



SPECIAL REPORT

Ten years of kirchnerism: pending issues of the argentine economy

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1. INTRODUCTION

Argentina is going through a process of change that will end in 2015 with the appointment of a **new government**. The possibility of implementing a constitutional amendment that would allow current President Cristina Fernandez de Kirchner to stay in office for her third consecutive term has already been ruled out. After the **defeat suffered by most of her candidates** in the last elections, the main candidates to succeed her are outlining a substantially different economic program in their campaigns.

Nestor Kirchner took office on May 25, 2003, under the worst institutional crisis that the country has ever faced and after obtaining a mere 22 % of the casted votes, since Carlos Menem, former President of Argentina, withdrew his candidacy. Kirchnerism, the combination of several political –not necessarily pro-Peron– and social sectors which Kirchner and his wife greatly promoted, defined this period as the “**Won Decade**”, characterized by a **strong state interventionism** in the economy that produced mixed results.

The Won Decade has its own website¹, one of the many launched by the government, whose title is: “**A standing State**”. This site shows some of the points that Kirchnerism describes as the **milestones of its economic management**: the strong growth of GDP, debt reduction and re-engineering of public debt restructuring, financial surpluses, nationalization of some strategic resources and the reduction of poverty rates, among others. The included data are undermined by the fact that the 2003-2013 decade ended with the National Statistic Body intervened and discredited.

In addition, Kirchnerism will leave office with an **almost isolated** economy, a scarce foreign investment, a sharp energy crisis, fiscal imbalance and a rising inflation.

The cycle is slowly coming to an end. Argentina has a history of **complex transitions**: since the first President elected by universal and compulsory voting, back in 1916, **only nine constitutional mandates came to an end on the due date**. The most recent example was Eduardo Duhalde, the political sponsor of Kirchner, who had to hold early elections due to the assassination of two social activists. Duhalde,

¹ <http://www.decadaganada.gov.ar/>

“This world has a high liquidity, favorable to emerging countries such as Argentina”

the Kirchner family and the main candidates for the Presidency have the same political origin: **Justicialism**, a big tent or catch all party that has dominated the political landscape since the consolidation of its leader, General Juan Domingo Peron, in the mid-20th century.

The various features of Peronism will undoubtedly be a **key vector** in this transition². Rather than analyzing the political outlook, this paper aims to review and study the challenges that the next government will need to face from an economic point of view.

2. THE WORLD, EMERGING COUNTRIES AND THE OPPORTUNITIES OF ARGENTINA

The international context remains stable. This world has a high liquidity, **favorable to emerging countries** such as Argentina.

The world’s largest economy, the U.S., still needs to face employment challenges and the situation is unlikely to improve during the remainder of Barack Obama’s term.

The U.S. recorded a Government Debt to GDP of 100 %, exceeding

the ideal figure of Maastricht, 60 %, self-imposed by Europe in the past, but well-below the Japanese debt of over 220 % and that of several European countries, which average 150 %.

The U.S. economy has had low growth levels since 2008 and has been unable to compensate for the destruction of 8 million jobs that the crisis entailed. Unemployment is near 7 %, a rather high figure for the United States. To this must be added the significant fact that the average duration of unemployment is 40 months, doubling the figure recorded in 1981, for example.

The European process is lacking coordination and leadership. The IMF is still far from having enough reputation to impact the agenda. The G7 was replaced by the G20, but the latter is not suitable to promote global coordination. The G2 (China and the U.S.) seems to be the most relevant group in today’s financial architecture.

Furthermore, Greece -a minor player as regards GDP- and **other non-aligned countries still represent a problem, which threatens to spread to other countries**. The problem is the fact that Greece, unlike

GDP	Per capita GDP	Average monthly income
2003 USD 129,597.1 million	2003 USD 8,190	2003 \$ 2,136
2013 USD 481,554 million (projected)	2013 USD 11,559	2013 \$ 3,707

² For example, in the last elections in that main constituency of the country (the province of Buenos Aires), the winning party (Frente Renovador), the defeated ruling party (Frente para la Victoria) and the fourth group (Unidos por la Libertad) are Peronist parties. Their votes accounted for 80% of the total votes of the district.

“Latin American context is characterized by a strong growth and Argentina should seize this window of opportunity which has been open since 2000 to take advantage of the globalization process”

Argentina, does not have soy or a similar product that might generate a growth cycle similar to that of 2003. Finally, Greece does not have an own currency it can devaluate either.

