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Consequences of Populist Policies: A Case in Argentina

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Populism may be cited as one of the most popular buzzword in the international politics and economic world last year.

The definition of populism covers a wide range, and the word has been used not always in a negative sense. According to Prof. Ken Endo of Hokkaido University, it represents a “way of thinking to govern the state based on the common people’s opinions and preferences rather than those of the elites”, after separating the national into the populace (simple and common people) and the elites (people who are benefitted in many ways and corrupt). But the problem of populism is its characteristics that it creates an enemy, which is sometimes directed straightforwardly to the elites, otherwise to such culprits as “immigrants” or “free trade” that were promoted by the elites and turned to be viewed as a threat to the common people.

There is a country which adopted typical populist policies in the recent past and has been still suffering from their negative legacies. It is Argentina. Let us review its contemporary history and reaffirm the negative effects the populism had brought.

Let us think of populism in terms of economic policies as a governing style that takes ad hoc populist policies repeatedly being unable to persuade the people into sharing the painful burdens. In so doing, even “enemies” could be utilized.

Argentina suffered from hyper-inflation with a collapse of confidence in its central bank in the 1980s, but succeeded in conquering it in the 1990s by adopting a currency board system (with the exchange rate of the peso fixed to one dollar). In those days they had no foothold of confidence other than to rely on the confidence in the dollar.

However, the inflation gap that still remained in Argentina eventually produced a higher real exchange rate of Argentine peso with a decline in its competitiveness. It then triggered another balance of payments crisis, which forced Argentina in 2001 to suspend payments on its external debts.

In the 2000s, Néstor Kirchner (2003~2007)) and his wife Cristina Fernandez de Kirchner (2007~2015) took over the reign of government for a long time. They took a hostile view of neo

liberalism and belt-tightening fiscal policies, and the IMF which advised the country to take such measures, increasingly moving to take isolationist policies.

The country enjoyed an economic boom benefitted from high demand for resources, but the boom resulted in an overheated economy, bringing a higher inflation. The inflation rate, which had been moderated to around 10% in the middle of the 2000s, rose to around 25% and finally (in 2016) exceeded 40% under the Fernandez administration.

During that period, Argentina had adopted crawling peg system but the country did not allow its exchange rate to fall sufficiently to adjust the inflation gaps in domestic and external rates. Therefore the competitiveness in Argentina declined gradually, inviting an increase of imports followed by a worsening in its balance of payments.

President Fernandez repeatedly took ad hoc stopgap policies without implementing tighter monetary and fiscal policies that were necessary to combat the inflation. When the inflation became prominent, she manipulated the statistics. She froze the prices of the surveyed items to control the apparent inflation rate. However, the policy ended in creating a situation where goods sold at official price were always on a sold-out condition, only to push up the prices of other products sold at unfrozen prices.

When the discontent on the actual inflation mounted, the president tried to dissipate the dissatisfaction by cutting the fees on public utilities or maintaining them at low levels or increasing the payment to government workers. However, such policies invited an expanding budget deficits and deterioration of profits in energy producing entities, and accelerated a decline of investment.

Rising inflation and worsening balance of payments heightened the speculation on the plummet of the peso, spurring the demand for foreign currencies. Then, the government imposed strict foreign exchange controls. For example, when a local subsidiary of foreign car makers tried to import finished cars or their parts from their mother makers, they were required to export corresponding amounts to imports. For that reason, it came to happen that car makers scrambled for exporting even wines and shrimps. Interventions in corporate management also increased with a forceful nationalization of an oil company that was bought by Spanish capital, leading to a deterioration of relationship between the two countries.

Foreign trade shrank and citizens ran for dollar transactions in the black market pushing the exchange rate of peso in the black market sharply down. The stalemate of the economy became apparent and with the producers' withholding of goods, the discontent among consumers mounted high.

At last in the presidential election of 2015, the candidate that the Fernandez administration supported was defeated by Mr. Macri, a candidate from business world. However, he has succeeded big negative legacies from the chaotic management of the past administrations that lasted for a long time. The real growth rate in Argentina fell to the level of minus 2% in 2016,

with inflation rate rising at 38%, showing that the Argentine economy has been trapped in a typical stagflation.

Accommodate the wish of the public with commitment of policies that are pleasant to hear, take ad hoc policies brushing aside the economic principles whenever contradictions become apparent, and distract the discontent of the people by creating outside enemies. The present situation in Argentina is the consequence of such policies that have been taken during the past 12 years. It is up to us whether or not we take lessons from these experiences in Argentina.

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