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**Argentina: origin and causes of a timeless
crisis**

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INTRODUCTION

Argentina represents one of the most emblematic and complex cases of economic evolution in the 20th and 21st centuries. Since the beginning of the 20th century, the Argentine economy has undergone a series of profound transformations, characterized by periods of strong growth as well as periods of economic and political crises. In the last century, the South American country was one of the richest nations in the world, with vast reserves of natural resources and a rapidly growing economy, especially due to its extensive agricultural production and exports. The prospects were so promising that, at the end of the devastating Second World War, many people from Europe decided to move to the country in search of fortune. However, this period of prosperity did not last long. The political instability that characterized Argentina from the second half of the 20th century led to continuous changes of government, military coups, and significant social unrest within the national territory. Furthermore, during that period, an increasingly worrying economic situation began to emerge, characterized by disproportionate inflation, high unemployment and poverty rates, a massive public debt, and a GDP that struggled to grow. The result of these years of economic and political uncertainty, marked by wrong economic policies, led in 2001 to what is considered one of the largest sovereign defaults in history. After this catastrophic event, Argentina experienced years of economic and social recovery, interspersed with periods when the risk of a new default was always present. This thesis aims to analyze the economic dynamics of Argentina, trying to understand the events and decisions that led the Argentine government to default on its debts. I will analyze the political and economic history of the past century, focusing particularly on the economic policies adopted over the years and their long-term impacts. I will then delve into the significant event of the sovereign default, highlighting the choices made to try to lift the country's desperate situation and the role played by the International Monetary Fund. I will then focus on the economic and social decisions made by Argentine administrations up to the present day.

Specifically, in the first chapter, I will analyze Argentina's political and economic situation during the 20th century, with particular emphasis on periods of instability and growth. The deep political and social crises that heavily influenced the country's trajectory will be highlighted. I will focus on the rise of a crucial figure in the country's

history, Juan Domingo Perón. He gained popularity through his worker-friendly policies, so much so that during his presidency, Peronism was born, a political and social movement founded on nationalism, populism, and the welfare state. I will then analyze the years of the “Argentine Revolution,” the fierce military dictatorship led by General Onganía who deposed Arturo Illia. This period was marked by strong authoritarian repression and a series of liberal economic policies. I will cover the return of Perón and the government of his wife Isabelita, marked by severe economic difficulties that once again led to military intervention and the establishment of a dictatorship. This period is mainly remembered for its brutality and continuous human rights violations, but also for its neoliberal policies aimed at deregulating the national economy. I will analyze the return of democracy in Argentina, delving into the governments of Alfonsín and Menem. The latter’s presidency marked a turning point in Argentine economic policy. During his term, the Plan de Convertibilidad was introduced, fixing the Argentine peso to the US dollar at a one-to-one ratio. His economic reforms initially led to economic stabilization but laid the foundation for the devastating crisis that struck the country a few years later.

In the second chapter, I will examine the path that led to the great default of 2001, transitioning from a phase of apparent stability to a drastic decline due to a series of international currency crises and internal wrong choices. I will cover the currency crises in Mexico, Asia, and Brazil, which highlighted the vulnerability of the fixed exchange rate system to external shocks. I will focus on the end of Menem’s government, the new government of de la Rúa, and the worsening financial situation that led to the declaration of insolvency. I will then analyze the interim president Duhalde and his economic policies aimed at economic stabilization and restoring investor confidence. I will then extensively discuss the International Monetary Fund, particularly its structure and function. I will cover its relations with the Argentine government and the economic aid provided to the country, but also the criticisms received due to its conditionality policy, which imposed a series of austerity measures on Argentina, further aggravating social distress.

Finally, in the third and final chapter, I will delve into the government of Néstor Kirchner and his expansive policies aimed at stimulating domestic demand. I will address the difficult challenge of debt restructuring, focusing on the US Supreme Court ruling in 2012 that led to a new default two years later. The two governments of Cristina

Kirchner, which showed continuity in the policies previously adopted by her husband, will be analyzed. However, these two terms were overshadowed by accusations of manipulating economic data, which undermined investor and international institution confidence. I will then examine the governments of Mauricio Macri and Alberto Fernández, characterized by prolonged recession, high inflation, and increasing poverty. During President Fernández's term, the already severe economic situation was exacerbated by the COVID-19 pandemic, necessitating the implementation of emergency measures to support the most vulnerable sectors. To conclude, I will analyze the figure of the new Argentine president, Javier Milei. This very controversial economist has gained popularity through his anti-establishment messages, which have fueled a sense of change among the Argentine people compared to previous administrations.

CHAPTER I: Political and economic situation in Argentina during the twentieth century

Argentina has always been considered a nation prone to political instability mainly due to chronic inflation, poor monetary stability, and social unrest. Another aspect that has characterized Argentina in the past century has been military coups. The military intervened several times to subvert political power in the country; in fact, they felt entitled to intervene militarily whenever they felt, often arbitrarily, that the country's national integrity and sovereignty were in danger.

What many people do not know is that this was not always the case, in fact for quite some time Argentina was one of the richest countries in the world. In the late 1800s and early 1900s there was an economic boom in the country, in fact thanks to investments in railroads and ships, exports of grain and beef to Europe grew dramatically. Thanks to this the country became one of the largest exporters in the world, so much so that it earned the nickname “the granary of the world”, and as a result there was a substantial increase in per capita GDP as well. A reason for further development during that period was the incredible increase in labor and investment from Europe, the former coming mainly from Italy and the latter from Great Britain. The large influx of immigrants contributed to the growth and urbanization of Argentina, making Buenos Aires one of the largest and most cosmopolitan cities in the world, a popular destination for immigrants because of its job opportunities.

During this period of growth, however, the first major problems of inequality arose within the country, a problem unfortunately recurring throughout the nation's recent history; in fact, the majority of the land was controlled by a few people, while it was worked by a great many laborers who were often immigrants and very often paid a pittance. It was precisely because of these injustices that on May 1, 1909, there was a large demonstration on Workers' Day, which drew large numbers of participants to the Argentine capital. In an attempt to disperse the crowd, scuffles began between police and laborers, resulting in the death of Juan Ocampo, a young farm worker. The agitation

intensified and the following week, known as the “Semana Roja¹” was marked by increasingly violent clashes that saw police on one side and workers and farm workers on the other. This event is very important in the country's history because it had a strong impact on the Argentine labor movement and unions, as it strengthened their resolve to demand better working conditions and higher wages.

Argentina's economy suffered a slowdown at the turn of World War I due to lower commodity prices and declining exports to Europe. This slowdown was stemmed thanks to Argentina's extraneousness in the conflict, which caused an increase in exports of war material and food to the Allies. The end of the First World War coincided with a period of economic growth and industrial development in the country, in fact, it was realized that a process of industrialization was necessary in order to diversify the economy and no longer depend exclusively on agricultural exports and natural resources, so an attempt was made to transform a predominantly agrarian economy into an industrialized one. The government invested in various sectors such as the steel industry, the chemical industry and the fuel industry, sectors previously ignored. Much infrastructure necessary for economic growth such as roads, ports and power plants were also built. These investments brought their results as foreign investment grew, as did job opportunities through the creation of new jobs that did not exist before.

The outbreak of World War II after a few years again brought new growth opportunities for Argentina, since, just as in the first conflict, thanks to its foreignness it was able to greatly increase meat and grain exports to the countries that wheat engaged in the conflict. The country was able to emerge as an economic power, gaining new market share and accumulating large sums of foreign currency useful for financing new investments in national infrastructure.

I.1. The advent of General Perón

It was precisely during World War II that something happened that would deeply mark the political and economic history of Argentina, the so-called “Revolución del 43²”,

¹ Red Week was a series of clashes that broke out in Buenos Aires and other cities in Argentina following the brutal repression carried out by the police on the occasion of the May 1st holiday in 1909. (source: Wikipedia)

² The Revolution of '43 was a military dictatorship in Argentina, which began with the coup d'état of June 4, 1943, which overthrew the government of President Ramón S. Castillo. The name was given to him by the nationalist journalist José Luis Torres, and has been widely used

which saw the rise of General Pedro Pablo Ramírez. In addition to bringing about the fall of the government of the time, that of Ramón Castillo, this event is crucial because it allows the figure of Juan Domingo Perón to become known to the world. In fact, Perón was a colonel in the Argentine armed forces, who actively participated in the military coup that brought to power a group of officers, known as the “Grupo de Oficiales Unidos³” (GOU). He joined the government headed by the general as undersecretary of war and later became minister of labor and social security. Under the government of Edelmiro Farrell, who had replaced Ramírez in February 1944, Perón consolidated his power by holding the positions of minister of war and vice president.

The latter almost immediately received the support of the unions and workers because of his policies in their favor, such as the eight-hour workday, the introduction of vacation and sick pay, and the establishment of minimum and decent wages, all of which were a first for a country like Argentina. Part of the armed forces, principally the more conservative wing, began to worry about his growing power and influence within the government, so much so that in October 1945 Perón was arrested and interned at the military hospital in Buenos Aires. Support from the working class was so solid, however, that a huge crowd on October 17 occupied Plaza de Mayo⁴ demanding the immediate release of their leader; Peronism was officially born that day. This was a political and social movement headed by Perón himself supported by the most popular part of the country, the “descamisados⁵”. This movement was based mainly on:

- nationalism, that is, a strong sentiment that emphasizes national pride, culture, and defense of national interests against outside influences;
- economic independence, the idea of an independent national economy that can promote self-sufficiency and reduce dependence on other foreign states;
- social justice, a concept that aims to reduce inequality within the country through policies of wealth redistribution;

to name the period of historiography close to both radicalism, Peronism and socialism. (source: Wikipedia)

³ The United Officers Group or Unification Working Group was an Argentine lodge or secret organization with a nationalist tendency, created within the Argentine Army on 10 March 1943. (source: Wikipedia)

⁴ Plaza de Mayo is the main square of Buenos Aires overlooked by some of the most important civil and religious buildings in the city (source: Treccani)

⁵ The expression was initially used in a derogatory way by anti-Peronists to indicate the popular masses of the country, but was eventually adopted by Peronists. (source: Wikipedia)

- active participation of workers in society and defense of their rights.

