

Macroeconomic Instability in Argentina, 1963-2003*

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Resumen

La inestabilidad macroeconómica disuade los planes de inversión debido a las interferencias que genera en la posibilidad de anticipar el comportamiento de variables claves del contexto. Este trabajo sugiere que Argentina tuvo históricamente una inestabilidad macroeconómica intensa. En los 39 años de política económica estudiados, hubo 19 cambios de orientación. Los ciclos de orientación ortodoxa duraron, en promedio, alrededor de tres años y medio, mientras que apenas superaron el año los ciclos de orientación heterodoxa. En consecuencia, los ciclos económicos -calculados en base al PBI- fueron cortos (3 años) y la volatilidad de los indicadores macroeconómicos fue internacionalmente alta.

Abstract

Macroeconomic instability discourages investment plans due to the interference it generates in anticipating the behaviour of key variables of the context. This study suggests that the Argentinean macroeconomic setting was, historically, highly unstable. During the 39 years of economic policy studied in this paper, there were 19 reversals in policy orientations. Cycles characterised by orthodox policies lasted about three and a half years on average, while heterodox cycles hardly overcame the year. Consequently, economic cycles -calculated on the basis of GDP- were short (3 years) and volatility of macroeconomic indicators was internationally high.

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1. Introduction

“In the Argentinean economy, the long term does not exist”

(Juan Carlos Pugliese, Argentinean Minister for the Economy for two years in the Arturo Illia government, and just over one month in the Raúl Alfonsín government)

This paper illustrates the historical pattern of macroeconomic uncertainty in Argentina, which has two bases. First, a focus on changes in overall policy illustrates one aspect of instability at the institutional level, that lack of consistency and stability in policy design was the rule in Argentina, which may have had an impact on individual behaviour. To illustrate this, the main changes in macroeconomic policy orientation since the 1960s are summarised in Section 2. Second, contrasting time-series of various macroeconomic indicators characterising the international and domestic contexts of Argentina and the UK will put into perspective the degree of volatility that has affected the Argentinean economy since the mid 1960s. This is pursued in Section 3.

The evidence presented here provides the empirical underpinning for the claim that Argentina could be considered as a country that has gone through macroeconomic structural uncertainty, manifested in both a policy setting that was unstable and a great volatility of virtually every macroeconomic indicator that can be examined.

This characterisation of Argentina's economic history, where unexpected changes in the framework conditions were more often the rule than the exception, may have contributed to developing a social dimension of individual behaviour that has been particularly favourable for the short-term, as many analysts argued (see, among others: Arza, 2005a; b; Fanelli and Frenkel, 1994; Kosacoff, 1996; 2000; Kosacoff and López, 2002; Porta, 1996).

2. Argentina 1963-2003: the historical context from a macroeconomic policy perspective

2.1. The scope of the historical survey

This section provides a synthetic review of macroeconomic policy in Argentina since the 1960s, to highlight the instability that occurred at the policy design level by describing the sudden fluctuations in policy orientation from orthodoxy to heterodoxy. The reasons why these policies were implemented or changed, and their social, political or economic consequences, are not discussed here.²

It is difficult to find any pattern of policy orientation in Argentina beyond a swing from one extreme to the other. There is no clear relationship between economic orientation and political orientation. Authoritarian and democratic governments introduced similar macroeconomic policies, whose orientation showed similar swings. Moreover, during periods of democratic rule, it was difficult for the population to vote according to rational economic thought, given that in different periods the economic orientations chosen by a single party could be wildly contrasting, or candidates once elected could change their orientation dramatically. Furthermore, the same government (and in some cases also the same minister for the economy) could put into practice opposing policies during their mandate.³

The present survey summarises the set of economic policy reforms that received the approval of the multilateral organisations that reside in Washington, primarily the International Monetary Fund (IMF) and the World Bank (WB), jointly named here as International Financial Institutions (IFIs).

Since the early 1950s the IMF has tied policy conditionality to their stand-by loans.⁴ In the 1980s the

2. For a more analytical discussion of economic policy in Argentina see: Damill (2005); Damill and Fanelli (1993); Damill and Frenkel (1987); Heymann (2000) and Schvarzer (1999); while a very encompassing and complete account of the facts concerning economic policy-making can be found in Gerchunoff and Llach (2003).

3. In a similar vein, Spiller and Tommasi (2003: 283) claim that “there is enough circumstantial evidence to characterize Argentina's public policies as often being too volatile, other times too rigid, showing inconsistencies over time and across policy dimensions, and more generally, of low and heterogeneous qualities”. In the paper, the authors argue that efficiency in policy making is the result of intertemporal political agreements, with the political institutions being the facilitators (or not) of those agreements. Using transactional cost theory applied to politics, the authors discuss the reasons why Argentinean political system had a traditional incapacity to develop those intertemporal agreements.

4. Argentina joined the IMF and the WB in 1956. In 1958 the country made an agreement with the IMF that included conditions of the kind recommended by the Washington Consensus (see below), e.g. reducing the fiscal deficit (Gerchunoff and Llach, 2003: 261). The first loan obtained from the WB was in 1961 (related to road projects) but adjustment loans related to macroeconomic policy (trade and financial reforms) were first made in 1987-1988 in the context of the WB's Baker Plan.

WB launched its Structural Adjustment Loans,⁵ which openly stated that funds from that source would be dependent on the recipient country agreeing to certain policy reforms (Easterly, 2005: 2). Since then, the role of the WB has become indistinguishable from that of the IMF (Ranis, 1997), or less cynically it could be said that they have become very complementary, and have coordinated their relationship with the developing world in pursuit of common principles. Thus, although the Washington Consensus (WC) adopted its name and current structure only in 1989, its principles were established long ago, rooted in the aftermath of the break-up of the Bretton Woods system in 1971, if not before.

For the sake of simplicity, I refer in this paper to ‘orthodoxy in policy orientation’ when policy prescriptions largely agree with the spirit of the WC. According to John Williamson the three main ideas behind the WC are: “macroeconomic discipline”, “market economy”, and “openness to the world” (Williamson, 2002: 2) and the WC’s ten main recommendations are (see for example: Williamson, 1998; 2000; 2002):

1. Fiscal discipline.

2. Reordering public expenditure priorities: a social state more than an interventionist state (e.g. cutting down subsidies to production and increasing basic health and education expenditures).

3. Tax reform: broad tax base with moderate rates.

4. Financial liberalisation: liberalisation of the internal banking system.

5. Competitive exchange rate: ‘competitive’ can be interpreted in various ways. For the purposes of distinguishing between orthodox and heterodox policy orientations, and corresponding with the *laissez-faire* principle, only flexible rate regimes will be considered here as being an orthodox orientation. In practical terms this is in line with Williamson’s original WC, as fixed rate regimes turned out more often than otherwise to trigger uncompetitive exchange rates.

6. Trade liberalisation.

7. Liberalisation of inward FDI: there was no con-

sensus about whether the capital account in general should be liberalised or regulated.

8. Privatisation.

9. Deregulation.

10. Property rights.

Eight of these ten are used here to evaluate Argentinean policy orientation: Principles 2 and 10 will not be considered because they require deeper analysis and some *ad-hoc* judgments to disentangle whether changes in these areas have moved policy orientations towards or away from the WC.

