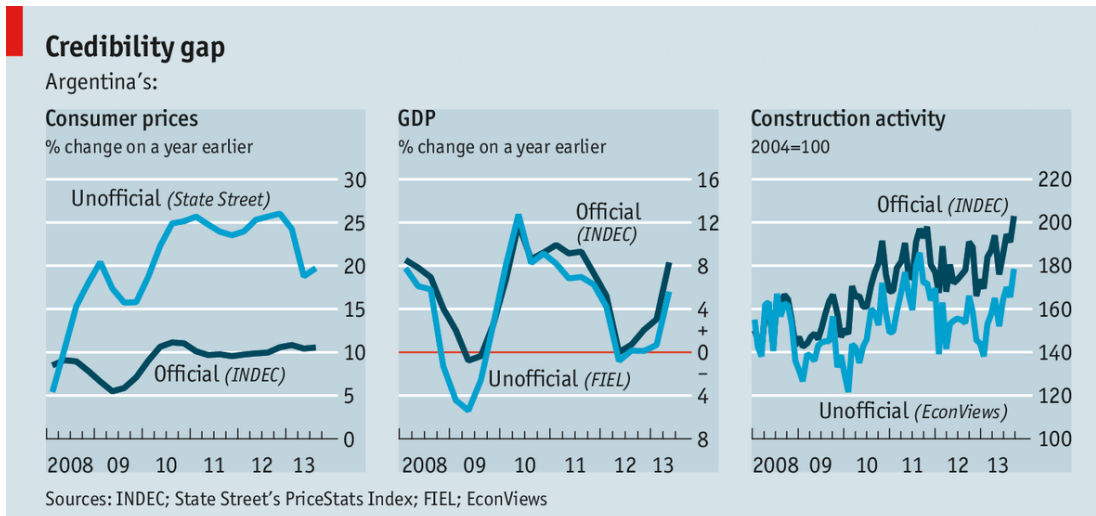


Figure 9. Credibility Gap (2008-12) (“Argentina’s Debt Restructuring” 2014)

Economic conditions in Argentina are currently in flux, and Argentina is obviously experiencing rising inflation and high interest rates. The Kirchner policymaking regarding central bank reserves and other various internal financing mechanisms is questionable, but the government is continuing with expansionary monetary policy despite deteriorating account balances. These trends do not bode well for Argentina’s chances of repaying remaining debt, especially with growing concern over capital and exchange rate controls (Hornbeck 12). The politics play into PBC theory as Kirchner attempts to maintain an artificial boom in the wake of her 2011 reelection. Though she is not currently running for reelection, her policymaking attempts to appease her constituency by increasing government spending, flooding the market with cash, and widening the job market. The long-term effects of these behaviors, such as increasing inflation, might lead to recession, and the trajectory of the near-term economy will in turn be negatively affected. Perhaps PBC theory cannot stand alone to explain these economic trends, and Kirchner’s actions are additionally motivated by the desire to maintain party power

or the simple lack of an organized opposition. Even so, the outcomes of Kirchner's policies will most likely negatively affect the trajectory of the economy.

CHAPTER VI. Data Analysis and Suppositions

Argentina's economy has a tumultuous past, as evidenced by two major crises in the mid 1980's and early 2000's. Though relative stability has prevailed since the 2001 crisis, Argentina's current economic position appears unstable. The nation is past due for another crisis, and the rates of inflation and unemployment are on the rise. A February 2014 article in *The Economist* stated:

“A year and a half ago Argentine President Cristina Fernández de Kirchner insisted that if inflation were truly 25%, as independent economists reckoned, her country would ‘explode into the air.’ After several years of manipulating inflation statistics to support such fibbing, it seems the government has finally started to face reality,” (“New data” 2014).

So, will Argentina face economic turmoil in 2014 as many analysts suspect?