When elections were held in February 1946, the leader of the weaker classes triumphed with 54% of the vote. Thus was born the first government of Juan Domingo Perón, which marked a moment of unprecedented economic and social transformation for Argentina.

The new president immediately confirmed his closeness to the working class; in fact, one of the first actions implemented by his government was the increase of welfarism and the implementation of a series of social policies aimed at improving the living conditions of workers and the poorer classes. Examples of these policies include: raising wages and pensions, increasing funds for education and social housing, and introducing subsidies for those who found themselves without employment.

The results were positive in terms of improving the living standards of the weaker classes, who saw their real wages in fact increase by 20%. However, the high public spending required to support all this was beginning to pose a concern regarding sustainability in the long run, the South American country at that historical juncture in fact turned out to be one of the nations with the highest percentage of public spending to GDP, which rose in those years from 12% to 28%.

Another important action on the part of the new government was the nationalization of some key sectors of the Argentine economy, the most important to remember were the nationalization of the telephone network and the railroad network, which until then had been operated by private companies. This policy aimed to consolidate the state's control over strategic industries, with the main objective of reducing dependence on foreign countries and stimulating internal economic development. The series of nationalizations and the completion of various works, such as the construction of gas pipelines, a fleet of domestic merchant ships, and the establishment of an airline, led to a conspicuous increase in new jobs and enabled the government to exert greater control over the economy and use domestic resources to promote industrial and social development.

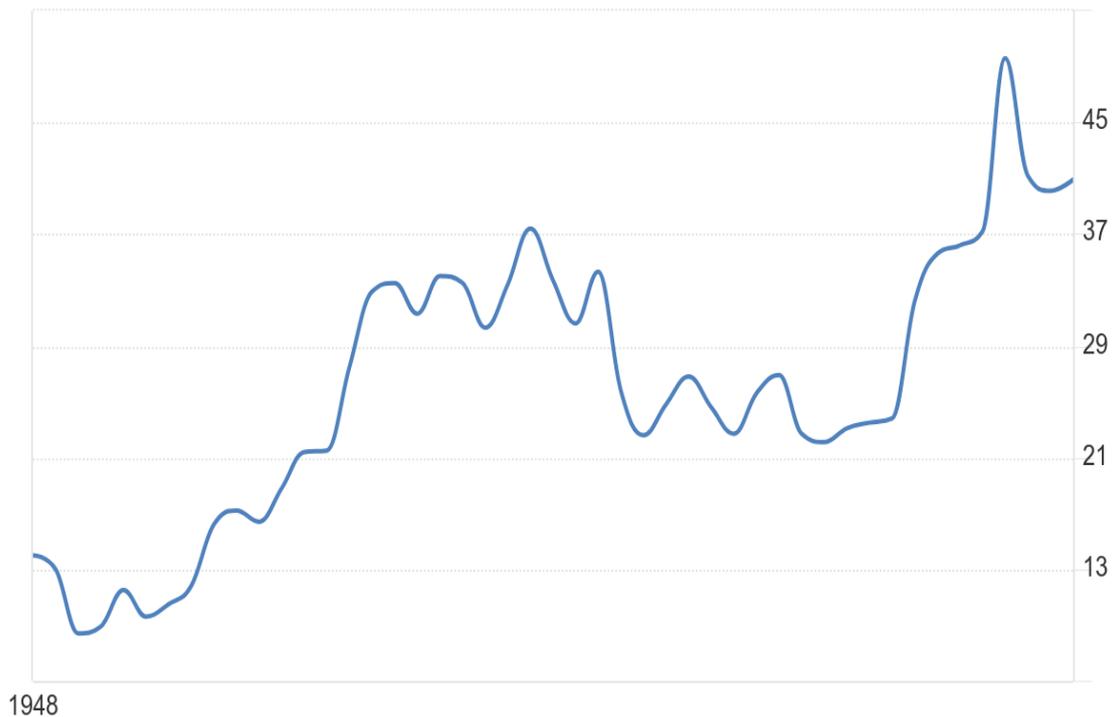
However, these economic strategies were not without criticism; in fact, the administration paid high compensations to private companies for the value of their expropriated assets, raising doubts about the management of the state's financial resources. In addition, many saw these nationalizations as political moves aimed at

concentrating and consolidating power in the hands of the government rather than as actions aimed at improving the welfare of the community, not least because there were strong doubts about the state's ability to guarantee the previous level of efficiency and innovation.

Perón then sought to develop Argentina's industrial sector at all costs, even to the detriment if necessary of the agricultural sector, which up to that point had been the country's engine through exports of agricultural products. The leader made a major mistake with the establishment of the IAPI (Instituto Argentino de Promoción del Intercambio) in 1946. The institute had exclusive control over foreign sales of products such as grain and meat, thus managing sales prices and negotiating directly with buyers. The IAPI directly purchased products for export from agricultural producers at an imposed price and below the market price, and then resold them itself at a premium price. This mechanism exploded tensions with farmers, in fact the latter saw their profits shrink along with their sales portions. It was precisely the industrial sector that benefited, since the tax incentives and subsidized loans they had enjoyed since the establishment of this government were largely financed with the resources derived from this buying and selling process. Industrial production overall increased by 50%, generating new jobs, and consequently reducing the unemployment rate by three percentage points, from 6% to 3%.

In addition to this, the government embraced protectionism as an economic strategy, which fit perfectly with the goal of autarky and self-sufficiency. Indeed, it believed that increased customs duties and increased protection against foreign industry would reduce the country's dependence on imports and promote domestic industries by replacing goods and services once sourced from abroad with local goods and services. These policies were as successful as hoped, in fact by making products from other countries much less competitive than local ones, the country's industrialization process and the growth of the manufacturing sector accelerated, with the latter reaching 35% of GDP. Part of the proceeds from customs duties was also used to finance programs aimed at redistributing wealth and promoting social welfare through investments in public infrastructure, health care and social housing.

Graph 1: Argentina's inflation rate in percent, 1948-1951⁶



However, these decisions, which were very popular among the people, inevitably led to a major increase in public spending, which ended up leading to a budget deficit. In order to reduce this deficit, the government, for fear of disappointing the expectations of workers and labor unions who represented the majority of the electorate, did not choose to reduce public spending, but instead chose the simplest path, namely that of an expansionary monetary policy. The increase in the monetary base was added to the increased demand for consumer goods due to the increase in welfare within the country, in turn induced by the government's expansionary social policies. This combination led to what we shall see to be a recurring problem in Argentina: inflation, that is, the generalized and prolonged increase in prices that leads to a decrease in the purchasing power of the currency and thus in its real value, reached 40%.

After an initial and motivated enthusiasm, Perón's government from 1949 onward faced significant challenges related to the recession. Indeed, rising inflation and the emergence of other economic difficulties, such as unsustainable economic policies, political and social instability, and inefficiencies and corruption in some sectors, led to a contraction of some industries.

⁶ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

Despite these difficulties he was re-elected in November 1951 with a large consensus, about 60% of the vote. The confirmed president immediately attempted to remedy the situation by halting wage growth in order to limit the demand for goods and services, imposing limits on government spending, and encouraging the production and export of agricultural products. After being penalized in favor of the industrial sector, agriculture was once again put at the center of interest, and thus returned to being the country's driving force. The sector, however, suffered a severe blow when the country was excluded from U.S. Marshall Plan⁷ facilities for European countries; in fact, Europe was at that time one of the territories to which Argentina exported its agricultural products the most.

Interventions designed to reduce inflation and the budget deficit worked to some extent, but they ran counter to what were the ideas on which Peronism was based, thus causing social tensions and discontent on the part of workers and labor unions that waned support for what was once their leader. The armed forces, supported by the opposition, realizing the government's difficulties, did not miss their chance to seize power, and on September 25, 1955, a coup d'état ended Juan Domingo Perón's presidency.

I.2. Aramburu's military government

Perón was sent into exile and power passed to General Eduardo Lonardi, who would be replaced after a very short time by General Pedro Eugenio Aramburu. Facing economic instability, the new military government accused the old executive of dragging the country into a heavy crisis through its wasteful policies. He broke completely with the past administration, and banned, by means of a decree-law, any element that might relate to Peronism. Even in deeds the new president chose an opposite policy to that pursued by Perón, in fact the main objectives were to stabilize the economy and promote openness to international trade. They sought to promote the country abroad and to encourage foreign investment through the reduction of customs duties and through the introduction of tax incentives and concessions for companies that decided to invest in Argentina.

In an effort to reduce the budget deficit and combat increasingly rampant inflation, government members implemented a series of policies aimed at reducing public

⁷ US aid program for European countries emerging from the world conflict, proposed on 5 June 1947 by M. and conditional on the development of a common plan for reconstruction and economic cooperation. (source: Treccani)

spending. Wages and pensions were reduced, and cuts were also made in active civil service personnel. Tax rates on income and property taxes were raised, and in addition new ones were introduced, for example on luxury goods and financial transactions. An attempt was made to combat, at least in part, the major problem of tax evasion, through the tightening of penalties for violators and greater control over tax collection.