The point at which this policy review starts is somewhat arbitrary. It was important to have a sufficiently long period to illustrate the historical aspects of policy fluctuations, but at the same time one not too long to have faded from individuals’ memories. On average firms included in current micro databases, such as the innovation survey, were founded in 1963. Therefore, starting from 1963 should allow illustrating the macroeconomic context faced by the majority of firms currently producing in the country.

Moreover, 1963 marked the nadir before the upturn to the autochthonous golden age, with the economy showing positive growth rates between 1964 and 1974. During the period 1963 to mid-1974 GDP grew at an annual cumulative rate of 5%. This period then constituted the last economic boom before the economic reactivation of the 1990s,⁶ which is the last period considered in this paper. However, while in the 1960s policies responded to heterodox principles in economic thought, in the 1990s these principles were primarily orthodox. In addition, it was during the 1960s that policy-makers started to be aware that stop-go cycles were impeding or at least slowing economic growth, and were attempting to design policies to overcome the stop phases, which were usually related to balance of payments crises (Gerchunoff and Llach, 2003: 293).

Tables A.1 to A.6, in the Appendix, present chronological information on political changes, starting from

5. In the 1990s the Structural Adjustment Loans were generally known as SAPs and recently renamed the Poverty Reduction Strategy Initiative, presumably given the criticism these programmes received in terms of their failures to reduce poverty (see for example Stewart, 1995).

6. GDP showed positive growth rates between 1991 and 1998, and the annual cumulative rate of growth in that period was 5.7%.

the government of Arturo Illia (October 1963). They include a complete list of ministers for the economy and summarise the main aspects of macroeconomic policy-making in those areas⁷ included in the WC.⁸ The last column of the tables classifies time periods into *orthodox* and *heterodox* orientations according to whether decisions taken in these areas agreed or not (in general) with the recommendations of the WC. There were still some periods that do not allow a classification, either because there was no clear economic programme (just efforts to deal with the immediate short-term situation) or because the areas taken into account in this exercise showed opposite orientations. The information in this column is summarised in Figure 1.

2.2. Radical Party, President Arturo Illia: 1963-1966

Arturo Illia was president of Argentina for less than three years. He was a member of the Radical Party and was democratically elected, though through limited democratic procedures given that Perón, the working class leader, and his party had been proscribed since a military coup deposed Perón in 1955.⁹ The economic orientation under Illia's government was clearly *heterodox*: expansive fiscal and monetary policy, with credit allocation decided centrally. There were credit incentives to buy domestic products, incentives for non-traditional exports, and economic incentives for industrial promotion. The exchange rate policy was a main milestone of Illia's government. As early as April 1964 the government created a mechanism to avoid both national currency overvaluation (usually a consequence of fixed exchange rate regimes in inflationary economies) and foreign exchange instability (which is related to flexible exchange rate regimes in developing countries). The novelty was in adjusting the exchange rate periodically to the national inflation rate. In addition, controls were imposed on movement of international capital, in particular to discourage short-term inflows, and FDI was not treat-

Figure 1
Summary of policy orientation from October 1963 until December 2001

Policy Orientation		
Heterodoxy	Oct 1963 until May 1966	
	No clear programme	
	December 1966 until October 1970	Orthodoxy
Heterodoxy	November 1970 until May 1971	
	No clear programme. Just management of short term situation.	
Heterodoxy	June 1973 until September 1974	
	No clear programme. Changing policies to keep political support from opposite groups	
	April 1976 until March 1981	Orthodoxy
Heterodoxy	April 1981 until December 1981	
	January 1982 until June 1982	Orthodoxy
	No clear programme. State intervention to favour debtors	
Heterodoxy	December 1983 until November 1984	
	December 1984 until May 1985	Orthodoxy
Heterodoxy	June 1985 until March 1986	
	April 1986 until December 1986	Orthodoxy ==> Mixed
Heterodoxy	January 1987 until June 1987	
	July 1987 until July 1988	Orthodoxy
Heterodoxy	August 1988 until June 1989	
	July 1989 until December 2001	Orthodoxy

7. In Tables A.1 to A.6 principles 1 and 3 are grouped under the heading of 'fiscal policy', principle 4 under 'monetary policy', principle 5 is named 'exchange rate policy', principle 6 is referred to as 'trade policy', principle 7 is taken more generally under the heading 'capital movement', principle 8 is called 'privatisation' and principle 9 under the heading 'regulation'.

8. These tables were built using information from the following sources: Basualdo, et al. (2002); De Pablo (1995); Escudé and Cisneros (2000); García Vázquez (1995); Gerchunoff and Llach (2003); Luna (1988); Heymann (2000); Mallon and Sourrouille (1973); and Rapoport (2000).

9. Illia won with just 25% of the votes, the second largest (20%) political force being blank votes.

ed in the same way as domestic investment. The Illia government rescinded contracts that had been signed under the previous Radical government (i.e. Frondizi, Argentinean president from March 1958 till March 1962) with foreign oil companies, in order to invest in national oil exploration. Prices and wages were regulated, and policy-making decisions were taken independently of the IMF (Gerchunoff and Llach, 2003: 296-299). All these aspects classify Illia's government as being *heterodox*, as shown in Table A.1 and Figure 1.

2.3. Military government: 1966-1973

Illia was obliged to step down in June 1966 as the result of a military coup, the self-styled Argentinean Revolution. Three military regimes were successively in power over the next seven years. The first was that of Juan Carlos Onganía, who was President from June 1966 until May 1970, the second, Roberto Levingston until March 1971, and finally the Alejandro Lanusse regime, which restored power to a democratic government in May 1973. The supporters of the Argentinean Revolution included advocates of economic liberalism as there were of different branches of nationalism. Therefore, the economic policies implemented during these seven years followed no consistent economic orientation; only during Onganía's government, and only six months after he took power, could the set of policies in place be said to be following a fairly consistent economic programme. This programme was largely *orthodox* with some idiosyncratic elements, especially in respect of monetary and exchange rate policy. Exchange rate controls were suppressed and, after a strong currency devaluation, the exchange rate was fixed. There were no monetary restrictions, and money supply increased *pari passu* with the decrease in expected inflation. Public expenditure was reduced, in particular by reductions in the public sector workforce. In terms of trade policy, there were reductions in import tariffs, and non-traditional exports continued to be encouraged. Capital controls were relaxed, and many national firms were acquired by foreign capital. In addition, the

law on oil exploration mentioned above was reversed, which opened the game to foreign investment in this strategic natural resource. Moreover, this government enjoyed the support of the IFIs.

A student and workers' movement known as the 'Cordobazo' surfaced in 1968 and marked the beginning of the end of Onganía's government. The military government that followed maintained similar (sometimes more) orthodox policies, which were soon shown to be inefficient for controlling inflation in a context of political unrest and capital flight. In November 1970 there was a change of Minister for the Economy, with a representative of the *development school*, Aldo Ferrer, being appointed. After a currency devaluation, exchange controls were reintroduced and *heterodox* policy measures such as incentives to buy domestic were once again touted. However, these measures did not eliminate external restrictions, and a balance of payments crisis together with out-of-control inflation finished this government, the minister and even the ministry itself, as President Lanusse decided to discontinue the Ministry for the Economy. The government meanwhile devoted its energies to designing a way to leave the Presidency in democratic hands (with as low as possible political costs), and three different Secretaries of Finance in turn struggled to deal with short-term contingencies (Gerchunoff and Llach, 2003: 330).