On the brink of another economic recession, the February 2014 issue of *The Economist* featured a story entitled “The Parable of Argentina,” instructing countries with emerging economies how not to turn out like Argentina. The article states, “The lesson from the parable of Argentina is that good government matters. Perhaps it has been learned. But the chances are that in 100 years’ time the world will look back at another Argentina—a country of the future that got stuck in the past,” (“The parable of Argentina” 2014). This article outlines the many ways the Argentine government has failed its economy since 1914, highlighting the negative effects of Peronist rule on future international trade and self-sustaining liberal economic policy. Since 2011, Cristina Kirchner's regime has done nothing to reverse the

effects of economic demise but rather has perpetuated the cycle of economic strife created by her predecessors.

A. Economic trends in the first quarter of 2014

The present economic reality for Argentina is far beyond the reaches of Kirchner's broad and incorrect previous statements, with a new IMF-developed consumer price index putting January 2014 inflation at 3.7%. If inflation continues at this January rate, 2014 annual inflation would compound to be 55%, drastically outranking every other Latin American nation except Venezuela, but private economists estimate rates still higher than this. The discrepancy between inflation rates and government wage increases capped at 25% for the year is glaring. Police officers already went on strike for higher wages for most of December 2013, resulting in violence throughout the provinces. Their demands forced wage increases of 30%, causing government spending to soar. To cover these costs, the Central Bank proceeded to print new money, presenting a major threat to the value of the peso. If the devaluation of the Argentine peso over the course of 2014 is just as extreme as expected, the government is risking social chaos at the hands of civic employees.

Others are affected as well since the inflation estimates will affect poverty and indigence statistics. Those unable to afford basic goods and services ranging from food to health and education are considered below the poverty line, and those unable to afford just the cost of the basic food basket estimated by INDEC are considered indigent. Both of these estimates would increase dramatically given the expected inflation rate for 2014, and private analyst Juan Luis Bour calculated the

respective 2013 poverty and indigence rates at nearly double and triple the government-published rates. He expects Kirchner will stop publishing the basket prices so no calculation can be made at all since her Peronist regime is built around reducing poverty and championing the rights of citizens (“New data” 2014).

Currently, as foreign currency reserves dwindle, citizens exhibit a mistrust of the peso and the government’s ability to back their currency. During the last week of January 2014, Argentina lost \$1.25 billion in foreign currency reserves due to the peso devaluation, and possible recession is once again endangering the economy. Through the central bank, Kirchner has kept a tight hold on the value of the peso, and the bank has recently defended the currency at around eight pesos per dollar after letting it slide 15% in early January. They are burning through dollars doing so by paying off international debt, and reserves are down \$2.3 billion this year after dropping by \$4.1 billion in the fourth quarter of 2013. After peaking at \$52.6 billion in January 2011, reserves now stand at just under \$28.3 billion (Parks 2014). The chart below shows the drop in foreign reserves from their highest. The amount has nearly been cut in half.