Instead, to combat inflation, Aramburu implemented a policy of monetary restriction. By reducing the amount of money in circulation and limiting the issuance of new currency, the government sought to decrease inflationary pressure and stabilize the value of the Argentine peso. Again, however, heavy protests and continuous strikes by workers and trade unionists, still linked to the figure of Perón, hindered the implementation of these policies, which in fact led to results that fell short of expectations. Aramburu's presidency can thus be described as disappointing, as the economy was still weak, inflation steadily rising and the budget deficit still high.

I.3. From democratic governments to coups

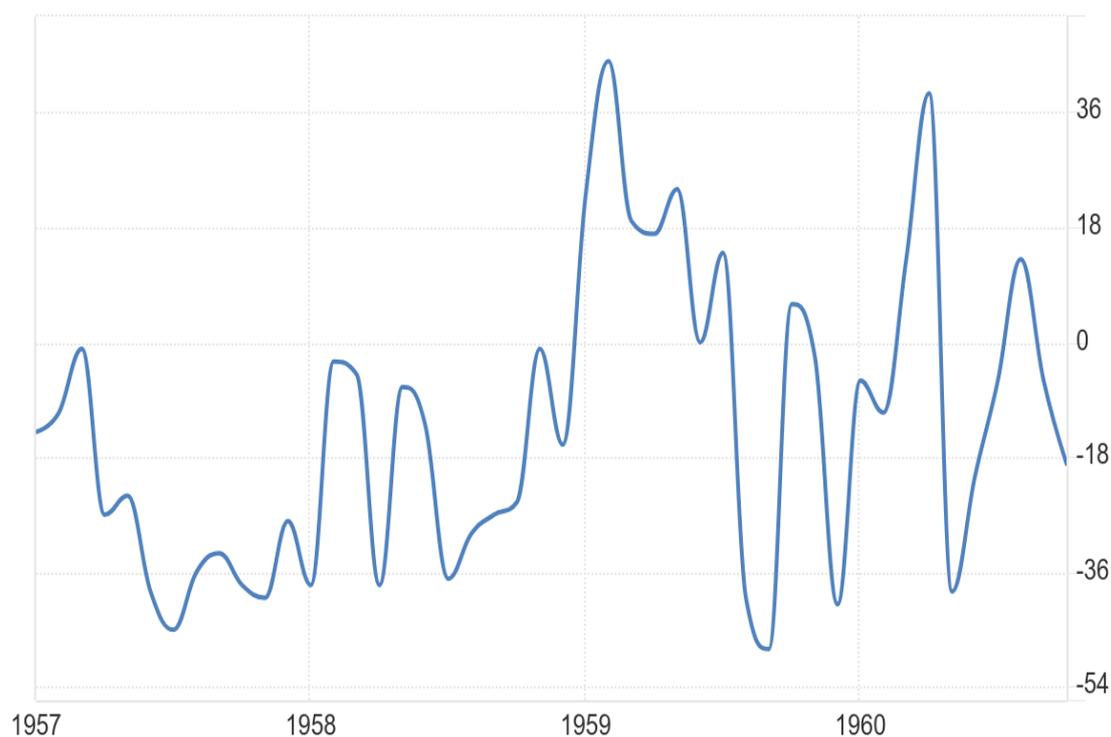
The next elections were held in February 1958 and saw Arturo Frondizi, belonging to the “Unión Cívica Radical⁸” (UCR) party, win with 45% of the vote . His ideas to combat the country's structural problems included a set of policies that seemed to echo both previous governments. Frondizi's economic program was based on industrialization and attracting foreign investment, but without neglecting the working conditions and welfare of the population.

Once elected, the new government immediately sought to fulfill its promises; in fact, it immediately initiated a series of policies aimed at developing the country's heavy industry, such as the steel and chemical sectors. To promote domestic production of formerly imported goods, the new administration granted a series of facilities and subsidies to local industries. It then sought to improve the efficiency and competitiveness of the Argentine economy by promoting the modernization of various sectors, especially the energy sector. The goal was to make greater use of the natural resources with which the country was well supplied, to ensure a stable supply and energy self-sufficiency.

⁸ Radical Civic Union. The UCR is a centre/centre-left party, inspired by the politics of radicalism and liberalism. (source: Wikipedia)

At first the results were positive, with GDP increasing by about 6% over the previous year. Then to deal with budgetary challenges and the problem of inflation, he implemented, like the previous military government, cuts in public spending and a control of the money supply, but again resistance from the people meant that the results were disappointing.

Graph 2: Argentina balance of trade Argentina 1957-1960 (USD millions)⁹



The epilogue came on March 26, 1962, when yet another military coup deposed President Frondizi. The continuing discontent and growing social tensions, which led to the coup by military forces, were mainly due to the rising debt caused by the government's continued reliance on foreign loans for economic development. In addition, the country's industrial sector, after initial improvements, continued to be subject to low productivity, poor international competitiveness and heavy reliance on imports.

After the coup there was a short government led by former Senate President José María Guido, who assumed power amid great political and economic instability. During his

⁹ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

short tenure he faced numerous economic challenges, such as rising unemployment, falling GDP and the prolongation of the inflationary spiral that now seemed a constant in the country.

His presidency was marked by heavy austerity measures and control of government spending. There was a devaluation of the peso and a heavy cut in public spending. These policies did not bring the hoped-for results; on the contrary, they dragged the country into a severe recession, with GDP falling by 2,4% and inflation rising by nearly 30% despite the restrictive policies.

To stimulate exports and foreign investment, the government signed a series of trade agreements with other nations and opened up completely to foreign direct investment, with the hope that this would lift Argentina's economic situation. The results in this case were positive, as there was an increase in exports for products such as beef and agricultural products, plus several U.S. and European companies invested in different sectors in the country, especially pharmaceuticals and oil, boosting industrial development.

The next elections held in July 1963 saw the representative of the Radical Civic Union party, Arturo Illia, win. Since the Peronist party was still proscribed, many Perón supporters backed Illia, contributing significantly to his election.

The new government immediately focused on reducing the fiscal deficit and external debt. To do this, measures were implemented to improve tax collection and reduce tax evasion. A reform of administrative structures was then made, with the aim of ensuring greater efficiency and transparency in the management of public resources, limiting waste and corruption as much as possible.

Despite the need to reduce public debt, Illia decided to invest in social programs aimed at reducing poverty and inequality and improving the welfare of citizens. Access to health care was improved, wages for the most vulnerable workers were increased, and investment in education reached as much as 23% of the national budget.

In an effort to stabilize the Argentine economy and improve the balance trade, Illia decided to incentivize the exploitation of strategic resources. All oil contracts with

foreign companies were stopped, and “Yacimientos Petroliferos Fiscales¹⁰” (YPF) was created. This state-owned company aimed to exploit the important oil resources in which Argentina's subsoil was rich, thereby reducing dependence on foreign companies.

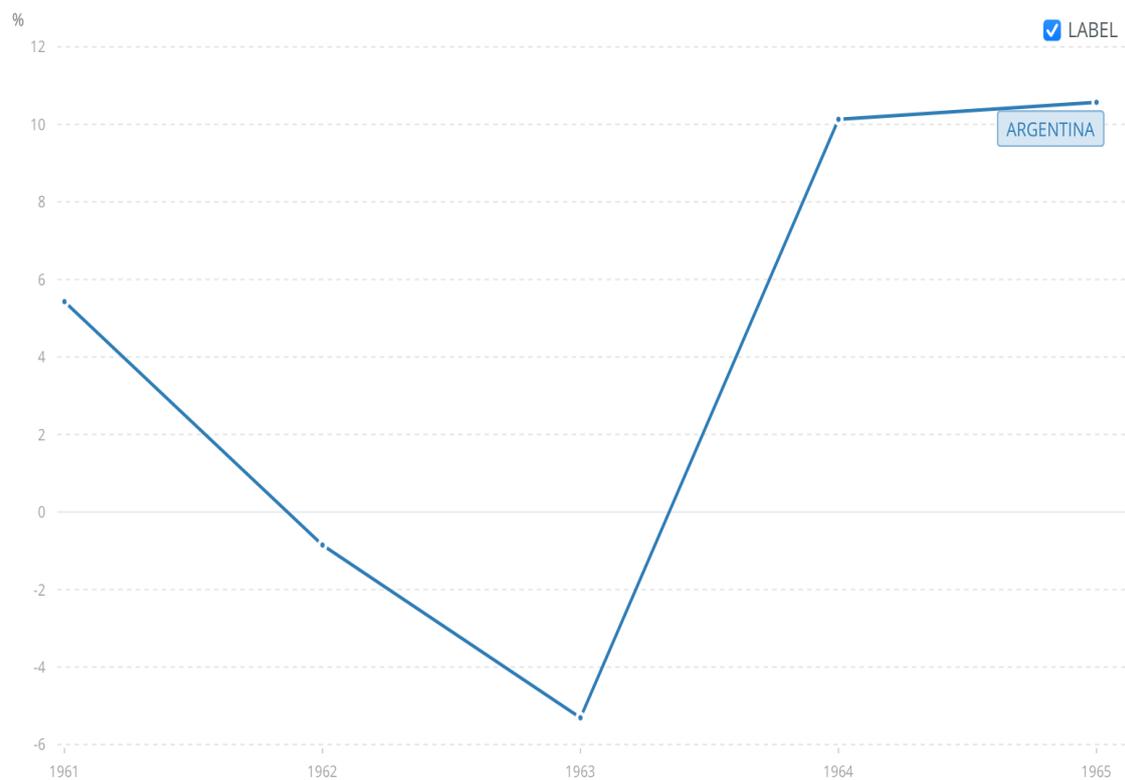
The government managed somewhat to control inflation, but despite all efforts the rate remained high, hovering between 30% and 40%. In an attempt to break the inflationary spiral, President Illia decided to abolish automatic indexation of wages in the public sector, thus breaking the automaticity that automatically adjusts wages to changes in the inflation rate.