2.4. Peronism, President Juan Domingo Perón (third Presidency): 1973-1976

In September 1973, Perón, with 62% of the votes, was elected President of Argentina for the third time. During his short mandate (he died while in office in July 1974) a *heterodox* economic programme, known as the "Pacto Social" (Social Agreement), was developed. The objective was to reduce expectations about inflation through agreements between workers, firms and government. The government used its strong political support to carry out this plan, and prices and wages were 'voluntarily' frozen. This was the core of a policy package that worked acceptably for a year.¹⁰ The plan

10. The plan started when Cámpora (a Peronist) was elected president in early 1973. He was in office for only a few months when a law emendation enabled Perón himself to participate in open elections.

also included some of the interventionist policies from Perón's first Presidency (1946-1952), such as nationalisation of international trade, centralised allocation of credit, moderately expansive fiscal policy, and nationalist speeches against FDI, alongside more recent policy acquisitions, such as decoupling the exchange rate (one official and fixed for trade and one decided in the financial markets), incentives for non-traditional exports, and efforts to open up new markets for traditional exports.

Although in March 1974 there were already negative signs, after Perón's death in July, political conflicts and struggles of self-interest between those that had previously supported the government marked the end of the "Pacto Social". Inflation was once again out of control, and policy swung, with no economic coherence, to satisfy factions of society with opposing claims. Also, political violence surfaced between the left-wing guerrillas and para-military groups (supported by branches of the government). Thus, when President Isabel Perón (Perón's wife, who was originally Vice-President) was deposed in March 1976 by what turned out to be the bloodiest military coup in Argentinean history, the population posed little resistance.

2.5. Military government: 1976-1983

The years under dictatorship of the "Junta Militar"¹¹ from 1976 to 1983 constituted the period of most horrific and systematic violation of human rights in Argentina. Thirty thousand people 'disappeared' and thousands of others fled the country to save their lives. Thus, in a context of seriously limited political and human rights, with the parliament closed and with a wholly newly appointed Supreme Court, in a period when a war was conducted against one of the world's biggest powers (the Falklands war against the UK), it is not necessary to include the swings of economic policies to convey a picture of the arbitrary nature of national institutions, the consequent contextual instabil-

ity and the defensive flexibility that was necessary for survival, and this time, not just in the market.

The economic policies did not equate with stability of any kind. During the first five years of military government, under Videla's presidency, uncompromisingly orthodox policies were implemented: restrictive fiscal¹² and monetary policy, strong reduction in import tariffs (although some quantitative restrictions remained), complete financial liberalisation, price deregulation after 1977, privatisation or liquidation of public companies (or public shares in mixed companies) especially in the manufacturing sector, etc.¹³ This was combined with exchange rate policies, ranging from flexible exchange rates in May 1978 to an 'innovative' system in December 1979, called 'La Tablita' (a series of pre-announced devaluations) that attempted to align local inflation with international inflation, but instead triggered strong overvaluation of the national currency because the inflation rate was above the pre-announced devaluation rate.

The economic policies were supported and financially backed up by the IFIs including the IMF, the WB and the Inter American Development Bank (IADB). This whole process resulted in strong national de-industrialisation (or *import restitution*), accompanied by a dramatic change in the economic structure, from labour to capital and from small and medium-size independent enterprises to large conglomerates.¹⁴

Three more presidents from the military forces succeeded Videla, one of whom was deposed by a military coup (Viola), another who resigned (Galtieri, after the Falklands war), with the third (Bignone) covering the transition to democratic elections and passing power to Alfonsín, a president from the Radical party, which was victorious in the elections for the first time since Peronism had ceased to be proscribed.

The policies introduced by these military presidents were short-term and swinging, their common

11. The "Junta Militar" was an agreement among the three branches of military power (army, navy and air force) to share power, alternating the head of the government according to an agreed schedule.

12. However, there was an increase in public infrastructure which particularly favoured the large national conglomerates (groups) in the country (Damill, 2005: 169-170).

13. For information on privatisations carried out from 1976 onwards see the web site of the Argentinean Ministry of Economy: <http://mepriv.mecon.gov.ar/> and Basualdo (2002).

14. See Azpiazu (1986) and Schwarzer (1983).

thread being the favouring of some groups over others. For eight months from April 1981, when Viola became President, the government tried various uncoordinated and unorthodox mechanisms to deal with the needs of some productive sectors (Kosacoff, 1996: 137). Interest rates were regulated; there were several devaluations; import tariffs increased; and an arrangement to nationalise private debt was implemented. Galtieri's government reversed all these measures and returned to previous orthodoxy in policy design: financial liberalisation, flexible exchange rates, restrictive monetary policy, tariff reductions, etc.

The government after Galtieri's reversed this again, and reintroduced interventionist policies that favoured debtors, as Viola's government had done one year earlier. The interest rate was regulated at lower than the inflation rate, so private debt was liquidated, with the general public paying for it through inflation tax. The government also compensated the banks with Central Bank loans offered at negative real interest rates (Gerchunoff and Llach, 2003: 377). At the same time, an arrangement was agreed about the exchange rate to alleviate the weight of foreign debt. Under this arrangement, the Central Bank guaranteed an exchange rate for future repayments, as long as debtors managed to refinance their debt for at least one year. In sum, the financial reforms overseen by Domingo Cavallo, the then president of the Central Bank, meant alleviation for the private and financial sectors and greater weight on the public sector, which continued to incur new debts through different mechanisms.¹⁵ In addition, at the end of 1982, a new regulation from the Central Bank enabled a plain conversion of private debt into national debt, as the government offered a public bond in foreign currency to cover the difference between what the

debtor paid in pesos at the pre-set exchange rate, and the actual debt in current foreign currency.

Therefore, the democratic government inherited not just the public debt taken to finance the public deficits of an illegitimate government, but also foreign private debt which had been nationalised by different policy arrangements, for which Cavallo, who ten years later was to create the Convertibility Plan, shared an important responsibility.

All in all, economic policies carried out during this period brought about a concentration of economic power in a handful of foreign enterprises, big conglomerates, and foreign creditors, all of whom as a consequence increased their influence on national policy-making (Basualdo et al., 2002: 7).^{16, 17}

2.6. Radical party, President Raúl Alfonsín: 1983-1989

The Radical party government (1983-1989) was a period of great instability in terms of policy orientation. Figure 1 shows that, over a period of 39 years I could identify 19 policy regimes ranging from *heterodoxy* to *orthodoxy*, six of which occurred under Raúl Alfonsín's presidency. The fight against inflation raged throughout his term of office. Although various recipes (from rather opposing points of view about what causes inflation) were attempted, Alfonsín had to resign before the end of his mandate, in the middle of a hyperinflationary crisis.