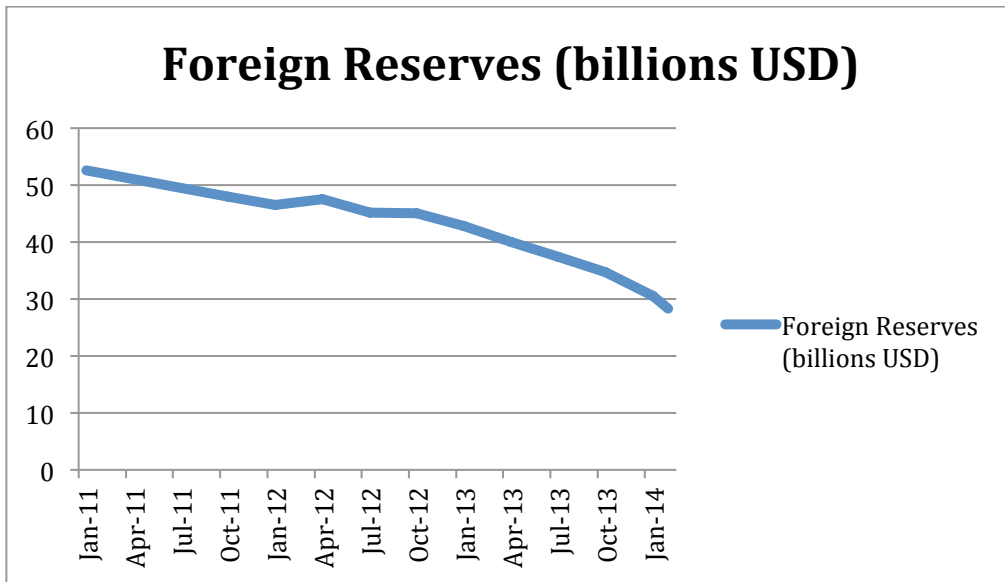


Figure 10. Foreign Reserves (2011-4) (Parks 2014)

This data has shocked Argentines into hoarding dollars purchased on the black market, an age-old pattern exhibited by untrusting Argentine citizens. A *Wall Street Journal* article published January 30, 2014, states:

“The devaluation has so far failed to achieve what is believed to be its main goal: to close the confidence-busting gap between the official and black-market rates. The gap has narrowed in recent weeks. The bigger the gap between black-market and regulated rates, the more the Argentine public fears the official exchange rate is overvalued and vulnerable to another devaluation,” (Parks 2014).

The article suggests this might indicate a run on banks if the reserve rate continues to steadily decline. This would be a nightmare equivalent to the 2001 crisis, and although price controls to maintain inflation have been put into place, the peso is

spiraling downward.

The Argentine tax agency AFIP is once again allowing dollar purchases after virtually forbidding them in 2011. It recently reversed the “clamp” Kirchner placed on dollar purchases at the outset of her presidency, but the blue dollar market has not wavered. Buying dollars, however expensive, allows Argentines peace of mind and provides the opportunity to purchase real estate or travel in the future (“Currency Controls” 2014). Those who can afford it buy real estate, and until recently when a punishing tax was introduced, they bought cars as a means of storing value. But for a long time the most common means of protecting savings was to buy dollars. This practice was personally helpful, but also drained Argentina’s foreign exchange reserves. After losing a third of foreign exchange reserves to Argentine citizens purchasing dollars, in 2011 Kirchner placed a hold on legal dollar purchases through the tax agency AFIP. Starting in late January 2014, Argentines legally purchased limited amounts of dollars for savings for the first time in nearly two years, and in less than a week, AFIP authorized purchases of over \$137 million. Instead of investing in the Argentine banking system, citizens who made withdrawals mostly chose to pay a 20% tax on dollars in order to invest freely abroad (Parks 2014). Though the opportunity to purchase dollars legally is newly available, no decline whatsoever can be seen in the dollar black market. As of February 2014, several black-market exchange houses in Buenos Aires, unsure of what the next week might bring, are still hungrily buying and selling at a rate of roughly 12 pesos to the dollar, well above the official rate of 8.1 (“Currency controls”

2014).

B. Economic policy reform: trade, price freezes, devaluation

Despite broad revisions to correct peso devaluation and the consumer price index, Kirchner's efforts come up short. No mention has yet been made of a larger plan for changes in fiscal and monetary policy. Freeing up the currency is a necessary step to stabilize the economy, but without a coordinated effort to rein in inflation, devaluation will continue fuelling price rises and further falls in the peso ("Currency controls" 2014). In February 2013, the IMF threatened Argentina with suspension or expulsion if it did not improve the accuracy of published statistics. When the IMF met to review Argentina's progress in December, it once again deferred action until March 2014, claiming to recognize the government's ongoing work in improving transparency. Though government published interest rates are on the rise, will all numbers match this new trend? Some say no. "INDEC is likely to cherry pick items for which the government has ordered price freezes and leave out those whose prices rise, thinks Juan Luis Bour of FIEL, a think-tank in Buenos Aires," ("Still Lying" 2013). Public unease is higher than ever in light of the gap between published and actual statistics. Kirchner's "statistical solipsism" has proven useless in light of the December 2013 police strikes that crippled eleven provinces and resulted in wage increases of 30% ("Still Lying" 2013). Argentines know that the economy is in a precarious state, and the condition is worsening day by day.