The results of the first years of government were encouraging, real wages increased by more than 10%, GDP grew by 20%, and employment improved dramatically. Despite the economic successes, the presidential term was marked by growing political and social discontent. As civil servants began to protest wage cuts, the military and the business community began to conspire to overthrow the government, guilty in their view of implementing policies too far from those traditionally considered liberal. On June 28, 1966, the army put its plan into action, and by entering the “Casa Rosada¹¹”, home of the presidential offices, at night, deposed Arturo Illia.

¹⁰ YPF is an Argentine energy company specialized in the exploitation, exploration, processing, distribution and sale of oil and its derivatives. (source: Wikipedia)

¹¹ The Casa Rosada is the central seat of the executive power of the Argentine Republic and a national monument. The offices of the President of the Argentine Republic are located inside it. The building is located in Buenos Aires and overlooks the historic Plaza de Mayo. The name derives from its characteristic pink color and is considered one of the most important buildings in the country. (source: Wikipedia)

Graph 3: Argentina GDP annual growth in percent during the government of Arturo Illia¹²



The coup that brought General Juan Carlos Onganía to the presidency represents a severe blow to Argentine democracy after a period of democratic governments. This period, known as the “Revolución Argentina¹³” was marked by an authoritarian regime that aimed to establish a long-term dictatorship, and to do so introduced a series of measures aimed at the repression of opposition, labor unions and media not aligned with the new government.

On the economic side, Onganía adopted liberal measures aimed at encouraging the inflow of foreign investment, with the goal of stabilizing the country's economy. He devalued the peso by 40% so as to encourage Argentine exports, but this only increased the burden of inflation.

Despite the ban on strikes and demonstrations, students and workers began to take to the streets more and more frequently, beginning a series of mass demonstrations to which the police responded violently. Arrests and human rights violations by the government

¹² Source: World Bank.

¹³ The Argentine Revolution is the name given to the civil-military dictatorship that overthrew the constitutional president Arturo Illia through a coup d'état on June 28, 1966, and governed the country until May 25, 1973. (source: Wikipedia)

were the order of the day, as were attacks by dissident groups belonging to the most extreme wing of the Argentine left, who even went so far as to kidnap and kill former President Aramburu.

These growing and now uncontrollable tensions led to Onganía's deposition. Power was taken first by General Alejandro Lanusse, who appointed Roberto Levingston as president. The latter sought to stabilize Argentina's economy as much as possible, and initiated a transition process back to democracy that culminated in the 1973 elections.

I.4. Perón's return and the presidency of his wife Isabel

In 1972, after seventeen years of exile, he returned to Juan Domingo Perón's Argentina, determined to run in the following year's elections. The general created the “Frente Justicialista de Liberación¹⁴” (FREJULI), a political coalition that brought together all oppositions, formed to support Perón's return to the presidency in Argentina. In March 1973 the elections were successful, and the general was reelected with 62% of the vote. During his third term, the president focused on implementing several economic and social policies, the most significant being the pact signed with labor unions and employers to freeze wages and prices in order to control inflation.

Perón died suddenly only a year later, leaving the presidency to his wife Isabel Martínez de Perón, also known as Isabelita.

Isabelita's new government immediately had to deal with an inflation that was now out of control, despite the measures taken by her husband the previous year. Social tensions within the country were rising steadily, so much so that the new president had to make arrangements with the armed forces to try to combat increasingly frequent terrorist actions.

Economically, the new government sought to boost domestic market growth and exports of goods, and to do this it restricted the entry of capital from abroad. Of primary importance was the revitalization of the agricultural sector, which had always been the leading export sector and was now experiencing a difficult situation. To achieve the goal they sought to boost productivity, which had remained as it was after the war and

¹⁴ The Justicialist Liberation Front was an Argentine electoral coalition formed in 1972, led by the Justicialist Party in alliance with other parties such as the Movement for Integration and Development (MID) led by former president Arturo Frondizi, the Popular Conservative Party led by Vicente Solano Lima and the Popular Christian Party (PPC) of José Antonio Allende. (source: Wikipedia)

had not increased partly because of poor technological renewal. The government offered tax breaks and facilities in finding credit for farms, but demanded a significant increase in productivity in return.

To combat inflation, on the other hand, Isabelita decided to implement a restrictive monetary policy aimed at limiting the amount of money in circulation; to do this, she raised interest rates and restricted the granting of loans by banks. He then tried to stop the rise in prices of essential goods by restricting wages, which nevertheless led to a shortage of consumer goods, and thus the creation of a black market. The results of these policies were not encouraging, which led to the appointment of a new economy minister, Celestino Rodrigo. The new minister launched a package of measures known as the “Rodrigazo”. These policies included:

- rising prices for consumer goods such as electricity, food, fuel and public transportation;
- freezing of workers' wages and pensions, which up to that point were increasing according to the increase in the rate of inflation; this aroused strong opposition from labor unions, and fueled tensions within the country;
- 160% devaluation of the peso in relation to the dollar;

The results, however, were not as expected; in fact these policies had a huge negative impact on the Argentine economy at the time. In fact, the increase in prices of consumer goods and the simultaneous devaluation of the currency gave an acceleration to inflation, reducing even more the purchasing power of the population. It also drastically decreased the demand for local currency because of the devaluation, in fact citizens worried about the continued reduction in the value of the peso chose to hold their savings foreign currencies. Unemployment and economic uncertainty also increased due to the austerity policies sought by Rodrigo, which had a negative impact on household incomes and their consumption, and as a result the crisis eroded the industrial sector.

By now the situation was out of control, inflation in 1975 reached 300%, strikes and occupations were on the rise, as was political violence from both extreme right and extreme left groups.

Graph 4: Argentina's inflation rate in percent during the government of Isabelita Perón¹⁵



In November 1975, General Jorge Rafael Videla urged the government to resolve the disastrous conditions in the country, both economically and socially, or he would have to intervene militarily. The state of affairs did not seem to be improving, however, so in March 1976 this situation could only lead to yet another coup.

I.5. The years of the dictatorship

The military junta, which would appoint Videla himself as president, seized power under the pretext of having to put an end in any way to the social tensions that were now out of control. This new government will be remembered for the ruthless violence with which the military restricted dissent and thwarted protests. Indeed, there were several cases of charges of human rights violations and torture against opponents, or those who were deemed to be such. This is the period of the so-called “desaparecidos”, Argentine citizens disliked by the government who were first locked up and tortured in the school the Argentine Navy's officer training school, the “Escuela de Mecánica de la

¹⁵ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

Armada¹⁶ (ESMA), then disappeared into thin air without a trace. An estimated thirty thousand people never returned home.

The economic situation in Argentina was dire, inflation and unemployment were steadily rising, while domestic production was declining. The government appointed José Alfredo Martínez de Hoz, a crucial figure in Argentina's economic and political history, as economy minister. De Hoz's policies were based on the neoliberal philosophy, thus providing for economic growth through the free market and minimal state intervention in the economy.

The minister's first move was to completely open the Argentine economy to foreign competition, incentivizing exports and almost completely reducing the tariff barriers for imports that had characterized the Argentine economy in previous years. In the government's plans, this policy would have enticed foreign investors to invest in Argentina and made local products more competitive in markets outside the country. Many domestic companies then were sold to private entities, precisely to encourage the promotion of the private sector and limit state involvement in the economy.

As for the financial sector, de Hoz decided to let the interest rate fluctuate according to the market. He then allowed the free creation of new banks and branches even of foreign banks within the national territory. These choices followed the principle of the state having less of a presence in the economy, the idea being that by raising the competitiveness of the banking sector within the country the end customers, that is, the citizens, would see the costs of banking services decrease while the efficiency of the banks would increase. In addition, the state decided to guarantee savers' fixed-yield deposits in full, so as to increase confidence in the banking system and prevent citizens from withdrawing their savings from their current accounts. The number of banking companies in the country increased by 70%.

The Videla government received a loan of around \$250 million from the International Monetary Fund¹⁷, but in exchange for the administration's commitment to reduce the

¹⁶ ESMA was the school for the training of officers of the Argentine Navy in Buenos Aires, especially as regards technical preparation in engineering and navigation. It tragically went down in history for being, during the dictatorship, the largest and most active center for illegal detention and torture of people inconvenient to the regime. (source: Wikipedia)

budget deficit and increase the international reserves held in the “Banco Central de la Republica Argentina¹⁸” (BCRA). To do this, it was decided to reduce government spending as much as possible, and in parallel increase revenues through a higher tax burden. Large cuts were made in personnel working in the public sector, and public spending and public investment were reduced. The sectors most affected by the cuts in public spending were health care and education, while some sectors, such as the military and homeland security, even saw an increase in the funds available to them. In addition to reducing public spending, to decrease the deficit, the incumbent government introduced new taxes and increased some existing ones. For example, the value-added tax rose to 15%, and was extended to goods and services that previously did not have it.