The arm-wrestling between the need to grow faster to fulfil the expectations that the return to democracy demanded, and the need to agree with the IFIs to enable a roll-over of the external debt, by and large marked the switch in policy orientation in this period. The indecision of the ruling government¹⁸ did not con-

15. See Basualdo (1987) for a review of capital flows affecting the public sector during the military government.

16. In an article in a management journal, researchers from the Austral University in Argentina recommend managers of multinational firms willing to do business in Argentina to seek support from, and establish ties to, national business groups. In their words, "(w)hile Argentina still rebuilds its financial, democratic, and judicial institutions, establishing such ties is likely to help firms increase their chances of not only avoiding unpleasant surprises from latest macro and micro economic policy changes but also *influencing their outcome*. (...) these ties are the mechanisms through which firms can help influence policies so as to benefit society, citizens, the local economic and social institutions and, of course, the firm's own chance of survival, profitability, and future international competitiveness" (Carrera et al., 2003: 42, my underscores).

17. It is interesting to note that the IMF gave political support to these policies in approving a stand-by credit at the end of 1982. To evaluate the political weight of this action appropriately it should be remembered that it occurred just months after the Falklands war (Escudé and Cisneros, 2000: XI: 54), with the obvious consequences that this had for Argentinean international relations.

18. Alfonsín won the election with 52% of the votes, which was a historic win for the Radical party given that it was the first time it had been victorious against the Peronist party. Thus, despite the likely political difficulties of governing Argentina without the support of Peronism, it must be acknowledged that the Alfonsín government did not start its mandate with weak political support.

tribute to policy consistency or endurance.

The government started with a *heterodox* programme mirroring that of the Illia government (Gerschunoff and Llach, 2003: 394), which soon became inflationary. An agreement with the IMF in December 1984 redirected policy to an *orthodox* path: restrictive fiscal and monetary policy plus devaluation of the national currency.

The landmark in policy-making of Alfonsín's government came soon after this with a *heterodox* programme known as the "Plan Austral" (June 1985 – March 1986). The plan developed out of the idea that fighting inflation meant dealing with inflationary expectations. Therefore, the key measures were regulation of nominal variables: prices were frozen, the exchange rate was fixed, interest rates were regulated, and there was no printing of money to finance public deficits. The programme was successful for a few months: GDP started growing while inflation decreased.

However, the government soon felt the need for liberalisation, in part due to difficulties in keeping the fiscal deficit under control when tariffs from public companies were frozen and inflation was not yet totally eliminated. However, the main reason was the fear that delaying liberalisation would be extremely harmful: the government wished neither to pay the cost of currency overvaluation nor to take the risk of the hyperinflation (Gerschunoff and Llach, 2003: 402) that could occur if prices were liberalised after being kept artificially frozen for a long time.

Therefore, a monetarist solution to inflation (restrictive monetary policy) was put into practice, but with no positive results; and some months later a second price freezing exercise occurred.

In July 1987 a new agreement with the IMF established the conditions that drove the policy orientation back to *orthodoxy*, but this time with a much broader scope: it included measures of financial liberalisation, flexible exchange rates, and a first attempt to privatise public companies (which had been blocked by the

Peronist party in the Congress). Its lack of success, especially in reducing inflation, obliged the government to try other solutions. The persistently high inflation, which had started in 1974, had created patterns of coping behaviour, which were embedded in norms and rules at national level (e.g. short-term financial contracts, automatic monthly indexation of wages, etc.), and were therefore not only hard to break but had become a source of instability and uncertainty (Damill, 2005: 166). Moreover, according to Damill (2005: 186-188), at the end of 1986, there was an increase in defensive reactions (partly due to the lack of evident success in policies adopted) which left the government with little space to manoeuvre.

Politically isolated in parliament, with very low credibility rates, and with most economic indicators against them, the government chose what was viable in the short term. In April 1988 it cancelled payments of public foreign debts (interests and principal). In August 1988, it made agreements with some of the big enterprises to reduce the increases in their prices and in exchange the government promised a reduction in valued added tax (VAT).¹⁹ This plan failed quite quickly, and by the summer of 1989 the country was already suffering from hyperinflation. The economic crisis soon triggered a social and political crisis that obliged Alfonsín to resign.

2.7. Peronist Party, President Carlos Menem: 1989-1999

The landmark in Carlos Menem's policymaking was the Convertibility Plan created by Domingo Cavallo in April 1991, which was celebrated by the economic establishment, both nationally and internationally. The plan finally succeeded in stabilising the national currency, and it was only then that the WC recommendations were largely implemented. Seven years after the plan was established, Argentina was being presented by the IFIs as an example for the world. Michel Camdessus, Managing Director of IMF, stated in a Press Conference at the end of 1998:

19. According to Basualdo, et al. (2002), this indicates that the Radical government prioritised the interest of local economic groups and foreign companies producing in the country, neglecting the interests of foreign creditors.

It is true that in many respects the experience of Argentina in recent years has been exemplary, including in particular the adoption of the proper strategy at the beginning of the 1990s and the very courageous adaptation of it when the tequila crisis put the overall sub-continent at risk of major turmoil. It is noteworthy that Argentina was probably the first in reacting by immediately strengthening its policy stance and, in particular, pushing ahead with banking sector reform, which of course turned out afterward to be one of the main elements of trouble in other parts of the world. Notable, too, are the efforts of Argentina since that time to continue its excellent compliance with the performance criteria under our arrangements and much progress in implementation of the structural reforms.

So, clearly, Argentina has a story to tell the world: a story which is about the importance of fiscal discipline, of structural change, and of monetary policy rigorously maintained. Of course, in the case of Argentina, in the framework of its convertibility plan, the basic principle that you cannot solve problems by relaxation of monetary discipline has demonstrated its virtues. (Camdessus, October 1, 1998)

Menem's era showed greater stability in terms of policy orientation, with policymaking clearly dominated by orthodoxy as defined in this paper. The Convertibility period started after two years of failed attempts that culminated in the second hyperinflation in 1990. The first two Ministers for the Economy were managing directors of one of the biggest conglomerates in the country (Bunge & Born). Erman Gonzalez succeeded them and was in office when the first and most controversial privatisations took place. Domingo Cavallo replaced him in March 1991.

The Convertibility Plan was launched in April 1991, and was defined as a 'shock' programme, openly aligned to the WC: Argentina would restrict its attempt to carry out monetary policy and would restrict its fiscal policy, as the way to achieve macroeconomic stability (Damill, 2005: 203). The main characteristic of the plan was to keep the exchange rate fixed by law, under a currency

board regime. Given the inertia of inflation, appreciation of the national currency was strong during the first years of the Plan (Escudé et al., 2001: 15). In total during the Convertibility period, the national currency appreciated by 60% in real terms against the currencies of a pool of trade partners (Escudé et al., 2001: 18).

Although the currency board regime was the most prominent feature, the Menem government was committed to most conditions in the WC. Most public companies (and all public utilities) were privatised, Basel agreements on financial liberalisation were carried out fully, there were no restrictions on capital movement, FDI was given equal treatment, trade liberalisation (which started during the Erman Gonzalez period) was speeded up, industrial promotion regimes were eliminated, and flexibility in the labour market was initiated in the public sector. At the same time, the fiscal deficit was reduced, although it should be noted that during the first years of this period, there was a very important injection of money via privatisations.²⁰

According to Basualdo, et al. (2002: 9) the privatisation process, which started in 1990, had strategic importance for the sustainability of the regime. The authors argued that this was the first time that the interests of both foreign creditors and powerful local groups (i.e. foreign companies and conglomerates) were satisfied by a single policy measure. On the one hand, the privatisations were a tool to pay foreign debt. On the other hand, in most cases there were foreign firms and big conglomerates the counterparts of the privatisation of public enterprises, which were businesses that involved low entrepreneurial risks. As a consequence, during the Convertibility Regime there were fewer of those interest struggles that had destabilised previous economic policies.