The United States, the European Union (EU), and Japan filed cases against

Argentina in the World Trade Organization in December 2013 that resulted in the repealing of licensing policies regarding foreign entities in Argentina. Even so, import restrictions meant to facilitate national production are non-coded and arbitrary, causing strife with Argentina's profitable trading partners (Hornbeck 17). Although the government lifted licensing restraints, it raised tariffs exponentially to 35% on over 100 products. Further, Argentina lashed out at the WTO ruling by raising complaints on US restrictions to Argentine beef imports. Any chance of increased exports and a more profitable trade sector has now significantly diminished due to unfavorable WTO rulings and ineffective export and production policies (Hornbeck 16). JF Hornbeck, an international trade and finance specialist, stated "Argentina's trade policies have brought retaliation from countries around the world. In April 2012, 40 members of the WTO, including the United States, denounced Argentina at a WTO meeting for the rise of protectionist practices. In May 2012, the EU took the next step and filed a suit against Argentina in the WTO over its import restrictions for being inconsistent with international trade rules," (Hornbeck 15). He condemns Argentina in his study on Argentine trade with the United States and hints that large-scale export profitability is in danger. Argentina tops the Global Trade Alert list of offensive nations with regards to discriminatory measures, tariff lines, sectors affected, and trading partners involved (Hornbeck 16). In Argentina's case, policy choices have introduced major distortions in the economy that increase the risk of financial crisis. Foreign currency accounts are dwindling, and Hornbeck asserts that policy adjustments put in place by Kirchner cannot accommodate current account deficits or problems with the market

exchange rate. Argentina does not have a constrained economic system, but policymakers act as if it does (Hornbeck 18).

Though many individuals within a democracy are able to focus on long-term investment, politicians rarely do the same. If pursued to excess, Kirchner's economic policies can have unfortunate long-term consequences. These consequences include inflation, a low rate of savings, damage to the trade balance, and job loss. Kirchner was easily reelected with the use of such economic policy, and she has continued to make use of the same PBC policies in an attempt to create an artificial boom for the last several years. Therefore, these effects have continually increased as time has passed. Although the Argentine economy was widely considered to be on the brink of collapse, Kirchner proceeded with policies that emphasized social spending and increasingly subsidized energy and transportation. Through her handle on the central bank, she continued flooding the market with cash and indirectly causing a rise in inflation rates to nearly 30% in January and February 2014. Figure 11 below was published by FIEL, an Argentine think tank that performs statistical analyses and reports contradicting inflation rates than official INDEC rates. Here, the orange FIEL rate contrasts the blue INDEC rate, displaying an obvious discrepancy between official and actual inflation. Even with the recent IMF-backed policy changes to correct INDEC statistics, the FIEL rate is still significantly higher (State Street 2014).