To combat inflation then wage increases were frozen to workers, who thus saw their purchasing power reduced for the umpteenth time. These decisions did not bring satisfactory results, however, as the inflation rate continued to hover between 170% and 180%. The latter could not even take to the streets to make their voices heard, since, under the guise of putting an end to social unrest, demonstrations and strikes were banned and unions were disbanded. The repression was so strong that workers or trade unionists who dared to criticize the regime in public were imprisoned and classified as enemies of the state.

The results of de Hoz's policies were not only disappointing, but downright deleterious to Argentina's economy. The total openness to investment by foreign companies, and the significant reduction of duties on imports, greatly limited the competitiveness of local companies, even those operating in traditionally stronger sectors such as agriculture. Foreign firms had significantly more modern technologies than those in Argentina, and they also had much easier access to credit. The increase in imports at the same time as the reduction in the purchasing power of citizens led many small and medium-sized local companies to bankruptcy, while in parallel many large Argentine and foreign companies saw their power and market share grow, thereby increasing

¹⁷ Institute created with the aim of promoting international monetary cooperation and exchange rate stabilization, facilitating the expansion and balanced growth of world trade, helping member states to correct temporary imbalances in balances of payments. (source: Treccani)

¹⁸ Institute created with the aim of promoting international monetary cooperation and exchange rate stabilization, facilitating the expansion and balanced growth of world trade, helping member states to correct temporary imbalances in balances of payments. (source: Treccani)

inequality within Argentina ever more. The population below the poverty level rose from 10% to 30% within a few years.

The measure related to the financial system also did not have the desired effects. The reform has allowed foreign investors to continue short-term investment and speculative behavior, despite attempts by the state to promote more permanent investment. The large number of new banks and bank branches led private companies to take on new short-term debts, and not instead oriented toward the development of the industrial sector in the long run, thus feeding a spiral of debt that was detrimental to the country. Many of these new businesses suffered heavy losses and had to declare bankruptcy due to the insolvency of numerous private companies. Their debts were assumed by the state, which in this way further aggravated the already serious situation of its budget.

In March 1981 President Videla was deposed because of disagreements with part of the military and poor economic results achieved, such as the increase in foreign debt from twenty-seven billion dollars in five years, or the increase in the population below the poverty level from 10% to 30%.

In December of that year General Leopoldo Galtieri came to power. The internal conditions in the country did not change, however; the economic crisis was getting worse and worse, as were social tensions and the discontent of Argentine citizens.

The tombstone on the military dictatorship came between April and June 1982, when the government decided to occupy the Falkland Islands¹⁹ (or Islas Malvinas). This archipelago in the South Atlantic Ocean, a British overseas territory, has always been the subject of territorial disputes between the United Kingdom and Argentina, which considers it an integral part of its national territory. Argentine military forces occupied the islands on April 2 without finding any resistance, using the surprise effect to their advantage. The British response was not long in coming, and after a short time the Queen's army forced the unprepared and ill-equipped Argentine army to retreat, which officially surrendered on June 14, only seventy-four days after the fighting began.

The government's decision to carry out a military action with the aim of increasing patriotism within the country through the identification of a common enemy to fight,

¹⁹ Island group in South America, constituting a British Crown Colony; it is composed of two large and about one hundred small islands. The largest islands are West Falkland and East Falkland, the capital is Port Stanley located in East Falkland. (source: Treccani)

not only led to a heavy humiliation on the military level, but had heavy repercussions on the national economy, in fact it caused a 5% reduction in GDP compared to the previous year and further aggravated the already precarious condition of the Argentine budget. This defeat actually brought enormous benefit to the country and its citizens, as it caused the fall of the military dictatorship and the restoration of democracy.

I.6. The end of dictatorship and the return of democracy

After almost ten years of military dictatorship, finally in October 1983 the Argentine people returned to exercise their right to vote. Raúl Ricardo Alfonsín, a member of the socialist party “Unión Cívica Radical”, won the election.

Argentina's condition was discouraging; in addition to out-of-control inflation and a foreign debt default, the people were still scarred by years of dictatorship and human rights violations. To turn the country's fortunes around and to meet the immediate needs of workers Alfonsín decided to implement a series of ambitious, expansionary policies; in fact, the government implemented an immediate increase in wages and pensions. In addition, indexation of wages to the rate of inflation was reintroduced, thereby pleasing the unions that had long lobbied governments for an improvement in conditions for the weaker sections of the population.

Despite an increase in purchasing power in favor of workers and pensioners, these wage concessions not only increased the cost of labor and thus raised prices, but also increased the demand for goods and services, which, however, was not accompanied by an equivalent increase in supply. This scenario could only lead to a further increase in inflation, which in those years reached monthly rates that exceeded even 30%.

To combat this now persistent problem, the government devised an economic plan known as “Plan Austral”, which went into effect in June 1985. This contingency plan had as its main objective the stabilization of the Argentine economy and obviously the improvement of the inflationary rate. The main innovation of this measure was the introduction of the austral, a new currency that was to replace the Argentine peso. The exchange rate was 1 austral for 1.000 pesos, and the goal of this new currency was to break ties with a past of hyperinflation and monetary instability, thereby increasing Argentina's credibility internationally. In addition to this, “Plan Austral” includes other important measures such as:

- a plan to restructure the external debt through renegotiation on more favorable terms with international creditors;
- freezing of prices aimed at stabilizing them in the short term to curb inflationary escalation;
- freezing of wages and pensions, again removing the indexation of the latter to the inflation rate;
- a reduction in the budget deficit, through conspicuous cuts in government spending and increases in taxes and government tariffs;
- a restrictive monetary policy, by raising interest rates with the aim of curbing the demand for money.

The initial results were incredibly positive, inflation reached 2% monthly, workers' purchasing power increased, and the budget deficit was reduced conspicuously. These encouraging signs reached abroad as well; in fact, international investors regained confidence in Argentina and returned to invest in the country. At the same time, exports also returned to increase, leading to an improvement in the balance trade.

However, the initial euphoria was crushed only some time later. As early as 1986, investment from abroad and the level of exports dropped dramatically. Prices also rose again, and after the end of the freeze they fluctuated freely again. With prices continuing to rise, the wages and pensions frozen by the plan were no longer sufficient to guarantee decent purchasing power for workers and retirees, this led the unions to demand increases and indexation. The government accepted the demands and decided on immediate wage increases, including those in the civil service, which went to negatively affect the public budget. The foreign debt and the persistence of the budget deficit continued to weigh on the Argentine economy, and in addition, inflation rose again, albeit at a less frantic pace than in previous years.

It is clear that "Plan Austral" was unable to provide a lasting solution to Argentina's economic problems. The lack of meaningful structural reforms resulted in the return of economic instability and consequently a decrease in confidence on the part of citizens and international investors, who after the initial hope saw the country's historical problems resurface.

In an attempt to stabilize the Argentine economy and stop the recession, the government devised a new economic plan known as “Plan Primavera²⁰”, which replaced the previous “Plan Austral” that was now to be considered exhausted. Introduced in 1988, this economic plan provided, like its predecessor, a freeze on the prices of goods and an increase in the tariffs of public services, but authorized a 3% increase in wages and salaries to combat the loss of purchasing power. The government then promoted the privatization of state-owned companies and the opening of the Argentine economy to the market.

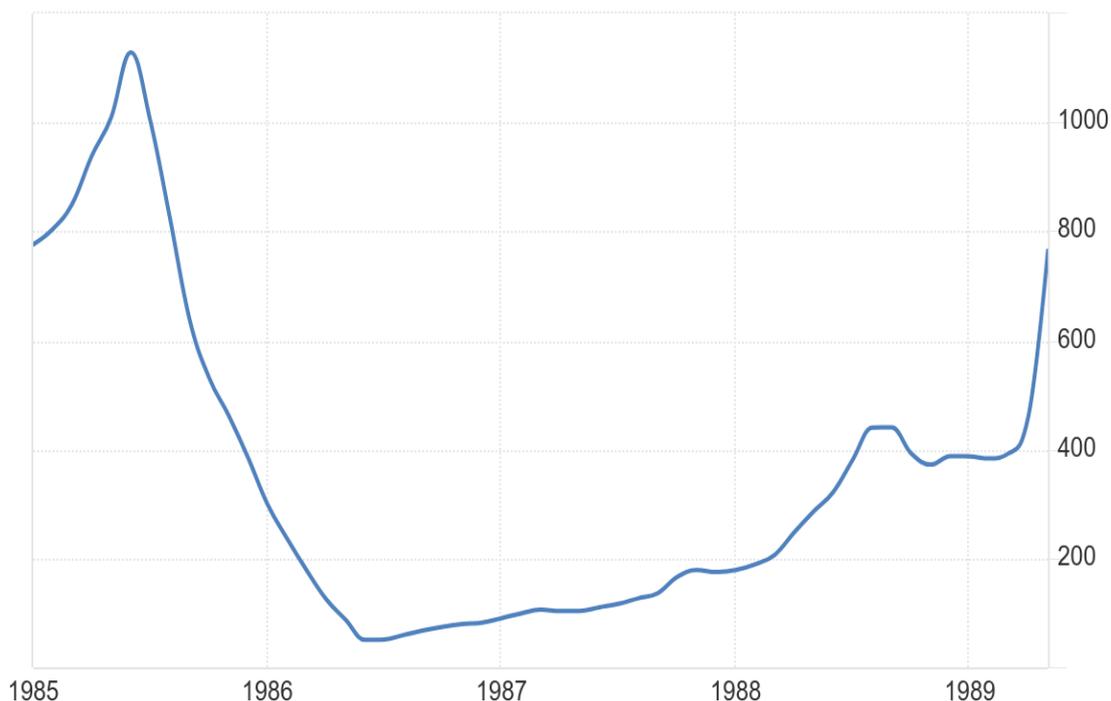
This new plan immediately met with strong opposition from labor unions and the country's productive sectors, as well as little confidence from citizens and investors. When the IMF then announced the termination of financial support to Argentina, investors completely abandoned hopes of an economic recovery.