The context was favourable for attracting foreign capital, as international interest rates were low. This allowed the exchange rate to remain fixed, while avoiding external restrictions on financing trade deficits. The Convertibility Plan enabled and promoted the dollarisation of internal financial relationships,

20. See Table A.3.5 for a more detailed review of the specific policies implemented in the areas included in the WC.

which year after year significantly increased the costs of leaving Convertibility behind.²¹

In 1994 a constitutional reform enabled Menem to participate in the general elections for a second period. He won with a large margin and remained in power until 1999. Domingo Cavallo continued as Minister for the Economy but was replaced in 1996 by the former president of the Central Bank, Roque Fernández.

The economy grew quickly until the Mexican crisis at the end of 1994. A rapid agreement with the IMF put a stop to capital flight, and in 1996 the growth rate of GDP was again positive. It should be noted that despite Argentinean macroeconomic policy-making being largely aligned with WC recommendations, this did not help to reduce the stock of public debt, and public debt increased during the Menem Period by 145.5%.²²

Moreover, by the end of the decade the social and political climate was not promising. Unemployment increased sharply,²³ more people were suffering poverty,²⁴ and all public sector services (especially health and education) deteriorated dramatically. In addition, suspected and proven cases of corruption were spread over many public entities. Political crimes and terrorist attacks against the Jewish community alarmed the population. In this climate, it is not surprising that the Peronist party was defeated in the 1999 general elections.

2.8. Radical party and allies, President

Fernando de la Rúa: 1999-2001

The new president of the 'Alliance', which was formed by the Radical party and some other factions from the centre-left wing, was Fernando de la Rúa, a politician from the Radical party.

His government did not attempt to change the *status quo*. Quite the contrary, it remained stubbornly anchored to the currency board regime, which had

been shown to be unsustainable (or extremely costly) for at least two years. The currency board regime depended on inflows of capital from abroad, which were covered at the beginning by privatisations (via recovery of public bonds), then by FDI, and throughout by fresh funds from the IFIs.

However, in their campaign the Alliance had promised to stick to the currency board regime and they did so religiously. Convertibility and the government both fell at the end of 2001.

Both this, and the previous, government viewed abandoning the convertibility of the peso as a signal that would weaken credibility of the regime on the whole and would lead to defensive practices, including speculation against the national currency, which would sooner or later unleash a generalised crisis. Therefore, contrary to what would have been optimal in strict economic sense, both governments adopted a series of second-best policies that amended the negative effects of currency appreciation (e.g. increased tariffs on imports in 1997 and again in 2001), and other policies -or policy intentions- that would convince the public of the Government's commitment to defend the economic regime (e.g. privatised companies had dollar denominated fares which increased according to US inflation, dollar denominated government bonds, dollar denominated reserve requirements, fiscal austerity -'deficit zero' policy in 2000-, etc.). Signalling had been important since the beginning of the Convertibility Plan (recall that it was designed as a *shock* programme in many different policy areas to cancel out pessimistic expectations). However, in the last years of its life, policy-making was to a large extent conditioned by signalling; in order to transmit signals of commitment to the established economic regimes, the government imposed ever larger rigidities to the system that, at the end of the day, [only] increased the cost of abandoning the regime (Galvani et al., 2003: 22).

21. For example, in 2001, 75% of deposits and almost 80% of credits were nominated in dollars.

22. According to statistics provided by the Minister for the Economy of Argentina, the public debt in millions of dollars was 144.453 in 2001, which represented around 50% of GDP in 2001 and was 5 times the size of Argentinean exports in 2001 (See website of: Argentinean Finance Secretariat, 2005). For a very detailed analysis of the Argentinean indebtedness process during the 1990s see Kulfas and Schorr (2003).

23. According to the World Development Indicators produced by the WB, 5.8% of the population was unemployed in 1991 but this reached to 17.4% in 2001. In other words, unemployment tripled from the beginning to the end of the Convertibility era.

24. The same source reveals that 5.8% of the population were living on less than \$2 per day in 1992 (no data available for 1991), while in 2001 the number rose by 148%: at the end of the Convertibility Period, the number of people living on less than \$2 a day accounted for 14.3% of the population.

2.9. Policy swings: Concluding Remarks

Table 1 presents summary statistics on the policy changes discussed above. *Orthodox* policies have dominated Argentinean policy-making: in total, from 1963 to 2001 24 years were governed by *orthodox* policies, nine years by heterodox policies, and for six years no clear programme can be identified. Policy cycles were longer in *orthodox* periods (on average three and half years) than *heterodox* periods (on average only one year). Although less marked, this also applies to the pre-1990 period (i.e. up to the Menem government, which represented more than one decade of *orthodox* policy).

In sum, it was showed that policy swings are one of the main characteristics of Argentinean policy-making. Since 1963 until 2001 there were 19 different policy regimes, which usually implied a dramatic switch in policy orientation from *heterodoxy* to *ortodoxy* (and vice versa). Not surprisingly Argentina was in seventh place among 106 countries in terms of variability in macroeconomic policy between years 1970 and 1997 (Spiller and Tommasi, 2003: 383).

3. Indicators of macroeconomic volatility since the 1970s: a comparison between the UK and Argentina

3.1. The scope of the macroeconomic data analysis

As shown in the previous section the history of policy orientation in Argentina is very rich. By 2003, people in their 30s have experienced many different economic recipes, but little economic growth: GDP per capita in 2003 was lower than it was in 1973 (Figure 2).

This section describes the volatility of the Argentinean economy. However, I do not claim that Argentinean firms suffered from greater uncertainty than firms producing in some other countries (for instance other Latin American countries).

As there is no absolute measure of volatility that would allow classifying Argentina as a country whose volatility was high, the UK has been used as a benchmark. The UK was chosen because, albeit in the developed world, it was also long considered a relatively volatile economy. What is important is to achieve an empirical illustration that Argentinean volatility was high.

Table 1

Time duration of different policy orientations

	Period Oct 1963 - Dec 2001			
	Total		Average Cycle	
	Months	Years	Months	Years
Orthodox orientation	291	24	42	3,5
Heterodox orientation	105	9	13	1,1
No clear programme	66	6	17	1,4
Total	495	39		

	Period Oct 1963 - June 1989			
	Total		Average Cycle	
	Months	Years	Months	Years
Orthodox orientation	141	12	24	2,0
Heterodox orientation	102	9	13	1,1
No clear programme	66	6	17	1,4
Total	309	26		

Figure 2



Most of the data in this section come from the *International Financial Statistics* published by the IMF. For Argentina these data are complemented with information from INDEC (National Institute of Statistics and Census) and the ECLAC (Economic Commission for Latin American and the Caribbean) office in Argentina. Quarterly data since the 1960s were analysed.