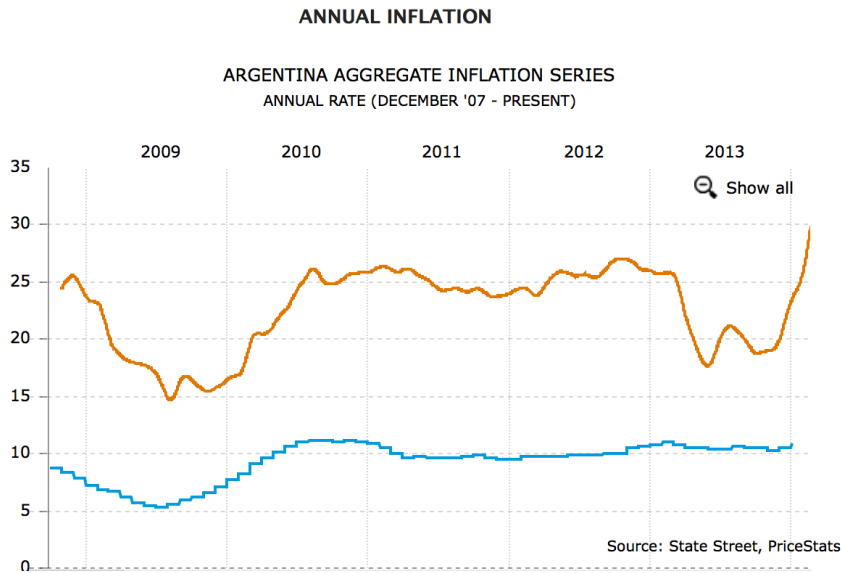


Figure 11. Actual versus Official Inflation Rate (2007-13) (State Street 2014)

To maintain an image of a flourishing economy post reelection in 2011, Cristina Kirchner created policy to freeze price increases and expand welfare benefits and pensions for government dependents (“Flying Solo” 2011). She even gave government employees raises of up to 30% (“Lies and Statistics” 2011). Her practices to win over votes and appease her constituency have negatively affected the present economic state. Kirchner exercises a significant amount of control over the Central Bank, and she has continued to let inflation climb by flooding the market with cash. The charter of the Argentine central bank (BCRA) has undergone many revisions during the Kirchner regime that threaten its autonomy, but section four still purports that “in carrying out its functions and powers, the Bank shall neither be subject to any order, indication, or instruction from the National Executive.” However, the Argentine government has struggled for credibility in its argument on the independence of the country's central bank after going through seven governors

since 2001. The removal of the previous governor for refusing to transfer funds accumulated in international reserves over to the government to be used for debt payments, does not suggest much independence (Levy 2013). The central bank is believed to be under direct control of executive powers, especially since Kirchner appointed a close political ally as central bank governor after removing the last one. Her ability to manipulate the economy has led to present day excessive inflation of over 30%. While these numbers climb, wage increases for government employees are now capped at 25% ("New Data" 2014). Although wage caps might help to control government spending, these policies could be devastating to average citizens.

C. Economic theory in the 2001 crisis versus today

The current exchange rate is not pegged, providing autonomy that was nonexistent during Menem's fixed exchange rate regime, but Kirchner has a tight hold on many other aspects of the economy. Menem operated under an economic plan that violated the Mundell-Fleming model, which states that no nation's economy can succeed with a fixed exchange rate, free capital flow, and sovereign monetary policy. After reversing the Convertibility Law in 1999, Argentina was doomed for crisis that came two years later in 2001. Relative to the era of convertibility, the peso is freely floating, but it is not exactly part of a capital market. Now the value of the Argentine peso is partially determined by currency controls to maintain an exchange rate within a band set by Kirchner, and inflation is so exorbitant that Kirchner has forced price freezes on many goods. The Central Bank

is under the control of the executive, and Kirchner has been able to manipulate the economy by flooding the market with cash and determining interest rates. She has even enacted laws to prevent free capital flow, especially with regards to agricultural exports. Though the economic practices of Menem and Kirchner oppose one another and their policies bear no resemblance, they are alike in one fundamental way. Both regimes function under strict executive manipulation, and both have produced similarly negative results. Though Kirchner reversed the privatizations enacted under Menem, both regimes have produced growing unemployment rates. Inflation is a chronic problem for Argentina due to regimes that have overvalued the peso while maintaining liberal fiscal and monetary policy, and Argentines have such little faith in their currency that they hoard US dollars in preparation for another economic crisis. This action is most likely spurred on by the memory of the 2001 crisis when dollar deposits were swapped for devalued pesos.