Chinese development has continued apace and the country has complained about the pressure exerted by the U.S. to modify the value of the yuan; to further appreciate it. It is its main foreign creditor. Japan is not far behind as a U.S. creditor.

The context for the emerging economies is positive thanks to the liquidity and stability of the dollar, which can be clearly seen in the sound price of commodities. The threat that the emerging countries need to face is the return of the upward cycle of interest rates, as it would negatively influence the good growth cycle that the region has been experiencing since 2010. It is already being felt in the depreciation of the Latin American currencies.

The international context is stable, despite the frequent nervousness of the stock and bond markets. The U.S. growth is quite solid and might continue unaltered, despite the current account deficit that the country has been facing since

1990. China and India still have high growth rates and request more and more products from the region. The Latin American context is characterized by a strong growth and Argentina should seize this window of opportunity which has been open since 2000 to take advantage of the globalization process.

3. LONG TERM OUTLOOK OF THE ARGENTINE ECONOMY

The Argentine democracy is about to turn 30 and the socio-economic balance is not promising despite the progress made and the achieved objectives. So far, democracy has not entailed a material prosperity for the majority of the population. More specifically, since the peak of the economic expansion of convertibility (1998), **little progress has been made during the Kirchnerism era in terms of activity and a key area has suffered a major setback: inflation stands at 25% and will probably grow throughout the coming year.**

The economic model is exhausted and it is expected to converge towards zero by 2015 with no apparent risk of a severe crisis. However, **in the long term Argentina will experience a**

Exports	
2003	29,375 millions
2013	85,000 millions (projected)

Imports	
2003	13,083 millions
2013	73,000 millions (projected)

Monthly Inflation	
2003	13.4 %
2013	10.5 % (official)/ 25.4 % (private)

International Reserves	
2003	USD 11,045 millions
2013	USD 31,900 millions

Public Debt	
2003	USD 178,000 millions
2013	USD 184,741 millions

“Another challenge: revitalizing Mercosur, which has shown signs of institutional weakness for years as well as important macroeconomic imbalances”

positive scenario thanks to the international context of economic recovery, the vigorous trend that is taking place in the Asia-Pacific region, the solid public policies in the region and the expected sound price of *commodities*.

In order to avoid a short-term approach and focus on the long-term, this paper will include a series of factors to promote development. They are by no means the elements required to complete the pending agenda. It is awkward to highlight, once again, ideas that have been repeated over and over. These problems have been analyzed repeatedly in order to revert the current populist approach.

The first point is **organizing a macro-economy** with solid fundamentals, which should solve the exchange rate lag, the distortion of relative prices, inflation, subsidies, fiscal deficit and current account deficit,

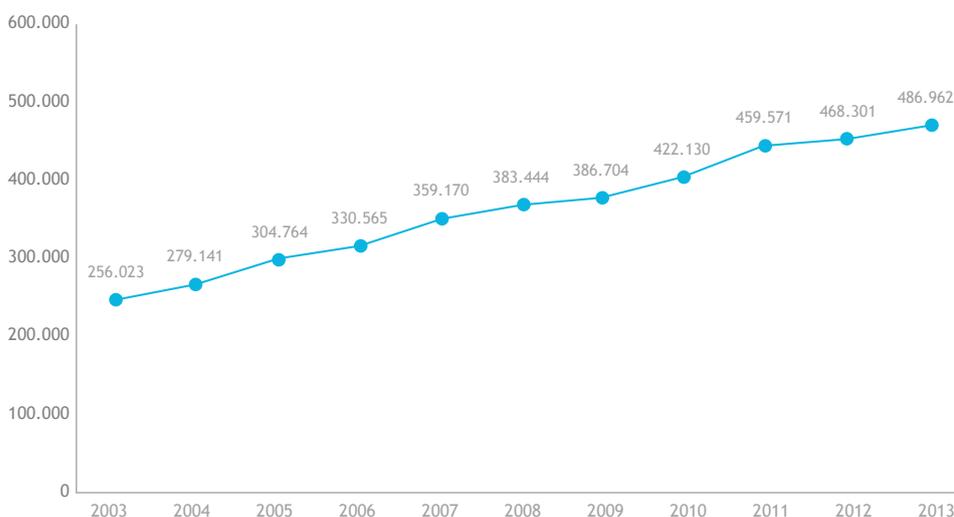
among other issues. In this macroeconomic point of view it is essential to have an **independent and stabilizing Central Bank**.