The empirical evidence is organised as follows. Firstly, I present indicators that account for macroeconomic volatility, that is, volatility as a macroeconomic outcome (sub-section 3.2). The second step is to illustrate the possible sources of such volatile outcomes: was it those variables that were largely under government control (sub-section 3.3), or was the volatility an imported product resulting from globalisation (sub-section 3.4).

For some variables, volatility is measured as rates of growth, which are calculated differently depending on whether seasonality is expected to be important for the variable under analysis.

The quarter-to-quarter rate of growth is calculated for: nominal interest rates, money supply, exchange rates and terms of trade. It is defined as:

$$g_{x_t} = \frac{x_t}{x_{t-1}} - 1 \quad \text{with } t = \text{quarter}$$

On the other hand, for GDP, exports, imports, the openness coefficient and domestic prices, the rates of growth are calculated with respect to the same quarter in the previous year, defined as:

$${}_4g_{x_t} = \frac{x_t}{x_{t-4}} - 1 \quad \text{with } t = \text{quarter}$$

3.2. Volatility as a macroeconomic outcome

Table 2 presents descriptive statistics for variables representing macroeconomic outcomes: growth in real GDP, in exports, in imports, in prices and relative prices.

It can be seen that the Argentinean economy is far more volatile than the British economy. Standard deviations for all variables in Table 2 are significantly larger (at 0.01% level) for Argentina than for the UK. Moreover, the coefficient of variation is always higher for Argentina than for the UK.

From Figure 3 it can be seen that the growth rate of real GDP fluctuates widely for both countries, but is more extreme for Argentina in both boom periods and recessions. It is also apparent that Argentinean growth cycles are somewhat shorter than the British.

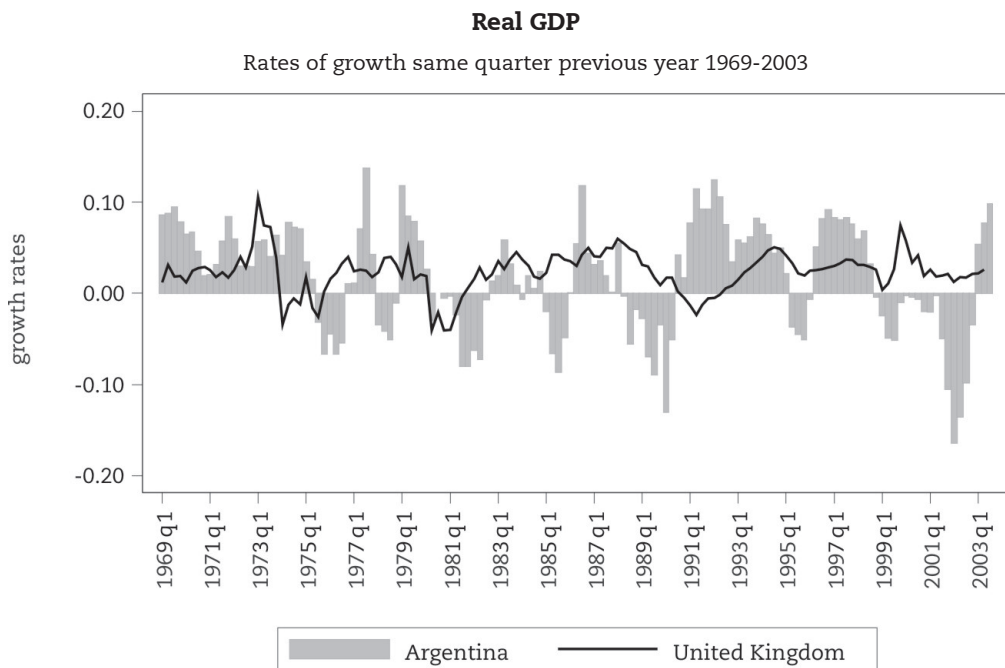
Figures 4 and 5 depict growth rates for foreign trade, respectively imports and exports. Volatility is clearly higher for Argentina in both cases, but while

Table 2

Macroeconomic outcomes									
Indicator	Country	Years	Quarters	Mean	Median	SD	Max	Min	CV
Growth rates of Real GDP	ARG	1969-2003	139	0,020	0,020	0,060	0,140	-0,160	3,340
	UK	1969-2003	138	0,020	0,020	0,020	0,110	-0,040	0,970
Growth rate of Exports FOB	ARG	1957-2003	183	0,100	0,070	0,220	0,960	-0,400	2,250
	UK	1957-2003	182	0,080	0,070	0,120	0,580	-0,190	1,420
Growth rate of Imports CIF	ARG	1957-2003	183	0,100	0,020	0,350	1,390	-0,640	3,430
	UK	1957-2003	182	0,090	0,070	0,120	0,570	-0,170	1,450
Growth rates of Consumer Price Index (CPI)	ARG	1957-2003	183	2,960	0,350	12,900	140,300	-0,020	4,350
	UK	1957-2003	183	0,060	0,040	0,050	0,270	0,000	0,840
Growth rates of Producer Price Index (PPI)	ARG	1960-2003	171	2,990	0,340	13,020	148,820	-0,060	4,350
	UK	1960-2003	171	0,050	0,040	0,060	0,250	-0,080	1,050
Relative Prices CPI/PPI	ARG	1979-2003	99	1,580	1,460	0,520	2,300	0,780	0,330
	UK	1979-2003	99	1,000	1,000	0,070	1,200	0,910	0,070

Source: INDEC – Argentina, ECLAC Office Buenos Aires & IMF Financial Statistics

Figure 3

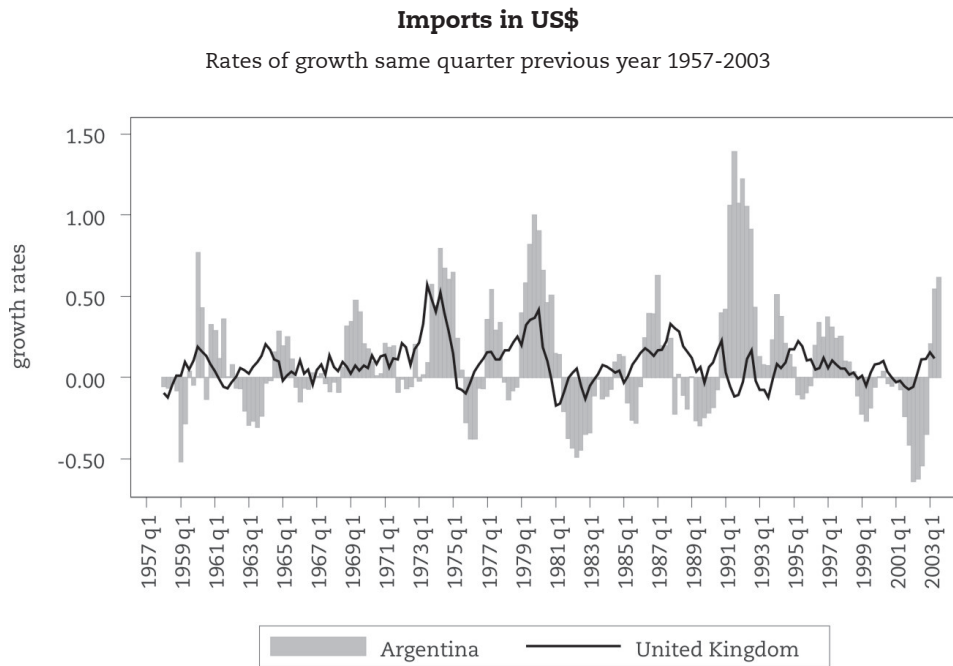


Source: IMF Financial Statistics

exports for the UK and Argentina tend to converge, imports do not. This might indicate that the capacity to export in Argentina is influenced to a larger extent by world market conditions, while importing is associated more with domestic factors. Import booms occur