Neither Menem nor Kirchner has acted particularly wisely with regards to economic policymaking, and both have sought personal gain in trying to enact legislation that allows them to run for reelection. Kirchner only perpetuated the problems of the 2001 debt default created by Menem with excessive spending and an overinflated currency. The atmosphere surrounding the economy in Argentina is reminiscent of the 2001 crisis. Citizens have a well-deserved lack of faith in executive decision-making, and many hesitate to make risky investments in Argentina. Cristina Kirchner has exhibited policymaking in line with political business cycle theory like emphasizing social spending at the expense of inflation

and unemployment, and her skewed motives have left Argentina in need of repair. Though all politicians seek reelection, Kirchner has won votes by overzealously manipulating the economy. There is no viable opposition in the form of a counteractive political party to fight her on policymaking, and she has gradually seized more power by manipulating her control over fiscal and monetary policy, especially through her nominations for Central Bank officials.

D. What happens next?

To prevent outright crisis, Argentina must ensure that foreign currency reserves do not dry up entirely. One way to propagate growth and stability is to have a good 2014 harvest, since agriculture is the primary source of income in dollars making up the majority of the \$10 billion in exports in 2013. Government interventions have devastated wheat exports, Argentina's primary agricultural product and largest source of income ("Tensions in Argentina" 2013). According to the US Department of Agriculture, Argentina was the world's fourth largest exporter of wheat in 2006, but dropped to tenth place in the previous year. Wheat exports have plummeted from 16 m tons in 2005 to 8.2 m tons in 2013, and Argentina is risking the loss of significant global trading partners. Brazil was forced to import wheat from the United States and Uruguay when export bans prevented Argentina from supplying a sufficient amount, and Argentina was forced to default on January contracts with Brazil when the government did not lift the ban. Similar policies have destroyed Argentina's beef industry, and the country dropped from the third largest exporter of beef in 2005 to eleventh place last year ("Argentina's Wheat

Export” 2014). The agricultural industry that once kept Argentina afloat has plummeted into the abyss. Though this can be partially blamed on seasonal weather, policymakers made a conscious choice to limit industry regrowth and limit export levels. With a rise in inflation, the government has been forced to negotiate price freezes on 193 common goods in order to help citizens. In December 2013, the year-end trade surplus was \$272 million, falling \$1.5 billion short of the budgeted target. The fall translated to a 67% decrease compared to the trade surplus in December 2012. The lagging trade surplus has been a major contributor to the dollar shortage that is driving inflation through the roof (“Trade surplus” 2014). Although the country is not in outright crisis, it is far from being stable.

Refusing to acknowledge economic distress is no longer an option for Kirchner. INDEC is publishing more accurate inflation rates and poverty ratings show that Argentines cannot keep up mounting economic pressures from unsound policy. Macroeconomic conditions are harmful to the state of the Argentine economy as well. As inflation rises, the peso is gradually devalued. Individual citizens are suffering from the discrepancy in the rising price index and caps on wage increases. For this reason, aggregate poverty levels will continue to grow, and citizens will display mistrust of government officials, economic policy, and Argentine currency in particular (“New Data” 2014). Argentina has increasingly less purchasing power with the fall of foreign reserves, and foreign currency levels are continually dropping to alarmingly low rates. This is a product of government spending and the repayment of outstanding debt from the 2001 crisis and

subsequent restructuring (Parks 2014). In fear of approaching recession, citizens are withdrawing savings and hoarding dollars, perpetuating the drop in foreign account balances. Without increased exports and a better balance of trade, Argentina has little hope of pulling its economy out of this pattern (“Argentina’s Wheat Exports” 2014).

Capital flight from emerging markets has shaped the global economy in early 2014. The “emerging market crisis” threatened demise for many countries like Argentina, but as of February 2014, most emerging market economies are stabilizing. Though many will survive the potential crisis, will Argentina? The significant debt remaining from 2001 coupled with increasing inflation, unemployment, and capital flight could cause a negative reaction in Argentina because they are crippled with instability. According to the United Nations Economic Commission for Latin America, Argentina will not enter recession in 2014 but will continue to battle financial volatility and ongoing poor policymaking. This cannot be said with certainty, but in 2015, Argentina will be responsible to pay \$5.9 billion of local-law bonds.