The country is isolated, a greater international integration is lacking. Argentina only accounts for 0.4% of the global exports and should aim to increase it to 1% by 2025. This implies further promoting other exports to complement the major sectors (oil, automotive and tourism). Argentina has the Vaca Muerta oil field, one of the largest oil and gas reserves in the world and a unique opportunity to become a net exporter of energy. The shale oil and gas project is ambitious and its implementation will require large private investments.

As regards the productive structure, it seems as if **the national economic groups should play a larger role**. In this decade, there has been little growth among the more traditional groups, with a few exceptions; no important new groups have appeared and those who did do not have a great external integration. The national conglomerates that were developed thanks to their links with the Kirchner administration will need to demonstrate their capacity to adapt themselves to the new patterns of power.

Another challenge: **revitalizing Mercosur**, which has shown signs of institutional weakness for years as well as important macroeconomic imbalances. This is a strategic space to promote the integration of other countries into the region. Brazil’s dynamism, the undisputed leader

REAL DEVELOPMENT OF GDP
—millions of pesos—



Source: National Ministry of Economy and Public Finances

“The main pending issue in this sector is to implement a new law on shared federal tax revenues with a truly federal spirit to boost the regional economies”

of Latin America, encourages the region to take specific measures to deepen the customs union.

On a different note, for the economy to consolidate and show a greater competitiveness it is essential to carry out a **comprehensive tax reform**. There are many distortionary taxes within a regressive general scheme. The main pending issue in this sector is to implement a **new law on shared federal tax revenues** with a truly federal spirit to boost the regional economies.

Perhaps the worst point of the last three decades of democracy is the fact that **25% of the households live in poverty**, a “scandal” as described by Pope Benedict XVI. On the other hand, the income distribution has been “Latin-Americanized” and could improve if education ensured greater employability. It is well-known that Argentina has had poor results in the PISA test in recent years (a recognized education test). This is a key issue in the knowledge society. Argentina, a leader in education until the 60s, has witnessed how this field has significantly worsened over the years.

The decade of the Kirchner administration has shown that

the main problem of the country is of political nature: the economy is subordinated to this dimension. It is crucial for the party system to be normalized and to enhance the national institutions, as shown by the WEF Global Competitiveness Report. Argentina could become an emerging country by 2020 if it manages to **enhance its competitiveness**. This is the goal that Chile seeks to achieve as well. Today, Argentina ranks 104th out of 148 countries.

The reforms carried out in the 90s were incomplete and sometimes a plain mistake. The model of the 90s promoted the internal and rent-seeking market through an approach similar to that of the early Peronism. Thorough reforms need to be implemented once again.

In line with the approach of Daron Acemoglu (MIT), the country should set an agenda promoting inclusive institutions. We are currently witnessing an approach that promotes “extractive institutions” in which the political sphere tries to cut corners without addressing the underlying problems. It is essential to restore an environment that establishes clear rules, in which the market plays a greater role. This atmosphere has to be characterized by a systematic search for consensus

National Budget
2003
\$ 66,173 millions
2013
\$ 628,629 millions

Unemployment
2003
17.25%
2013
6.9%

Poverty
2003
47.8%
2013
5.4% (official)/26.9 % (private)

Monetary Base
2003
\$ 33,740 millions
2013
USD 295,335 millions

Fuel Imports
2003
USD 500 millions
2013
USD 9,370 millions

“Argentina’s fiscal deficit is still below that of the European countries facing a debt crisis, but is already close to 3% of the GDP, above the average of the currency board”

between the various players of the productive system.

4. INFLATION: THE MAIN ISSUE OF THE ARGENTINE ECONOMY

Let us analyze the main problem of the Argentine economy, a historical obstacle to the development of the country: inflation. The agreement on prices carried out this year by the Secretariat of Trade has been a systematic attempt by the Government to promote stability, although it has yielded minimal results. A comprehensive anti-inflation plan is pending.

According to Heymann, the most important national expert on this subject, the current inflation rate could be considered as moderate. However, our experience with this problem has

always been negative. Inflation has never been neutral for the economic system; the annual inflation rate has stabilized at 25% and does not seem to continue rising. However, it cannot be guaranteed that it will drop easily either.