Within a few months the government was forced to devalue the new currency, causing prices of goods to soar, in some cases up to 80%. The dollar increased its value by up to 25% over the austral, and because of this continued rise citizens began to withdraw their savings en masse to convert them back into dollars.

Faced with this situation, Economy Minister Juan Vital Sourrouille gave way first to Pugliese and then to Jesús Rodríguez, but the trend was not reversed; on the contrary, the dollar continued to take value over the austral and inflation continued to rise. Argentine GDP collapsed by 15%, poverty increased, foreign debt reached over sixty billion dollars, and in the last months of government an inflation rate of over 700% was reached. Faced with this disastrous scenario, the Alfonsín government had no choice but to resign, thus anticipating the 1989 elections by a few months.

²⁰ Spring plan.

Graph 5: Argentina's inflation rate in percent from the introduction of the "Plan Austral" (1985), until the fall of the government Alfonsín (May 1989)²¹



I.7. The Menem government

After the early end of the Alfonsín government, the May 1989 elections saw Carlos Saúl Menem, a leading member of the “Partido Justicialista²²” (PJ), which echoed the ideals of the old Peronist party, as the winner.

To combat the hyperinflation bequeathed by previous governments, the new government chose to embark on neoliberal economic policies, in contrast to what were traditional Peronist principles. Menem's economic policies focused on opening up the country's economy and liberalizing trade in addition to trade agreements with other countries, encouraging the entry of capital from abroad and eliminating the high tariffs present on imports. The first move was the sale of a high number of state-owned companies also in key sectors of the Argentine economy, such as: Telecom Argentina with regard to telecommunications, the Argentine railways with regard to transportation, and the national oil company YPF. The government's goal was to reduce

²¹ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

²² The Justicialist Party is a political party of Peronist and populist orientation in Argentina, founded in 1947 by Juan Domingo Perón as the Peronist Party. It assumed its current name in 1964. (source: Wikipedia)

the budget deficit by reducing public spending while simultaneously reducing state intervention in the economy and attracting investment from abroad, thereby increasing the efficiency, modernity and competitiveness of Argentine companies.

This series of privatizations, however, also drew quite a bit of criticism, for example, the public auctions through which the companies were sold were questioned. There were heavy accusations of corruption and favoritism toward certain buyers, aggravated by the fact that many times the sale price was lower than the actual value. In addition to this there was harsh criticism from oppositions who denounced problems of monopoly and increased socioeconomic inequality within the country. In fact, these privatizations allowed the concentration of economic power in the hands of a few companies, often from other countries, which caused the formation of oligopolies or even monopolies in some key sectors of the national economy, thus limiting access to markets and almost totally eliminating competition from small businesses and individuals. The government then was unable to enforce controls or regulations on the new prices set by these companies, which in some cases offered a lower quality of service than before, but equally increased the rate schedule exponentially. The perfect example is “Aguas Argentinas”, the company in charge of water supply and sewage management in Buenos Aires, which after its privatization in 1993 was accused of only modernizing infrastructure in the city's affluent neighborhoods, while poorer areas continued to suffer from some chronic problems, such as contaminated water, despite the significant increase in rates for all citizens. These policies also led to an increase in disparities between regions within the country, with some seeing an increase in the provision of public services and an increase in employment, while others on the contrary saw an increase in the unemployment rate and a contraction in economic development.

In addition to this, the Menem government intervened heavily in the country's economic and social structure through several reforms, often at odds with what were the cardinal principles of Perón's old party. The first reform, the labor reform, was aimed at making the market more flexible and increasing the competitiveness of local companies, since the belief was that overregulation and excessive union protections prevented Argentine companies from adapting to the increasingly rapid changes in the market. To do this, the Menem government devised new types of contracts, such as fixed-term or temporary contracts, which were thought to be better suited to employers' needs. Strikes and

protests were then limited, in addition the powers of unions in negotiating better working conditions were reduced.

Despite the positive results found in the short term related to employment in Argentina, the reform was not without criticism. Indeed, the increase in employment stemmed from a disproportionate number of temporary and precarious contracts, with very low wages and almost nonexistent worker protections, which increased wage inequality within the country. The government was accused by labor unions of favoring big business at the expense of the weaker sections of society, thus increasing inequality and precarity.

The second noteworthy reform concerns Argentina's social security system. In Argentina prior to this reform, workers' contributions were paid into a fund managed by the state, which then redistributed them to retirees. Menem proposed privatization of the social security system, where workers chose independently which private pension fund to pay their contributions into. According to the government, this choice would have guaranteed a higher return than the traditional public pension fund, since the contribution payments would be reinvested in the financial markets.

Again, however, some problems and criticisms of the reform arose, for this new model of contribution management exposed workers to market risk. Argentina's precarious economic conditions indeed could have had a negative impact on the returns of private pension funds. Another criticism was regarding the regulation and supervision of private funds, in fact privatization meant a loss of state control and the possibility for fund managers to commit abuses and speculation. Finally, this reform was accused of fueling the social inequalities already present in the country, as workers with higher incomes were able to accumulate more savings for retirement than other more disadvantaged workers.

In addition to the two reforms mentioned above, it is also important to mention the reforms that affected the justice and education sectors. Regarding justice, the government again opted for privatization, in fact it decided to privatize Argentina's prisons. This led to a lack of transparency about the treatment to which inmates were subjected, a problem highlighted following numerous reports of abuse and violence inside prisons. In addition to this Menem also amended Argentina's penal code, speeding up the criminal process and thus reducing the number of inmates awaiting trial.

As with justice, also in education the crux of the reform was privatization, in this case of public universities. Prior to this reform Argentine universities were free or with very low fees, but the Menem government in order to reduce state involvement and funding in university institutions decided to introduce much higher tuition fees. In addition to this, the creation and presence of private universities in state territory was encouraged, with the aim of offering students alternatives to the educational offerings of public universities. These fee increases and this promotion of private universities drew quite a bit of criticism, especially concerning the accessibility of higher education and its quality in public institutions. The increases in university fees effectively excluded a segment of the population with low incomes, while the increased funds available to private institutions increased the quality of teaching and consequently the preparation of students, thus creating further inequality within the country.

1.7.1. The “Plan de Convertibilidad”

Although the privatizations and the complete opening of the Argentine economy had produced quite satisfactory results, lightening the public budget and reducing foreign debt, the government still had to deal with the number one enemy of the Argentine economy: the chronic inflation that plagued the country, and which in those years had reached unprecedented levels.

Argentine citizens over the years had completely lost faith in the national currency, preferring in many cases to hold their savings in U.S. dollars. For these reasons, the then Minister of Economy Domingo Cavallo launched an economic plan in 1991 called the “Plan de Convertibilidad²³”, which had as its main objectives the stabilization of the economy plagued not only by extremely high inflation but also by monetary instability. The plan was based on three main points:

- the first point, which we can consider the mainstay of this economic program, was the application of a fixed exchange rate between the Argentine currency and the U.S. dollar. One Argentine peso, which had replaced the austral, was exchanged for one U.S. dollar, with an exchange rate therefore of 1 to 1;
- the second point introduced a restrictive monetary policy. To ensure the stability of the fixed exchange rate, the Menem government limited the amount of

²³ Convertibility plan.

currency in circulation and stopped financing the public deficit by printing money;

- the third and final point concerned the total liberalization of the country's economy. He did this by further reducing trade barriers so as to promote international trade and foster Argentina's integration into the global economy. In addition, privatizations of state-owned enterprises were further encouraged so as to reduce the burden of the public sector on the state budget as much as possible.

With this plan Cavallo then reintroduced a currency board system, a system of monetary management that involves fixing the value of the domestic currency to that of another, more stable foreign currency, in this case the U.S. dollar. The best-known example of this monetary system, from which the government presumably took its cue, is that of Hong Kong, which in 1983 fixed the value of its currency (the Hong Kong dollar) with the value of the U.S. dollar, thereby succeeding in restoring the confidence of international investors and consequently ensuring financial stability for the country.

To keep the exchange rate unchanged over time, the central bank, in this case the Banco Central de la Republica Argentina, makes purchases and sales of foreign currency. In addition to this, it is necessary to maintain foreign exchange reserves equal to the value of the monetary base of the national currency, to ensure the convertibility of its currency and to guarantee the stability of the fixed exchange rate.

However, Argentina over the years was unable to fully cover its domestic currency base with foreign exchange reserves, thus increasing the risk of depletion of reserves in the event of a crisis, which as we will see later will happen. This model in addition requires that the central bank's ability to issue money and conduct discretionary monetary policies such as adjusting interest rates be completely eliminated, although in this specific case the Argentine central bank did not completely lose its autonomy in conducting monetary policy that a classical currency board usually requires.

This decision to apply a currency board system was welcomed with enthusiasm by the International Monetary Fund, which saw in Menem's government a concrete attempt in improving the economic situation in the country. Also thanks to this in 1992 Argentina

became involved in the so-called “Plan Brady²⁴”, a program run in collaboration with the IMF and the World Bank²⁵ that was aimed at reducing the external debt of developing countries, especially in Latin America. In fact, it provided for the restructuring of the debts of struggling countries through the exchange of old debt securities for securities with more favorable terms. Through this plan, Argentina was able to restructure debts amounting to twenty-nine million dollars, or 10,8% of GDP, achieving a 9,5% reduction in face value.