The government’s current mechanism of currency devaluation could very well put inflation above 40% long before the end of 2014, according to Merrill Lynch analysts Marcos Buscaglia and Jane Brauer, who write, “This would decrease Argentina’s payment capacity, not improve it, and would therefore put the [2015 bond] payment more in danger,” (Farzad 2014). Current foreign reserve accounts stand at \$28.3 billion and are constantly decreasing. They are expected to continue

falling, and the already low balance is a potential threat for a run on banks (Parks 2014). As time passes, Argentina's likelihood of default grows, and little is being done to combat economic stagnation. Argentina's disregard for its perception in world markets has long been obvious, but it would seem that the government does not understand what they are "setting their people and infrastructure up for," (Farzad 2014). Business growth and capital formation is nonexistent in Buenos Aires as money flees and stability disappears. "The situation is a lot more serious. If we were to see them default in this environment, it would have global repercussions. While the world is very different than it was in 2001, I don't think other economies will escape without damage," (Farzad 2014).

Though a 2014 recession cannot be predicted with certainty, it is safe to say by 2015, debt default and capital flight will produce an economic downturn. Although real GDP growth is predicted for the upcoming year, GDP per capita is on the decline. Combined with trending inflation and unemployment rates, the near term future of macroeconomic conditions in Argentina is bleak. Argentine citizens feel similarly, and their inclination to withdraw foreign currency held in Argentine banks is indicative of their mistrust of the government. If this trend continues, the chance for a default in 2015 is significant, and these decade-old unpaid debts will almost certainly place an unbearable strain on the Argentine economy. As economic and social unrest grow, the nation is bound towards another crippling recession, and outright crisis is not out of the question.

CHAPTER VII. Conclusion

This thesis set out to answer a question regarding the near-term economic state of Argentina, thus making an informed attempt to predict the future. By analyzing global economic factors and Argentina's internal economic policy of the last decade, I attempted to answer this question: What is the trajectory of the Argentine economy in the current political climate? By comparing the current global economy to that of the late 1990's and early 2000's to determine congruent factors, I generated a short-term macroeconomic prediction. Further, with regards to the current political climate created by Kirchner's presidency, I analyzed the near-term future of politics for Argentina and how the present economic state might affect the nature of Argentine politics.

I asserted that the theory of Political Business Cycle proposed by William Nordhaus in 1971 can shed light on Argentina's past boom and bust cycle and may indicate the motivations of Kirchner's policymaking since 2007. Nordhaus suggested that politicians spend conservatively towards the beginning of a term and abandon austerity towards the end of a term when running for reelection. Kirchner's actions that coincide with PBC theory include flooding the market with cash to generate jobs and lower unemployment, spending on social interests, and cutting taxes. In the short run, interest rates and unemployment almost always fall, but recession looms large in the long term (Nordhaus 1971). PBC behavior has been evident throughout Kirchner's presidency, especially prior to her 2011 reelection. Subsequently, inflation and unemployment increased significantly and have been on

the rise since. This was fueled by Kirchner's attempt to create an artificial boom after winning reelection by continuing with social spending and tax cuts. Her Peronist constituency is primarily urban lower class, and the negative results of her strategic attempts to appease voters are manifesting themselves now in high inflation and unemployment rates. Her attempts to mend the economy by limiting dollar sales and prohibiting unlimited agricultural exports are failing, as evidenced by dwindling foreign currency reserves and significant peso devaluation in the first quarter of 2014. The PBC theory's prominence in Argentina compared to regional countries is significant.

That Argentina undergoes economic crisis approximately once a decade is a widely accepted fact for its citizens. This means that the nation is overdue for a crisis, and Argentines are withdrawing savings in dollar denominations in preparation for a crash. As I have already mentioned, the threat of a run on banks and another debt default looms large in 2015. Just last year, President Kirchner herself stated that the nation would "explode into the air," given inflation rates as high as private economists estimated. Actual inflation rates were in fact equal to the 25% estimated private analysts and have been rising since. Kirchner's regime intentionally falsified published data for an extended amount of time, and many Argentines have ignored their President's antics for years. Now, though, their obvious mistrust and lack of confidence in Argentina's executive could accelerate the rate of deterioration of the country's weak economy. If Argentines proceed to withdraw and send their savings out of the country for safekeeping, banks will not be able to insure credit and will default on citizens' deposits. Similarly, if citizens

continue hoarding US dollars, Argentine foreign reserves will dwindle, and the nation will default on its 2015 debt repayment.