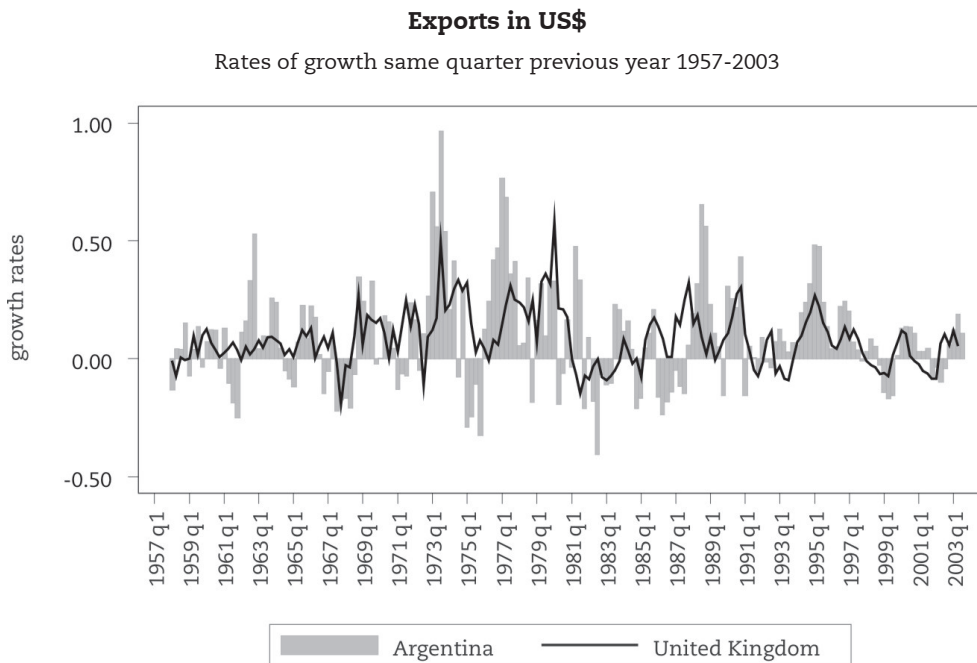
in the go phase of stop-go cycles (the correlation coefficient between imports and GDP growth is 0.73, while for exports it is 0.12), which has traditionally generated a balance of payments crisis that brings the economy to a standstill.

Figure 4



Source: IMF Financial Statistics

Figure 5



Source: IMF Financial Statistics

Figures 6 to 9 show the behaviour of domestic prices. In the 1970s and 1980s Argentina featured in the list of high-inflation countries. The comparison with the UK in Figures 3.6 Consumer Price Index (CPI) and 3.7 Producer Price Index (PPI) is totally dominated by these high-inflationary periods, even after dropping the extreme values.²⁵ More interesting are Figures 8 and 9: the for-

mer depicts the PPI index for the period under analysis (1992-2001), which was a period of stability in Argentina. Still the Argentinean variation is more pronounced and shows significantly larger standard deviations. Figure 9 depicts relative prices and the ratio can be seen to have increased in Argentina throughout the nineties, which is a side effect of currency appreciation.²⁶

Figure 6

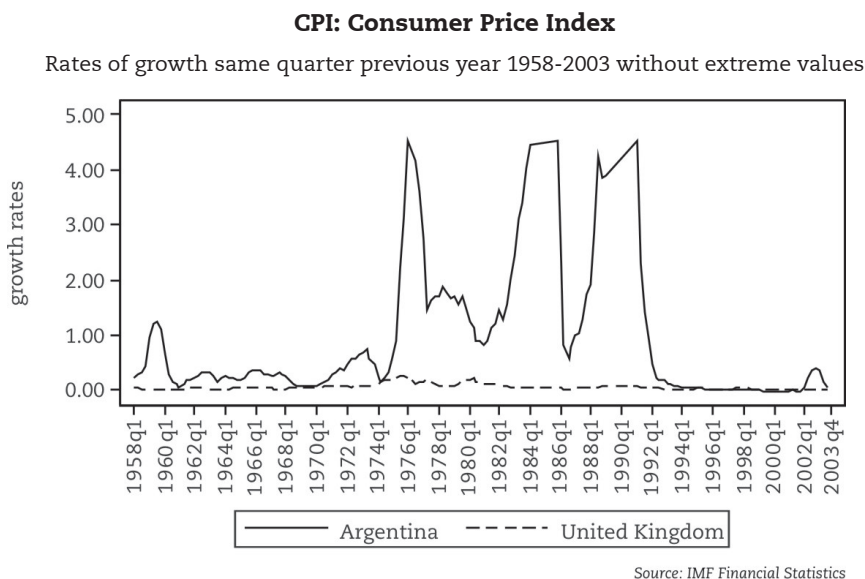
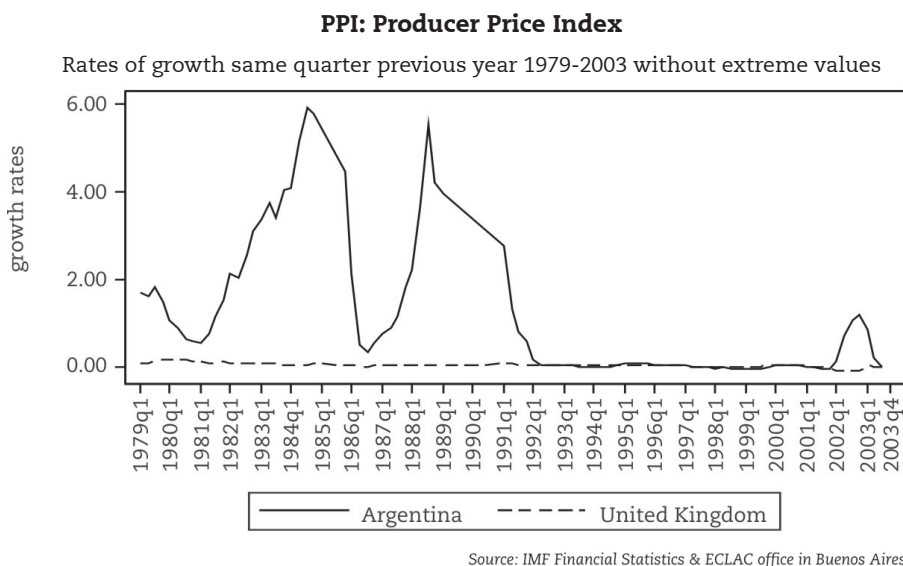