The waivers made by the state, which consisted of a reduction of intervention through monetary policy and a downsizing of the role of the BCRA, bore fruit. Interest rates as well as the inflation rate began to fall dramatically, with the latter going from hyperinflationary levels to values around 5% annually in a relatively short time. Foreign investment also grew encouragingly, stimulated by the government's decisions regarding the implementation of the two plans: the “Plan de Convertibilidad” and the “Plan Brady”. In addition to this, GDP grew by an average of 4,7% per year, exports by 8,2% and employment by 12%.

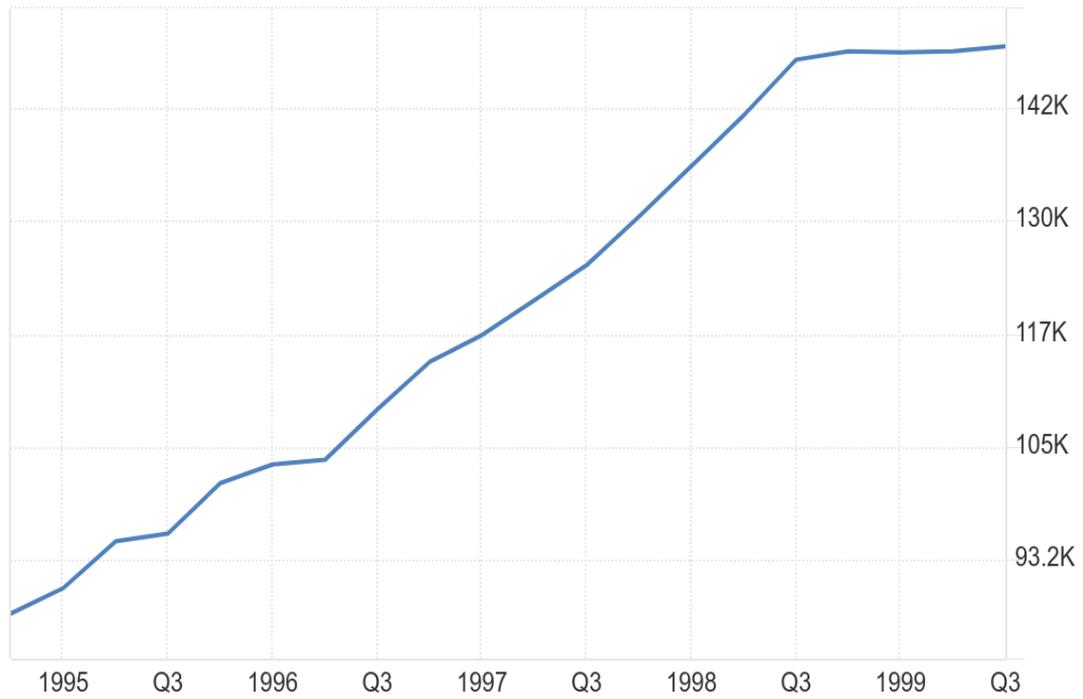
After this initial euphoria, however, beginning in 1995 the first signs of instability and economic and social instability emerged. Foreign debt was on the rise as both the government and private companies contracted loans in U.S. dollars, attracted by low interest rates. The complete opening of markets greatly increased imports, but exports of Argentine products and services did not grow as much, thus leading to a deterioration in the balance trade. Reduced investment in areas such as education and health increased social inequality, and as a result, discontent and protests in the country increased.

In addition, the numerous privatizations carried out by the government generated revenue in the short run, but later contributed to an increase in the fiscal deficit due to a reduction in revenue in the long run from profits generated by formerly state-controlled companies.

²⁴ Plan implemented in 1989 by the United States Treasury Secretary, N. Brady, to relieve the external debt of some developing countries. (source: Treccani)

²⁵ The World Bank (WB) is the main international organization for development support and poverty reduction. (source: Ministry of Foreign Affairs and International Cooperation)

Graph 6: Argentina total external debt from 1995 to 1999 (USD millions)²⁶



²⁶ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

CHAPTER II: Argentina's course to the great default of 2001

During those years Argentina seemed to have achieved some relative stability, the inflation rate had returned to a consonant level, GDP was on the rise, and investment from abroad was steadily increasing. As mentioned earlier some critical issues related to the economic policies implemented quickly emerged, but these were ignored due to the positive results in the short term. What did not immediately emerge, however, was the country's fragility to any external shocks. By deciding to adopt a fixed exchange rate system Argentina agreed to limit its monetary policy, in fact this system in times of crisis did not allow it to devalue its currency or change its interest rates. In addition, the wide reliance on foreign investment could destabilize the domestic financial system and cause a heavy liquidity crisis, investors in fact tended to withdraw their investments quickly during periods of uncertainty and instability. The combination of these elements thus made Argentina's economic system very rigid, preventing it from reacting quickly to any global economic changes.

II.1. Mexican currency crisis

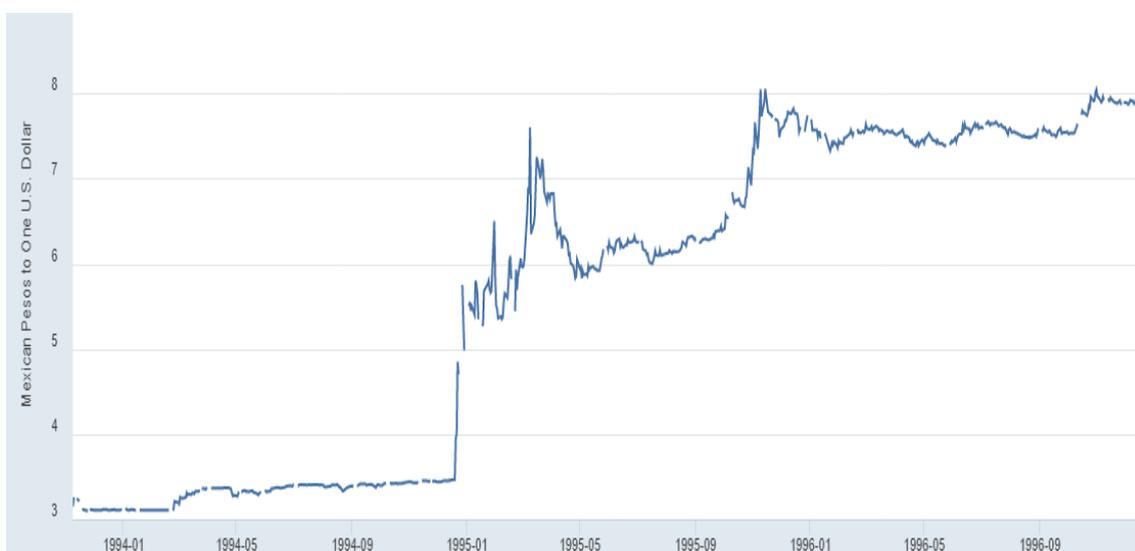
What first exposed these fragilities, and aggravated Argentina's economic situation in those years, was the so-called “tequila crisis” that occurred in Mexico at the turn of 1994-1995. This was the first in a series of currency crises around the world that would have severe effects on the Argentine economy.

The Central American country was in a moto-positive period economically, very similar to what Argentina was experiencing at the same time in history. The Mexican government's decisions regarding economic measures to be taken were also very similar to those of the Argentine government, for example, both adopted the currency board using the U.S. dollar as the anchor currency. Both countries then decided to undertake a policy of total market opening and a reduction of state intervention in the economy so as to stimulate investment from abroad.

It is thought that the crisis began in December 1994, when Mexico decided to eliminate the exchange rate that fixed the value of the Mexican peso with the value of the U.S. dollar, and consequently to devalue its currency first by 15% and then by 20%. The value of the national currency was in fact overvalued relative to its real economic capacity. The decisions to devalue and “untie” the Mexican peso from the U.S. dollar

were made because of a number of economic factors, chief among them the rising inflation in the country. Indeed, with the currency board, the ability of the Central Bank of Mexico (Banco de Mexico) to control inflation through monetary policies was limited, if not nil. The second reason that led to the devaluation was the high trade deficits and the country's difficulty in competing internationally. Mexico was heavily dependent on imports while export revenues were weak. Mexico's key sectors, such as the automobile and textile industries, were lacking in modernity and therefore uncompetitive, suffering greatly as a result from growing competition from developing countries that offered similar product quality but lower labor costs than Mexico.

Graph 7: Mexican Pesos to U.S. Dollar spot exchange rate (1994-1996)²⁷



Exacerbating the situation was then the drop in oil prices at that time, considering that oil exports were a vital source of revenue to balance Mexico's trade deficit.

The devaluation of the national currency and the elimination of the fixed exchange rate caused a series of events that led to the near default of the Central American state. The foreign debt used to finance the trade deficit soared as it was held mostly in U.S. dollars. Mexico could no longer meet its payment obligations, making a request for support from the IMF inevitable. However, the latter in return for financial assistance asked the country to adopt a series of austerity economic measures, such as reducing government spending, privatizing several state-controlled enterprises and raising interest rates.

²⁷ Source: Federal Reserve Bank economic data.

These policies imposed on the country began to generate some concern among international investors, who in previous years had been attracted by the opportunity to earn significant returns due to the economic policies implemented by the government and low interest rates. Once the devaluation was implemented, however, strong doubts were raised about the country's economic stability, which consequently led to a substantial capital flight from the country, which in turn further fueled Mexican financial instability.