I predict that Kirchner will proceed with economic policymaking consistent with that of her presidential term thus far. This means a continuation of limiting agricultural exports in an attempt to motivate internal production and boost the economy. The implications of protectionist policies are negative in practice, evidenced by 40 WTO member nations renouncing Argentina in a recent meeting. Argentina is guilty in terms of discriminatory measures, tariff lines, sectors affected, and trading partners involved, and their balance of trade is severely skewed. More than likely, exporters will default on contracts with other nations, and Argentina's debt will grow as GDP per capita and the balance of trade continue to drop. Although the Argentine economy was widely considered to be on the brink of collapse when Kirchner was reelected in 2011, she proceeded with social spending. This may come to halt as reserves dwindle, especially since she placed a 25% cap on wage increases for government employees. Other policies are less likely to cease, though, and she has chronically displayed liberal spending tendencies in the face of economic strife. Through her handle on the central bank, she has flooded the market with cash, contributing to a rise in inflation rates to nearly 30% in January and February 2014. This, too, is unlikely to halt. Her success in overtaking the Central Bank has enabled her to take control over the amount of cash produced and put into the economy. Therefore, if she follows her standard policymaking patterns, Kirchner is likely to continue printing pesos to pay off debts and perhaps stimulate

the economy. The implications of this are great; inflation will continue climbing and the Argentine peso will lose substantial value.

If policymaking proceeds as I have predicted, economic recession should occur in 2015. Given ongoing protectionist trade policies, the balance of trade will be poorly skewed, and Argentine citizens will suffer the negative effects. GDP per capita is likely to continue decreasing, and poverty rates will most surely go up. Inflation created by flooding the market with cash will be substantial contributions to these patterns of GDP per capita and unemployment. As citizen mistrust of the government leads to unrest, the economy is doomed to fail once again. The political business cycle theory predicts this result based on the behavior of the executive, and the trajectory of the Argentine economy seems to follow the pattern given by PBC theory. It explains the patterns seen in the economic cycle surround Kirchner's reelection, and it seems to be accurately predicting the future. Though the political business cycle seems to be in effect in today's Argentine economy, there might be other explanations for the economy's trajectory. Kirchner's policymaking is characteristic of traditional Peronist politics, and perhaps she is toeing the party line by utilizing social spending and similar policies to please her urban lower class constituency. Another possibility is that the cycle of economic strife is simply characteristic of Argentina. Even Menem was a Peronist, and though his policies do not match up with traditional Peronist ideology, perhaps Peronism goes beyond political and economic ideology. Peronism has been synonymous with Argentina for decades, and its politicians often act of their own accord with regards to policy making. As previously stated, it is a widely accepted fact that an Argentine

economic crisis occurs every decade. Peronism has dominated Argentine politics since 1946, intermittently disturbed by military regimes, so perhaps Argentina and Peronism are one in the same.

In the case of an approaching economic recession, it is important to question whether the nature of politics in Argentina will change. Since the Peronist party has prevailed since the Great Depression era, Argentina is accustomed to its brand of politics. Though other political parties exist, there is currently no organized opposition with the power to overtake the Peronists. Some analysts suggest Peronism destroyed Argentina, reversing the pattern of economic growth that gave Argentina global significance. Even so, Nestor Kirchner gained the presidency after the economy was destroyed under a Peronist regime. It would follow that the chronic cycle of economic strife in Argentina is unlikely to halt. The pattern will not be reversed by President Cristina Kirchner, and no time soon will citizens see fundamental changes that repair the political and economic cycle of Argentina.

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