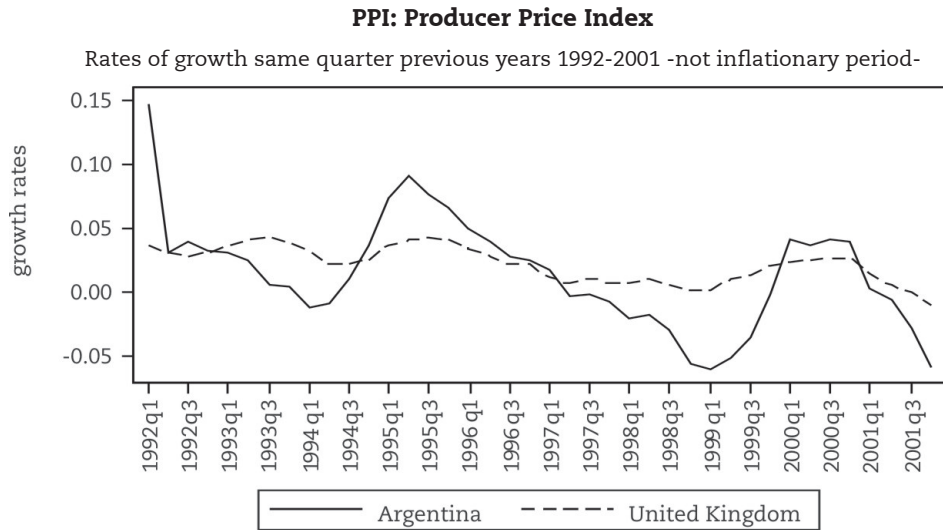
Figure 7



25. Univariate outliers were detected following Hadi's (1992) method, at the 1% level of significance. These outliers do not originate from measurement errors and therefore are not real noise. On the contrary, these extreme historical episodes might have had a persistent impact on behaviour in Argentina, as they must have pushed people to the edge of their behaviour patterns, and therefore strictly speaking should be considered in the analysis. However, as they do contaminate the statistics and make graphical representation less revealing of the volatility norm I decided to drop them. In any case, we need to take into account that, besides what is seen in the figures, there was a super-volatility that might have actually deepened the tendencies in behaviour.

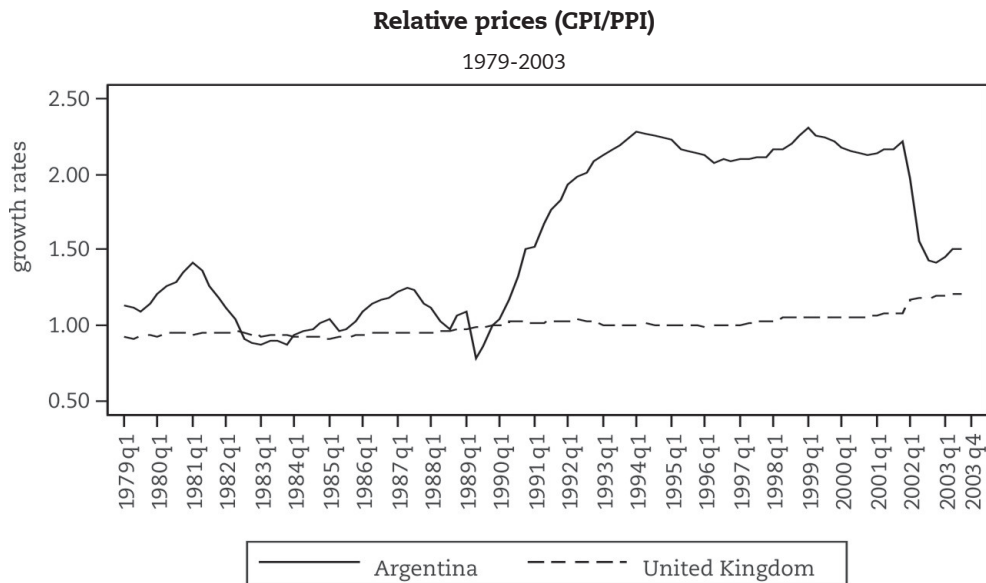
26. PPI can be considered as a proxy for the price of tradable goods, while CPI is a proxy for the price of non-tradable goods; with currency appreciation the former becomes relatively cheaper whereas the latter becomes relatively more expensive.

Figure 8



Source: IMF Financial Statistics

Figure 9



Source: IMF Financial Statistics & ECLAC office in Buenos Aires

Table 3 summarises the measures of volatility as a macroeconomic outcome: the standard deviations of the Argentinean series of real GDP are in fact double those for the UK.²⁷ Moreover, negative growth occurred in Argentina for about 40% of the time periods, while in the UK the probability of negative growth is just 15% for GDP and 18% for GDP per capita.

Finally, the length of economic cycles is examined using periodograms.²⁸ A periodogram graphs the spectral amplitude of a series. Peaks represent the length of time of each of the cycles that are verified. Given the technique used, once a cycle is identified it is filtered for the identification of longer cycles (that is to say that if a cycle of four years is identified, it is obvious that cy-

27. Given the deep crisis that Argentina underwent in 2001 the indicators were calculated for 1970-2000 as well as 1970-2002.

28. Removing the irregular variations using the Tukey-Hamming method softened the original periodograms.

cles of eight, twelve, etc. years will also exist, however they will not inevitably appear as peaks in the graph). The y-axis shows the spectral density that reflects the intensity.²⁹ Therefore a series with low values of spectral density could be interpreted as a soft or acyclical series. Similarly, a series showing peaks uniformly dis-

tributed over successive periods would imply that the variability is random.

Periodograms were built using annual and quarterly data for both countries' GDP growth rates³⁰ for the period 1969-2002 (Figures 10 to 14). The first point highlighted by the graphs is that the lengths of Argentinean

Table 3

Indicators of GDP Volatility				
Country	Period	Annual cumulative rate	Standard Deviation	Negative growth probability
REAL GDP PER CAPITA				
Argentina	1970-2002	-0.29%	5.17%	45%
UK	1970-2002	1.43%	1.98%	18%
Argentina	1970-2000	0.30%	4.74%	39%
UK	1970-2000	1.45%	2.04%	18%
REAL GDP				
Argentina	1970-2002	1.14%	5.26%	42%
UK	1970-2002	2.31%	2.01%	15%
Argentina	1970-2000	1.76%	4.80%	36%
UK	1970-2000	2.33%	2.07%	15%

Figure 10



29. However, two things must be taken account of: firstly, the values of the spectral density are not independent of the units of measurement; and secondly, when the x-axis is time, the periodograms will show an implicit positive trend and therefore the intensity must be evaluated relative to the length of the period.
30. For quarterly data the rates of growth were calculated for the same quarter in the previous year.

cycles are much more erratic than the lengths of British cycles (i.e. it is more difficult to identify peaks for Argentina). For the UK, cycles last approximately seven years (Figure 11) or thirty quarters (Figure 13). Given the randomness attached to the periodicity of Argentinean series, it is more difficult to find systematic cycles, but

where they are detectable they persist for only around three years (Figure 10) or 12 quarters (Figure 12). If we analyse a longer time series, for instance 1930-2002, we find similar patterns: randomness and short cycles (less than four years in Figure 14).

Figure 11



Figure 12