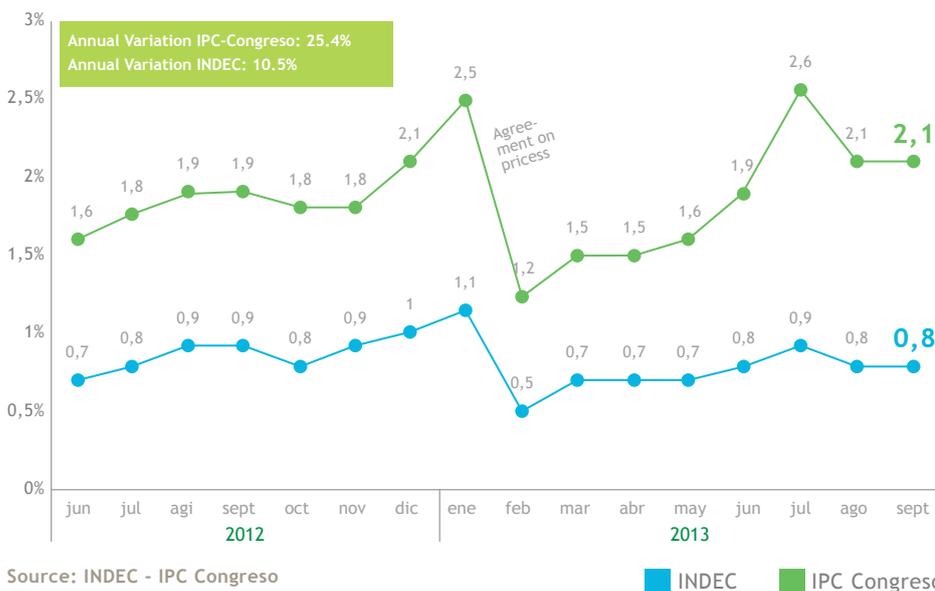
Thus, it is interesting to carry out a root cause analysis of the Argentine inflation. The country has had a double-digit inflation since 2007 and is the result of inter-related factors.

- **Fiscal imbalance.** It is increasing after several years of primary surplus. The temptation of resorting to financing through inflationary tax is high. Argentina’s fiscal deficit is still below that of the European countries facing a debt crisis, but is already close to 3% of the GDP, above the average of the currency board.

- **Scanty investment.** The lack of supply translates into the aggregate demand affecting the prices.

- **Monetary expansion.** Argentina has a Central Bank that completely depends on the Executive Power. The amendments to the Argentine Charter facilitates loans from the Central Bank to the National Treasury. The monetary program that was announced in December is not an anchor to contain the expansion of the Base Money. The expansion rate is high,

DEVELOPMENT OF INFLATION



“It is known that during the Kirchner administration, the public spending/GDP ratio exceeded 50%, well-above the levels recorded during the governments of Alfonsín and Menem (30%)”

close to 30% annually and directly increases inflation.

agents, 25% seems to be the lowest possible level.

- **Struggle over wealth-distribution.** The constant pressure exerted by the unions to raise wages in the context of the collective bargaining negotiations has entailed higher labor costs which in turn translate into higher prices.
- **Oligopolistic market structures.** Value chains generate prices based on non-competitive practices. This argument is used by heterodox economists, sometimes in an exaggerated manner, since there was no inflation between 2004 and 2006 and the current industrial structure is the same as back then.
- **Public expenditure.** This factor is closely linked to the fiscal deficit issue. It is known that during the Kirchner administration, the public spending/GDP ratio exceeded 50%, well-above the levels recorded during the governments of Alfonsín and Menem (30%).
- **Lack of an “indicator”.** There are no official tools to measure the price increases. In this context, uncertainty contributes to an upward adjustment of inflation.
- **Inertia.** A constant inflation marks the future. For economic

5. PROSPECTS AND CONCLUSIONS

What are the costs of inflation? Inflation has distorting effects on the amount of gross investment. Moreover, it is responsible for the deterioration of the real exchange rate, back at the level recorded in 2001, when the Argentine Currency Board stopped. As it is known, the relative prices change and generate imbalances.

What reasons does the Government have to deny and ignore the inflationary phenomenon during all these years? They Executive Branch might have thought that the main objective was to achieve an expansion in terms of activity and not stability.

In the current context of economic slowdown we are not witnessing a decline in the rate of inflation as occurred in the crisis of 2009. It is increasingly important to tackle this problem, the most severe obstacle that the Argentine macro-economy has had to face since 2013 along with the fall of the level of exchange activity and the exchange rate lag.

In short, Argentina needs to overcome the macro-economic distortions and emulate the other countries in the region which have clearly “won” during the last two decades.

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