Although Mexico was not one of Argentina's main trading partners, the crisis that hit it had a huge impact on the country ruled by Menem. International investors in fact saw the Mexican crisis as a sign of weakness in all Central American and Latin American economies and believed that the possibility of the crisis spreading to other countries in the southern part of the continent was high. Argentina was hit particularly hard by the "tequila crisis" due to the fact that, as stated earlier, the two countries adopted very similar economic policies, such as the currency board.

There was a massive capital flight from Argentine territory that caused a devaluation of the currency, which in turn led to an increase in inflation and a conspicuous reduction in the purchasing power of citizens. Interest rates were raised to safeguard the value of the Argentine peso and to try to curb the outflow of resources. This increase in speculation and financial instability in the country fostered panic in the population, which, losing confidence in the financial system, began to massively withdraw their savings, contributing to the already serious situation of some banking institutions in the country. The government had no choice but to intervene to save the troubled banks, through an injection of liquidity into the system and a temporary nationalization of some institutions in dire straits.

To Argentina's aid, the IMF and the World Bank stepped in and provided the country with a series of loans aimed at stabilizing the economy and strengthening its financial system. This Mexican currency crisis highlighted some structural problems of the Argentine economy, such as: high dependence on capital flows from abroad that make the country particularly vulnerable to external shocks, dependence on foreign loans, volatility of the peso, a high inflation rate, and the need to implement major structural reforms to improve the country's economic and financial stability. These fragilities, as

we will see below, will later be very relevant during the economic crisis that will hit Argentina at the beginning of the new millennium.

This situation of instability in Latin America had negative repercussions for the Argentine economy, for although the intervention of the International Monetary Fund had in fact remedied the tequila crisis through a series of loans, international investors began to deem the country, and especially the currency board system, unreliable.

Initially, Argentina's central bank was able to make up for the reduction in foreign investment through the currency reserves it had accumulated since the beginning of the "Plan de Convertibilidad", but despite this, the country was beginning to show signs of economic instability, such as a reduction in GDP, an increase in government spending, rising unemployment, and an inflation rate that was rising again after it had been kept in check for several years. It is important to point out then that further worsening the situation in those years was the appreciation of the dollar against the euro, which led to a significant reduction in Argentine exports. The fact that the pesos was pegged to the U.S. dollar had made Argentine products unattractive, limiting the export of agricultural, food and mining products, which were some of the driving sectors of the national economy.

Despite the difficulties in 1995 Menem was reappointed president by the Argentine people, winning the election against challenger José Bordón of the "Frente País Solidario"²⁸ (FREPASO). Although he received 50% of the vote, the government faced growing opposition and increased general concern regarding the economic policies undertaken.

However, the confirmed Menem government, which sought to regain the confidence of foreign investors after the Mexican crisis, faced almost immediately two more international currency crises that further undermined Argentina's economic stability.

²⁸ The "Frente País Solidario" was a confederation of political parties in Argentina formed in 1994 by the "Frente Grande", the "PAIS" party, the "Unidad Socialista formed by the Socialista Popular" and "Socialista Democrático" parties, and the "Partido Christian Democrat". (source: Wikipedia)

II.2. More international financial shocks

II.2.1. Asian Crisis

After the Mexican one, it was the turn of the Asian currency crisis of 1997, also known as the “Asian tiger crisis”, which had major economic repercussions mainly regionally, but also globally. The countries most affected were those in Southeast Asia, thus South Korea, Thailand, Japan, Indonesia, Malaysia and the Philippines.

Prior to this event that region had experienced some of the fastest economic growth in world history, managing to increase average per capita income and almost totally eliminate poverty, so much so that many called this marked improvement from an economic standpoint the “Asian miracle”.

This increase in prosperity in the countries was mainly due to the ease with which bank loans were disbursed, the maintenance of low interest rates, and the industrial policies pursued by governments. It is important to point out, however, that the financial markets in almost all Asian countries made it difficult for investors to assess the real risks since in many cases these markets were characterized by a lack of transparency and ineffective regulation.

The beginning of the crisis according to many occurred in May 1997, when a series of speculative attacks hit Thailand's national currency, the bath. During the region's growth period many international investors had invested in the country in search of high returns, but when the first signs of economic instability began to emerge starting in 1996 they decided to reverse course on these investments and withdraw funds from the country. Some large investors began to bet against the currency by selling a large amount of the currency en masse with the aim of buying it back at a lower price in the future, thus weakening it further.

Initially, the government decided not to devalue the currency, which was pegged to the dollar with a fixed rate that stipulated that twenty-five bath corresponded to one U.S. dollar. A few months later, however, as a result of continued speculative attacks, Prime Minister Yongchaiyudh had no choice but to uncouple the bath from the dollar and let it float freely in the market. He also embarked on a series of devaluations that reached about 60%. The IMF promptly came to the country's rescue through a twenty billion

dollar loan, which aimed to restore some of the national deficit and sought to regain the confidence lost by foreign investors in the country.

Conditions in the country, however, did not seem to improve after the Fund's intervention; on the contrary, speculation increased, as did the outflow of capital, facilitated by an interest rate that made it very advantageous to convert bahts into U.S. dollars and then transfer assets abroad.

Graph 8: Thai Baht to U.S. Dollar spot exchange rate (1996-1998)²⁹



This crisis that started in Thailand suffered what is called a “contagion effect³⁰”, in fact the instability quickly spread to other countries in the region leading to a greater impact than the crisis itself. South Korea and Indonesia were the most affected countries. Both required the intervention of the IMF, which, as in the case of Thailand, asked for a series of structural reforms and austerity measures in exchange for financial support. The Fund asked all countries to: raise interest rates so as to stabilize the currency and contain inflation, reduce budget deficits by increasing the tax burden and reducing government spending, and reforms in the financial sector with the aim of increasing transparency.

²⁹ Source: Federal Reserve Bank economic data.

³⁰ Situation in which a shock, which initially affects a single economic entity (financial institution or economic variable or sector or country), spreads rapidly and uncontrollably to other institutions, sectors and countries, generating a condition of generalized crisis. (source: Treccani)

This Asian crisis also had repercussions internationally, thus including Argentina, which was recovering from the “tequila crisis” of 1994. This instability led to the deterioration of global economic conditions and the resulting fluctuations in financial markets. Although not directly, the country suffered some effects of this crisis, such as increased uncertainty among investors about emerging markets such as Argentina, which made it so complicated for the country to obtain external financing on favorable terms. In fact, banks had placed a lot of trust in the Asian region in previous years, and when instability became apparent many financial institutions suffered large losses that led to an increase in caution in making new loans. It also led to a reduction in demand for products and commodities, which consequently led to a reduction in Argentine exports, such as oil and agricultural products.

The Asian tiger crisis could be considered over in 2001, when after years of austerity policies imposed by the International Monetary Fund the countries involved returned to growth with some regularity.

II.2.2. Brazilian crisis

Only two years later, in 1999, another country faced a currency crisis, Brazil. After the creation in 1991 of a South American common market, Mercosur³¹, Brazil had become one of Argentina's main economic partners, so as we shall see this crisis had major repercussions in the country, even greater than the previous currency crises.

The Brazilian government in the early 1990s had undertaken a series of policies aimed at economic liberalization in the country similar to those of the Menem government in Argentina. These policies included a large number of privatizations of state-owned companies and a deregulation of markets, and were aimed at attracting foreign investors and increasing the competitiveness of the Brazilian economy. Although in those years the government through these policies had succeeded in limiting inflation and ensuring steady GDP growth, the country was still burdened with some major issues, such as very high public debt and a very unbalanced debt distribution that contributed to political and social tensions.

³¹ Acronym for the Spanish “Mercado Común del Sur”. International organization established by Argentina, Brazil, Paraguay and Uruguay with the Treaty of Asunción of March 1991. The organization pursues a policy of economic integration of the member states through not only the liberalization of trade, but also the adoption of common regulations on matters such as the environment, competition law, protection of intellectual property, transport and tourism. (source: Treccani)

As mentioned earlier after the crisis in the Asian region many foreign investors had begun to limit their investments in the undeveloping countries such as Brazil, this led to the decision of the Brazilian government decided to abandon the fixed regime and move to a floating exchange rate regime. Brazil in 1994 had introduced a fixed exchange rate regime between the real and the U.S. dollar, a system, however, that had some differences with that introduced by the Argentine government.

In fact, the Brazilian government decided not to adopt a rigid currency board system, but committed to keeping the exchange rate within certain predetermined limits through the intervention of the central bank, which bought or sold foreign currency in the market. This model granted the country greater freedom in monetary policy, and did not require a U.S. dollar reserve system that guaranteed the convertibility of local currency to foreign currency. This less rigid currency board had ensured that Brazil controlled inflation and improved investor confidence in the country, anyway, it had made the Brazilian economy much more vulnerable to external shocks and financial speculation, which is why the national economy suffered a severe blow after the Asian currency crisis that led to the abandonment of the fixed exchange rate.

This crisis again infected many of the neighboring countries, thus Latin America. Especially Argentina was affected after this series of events, the economic situation was already fragile and the addition of the Brazilian crisis only aggravated the situation further, since as mentioned earlier she and Brazil had and still have a close economic, trade and financial relationship. Argentina's exports saw a sharp slowdown that resulted in a contraction of the economy. In addition, the Brazilian crisis fueled international investors' already high concerns about the country's health. Indeed, the two countries shared internal structural weaknesses, such as a high budget deficit, economic liberalization policies and a national currency tied to the U.S. dollar.

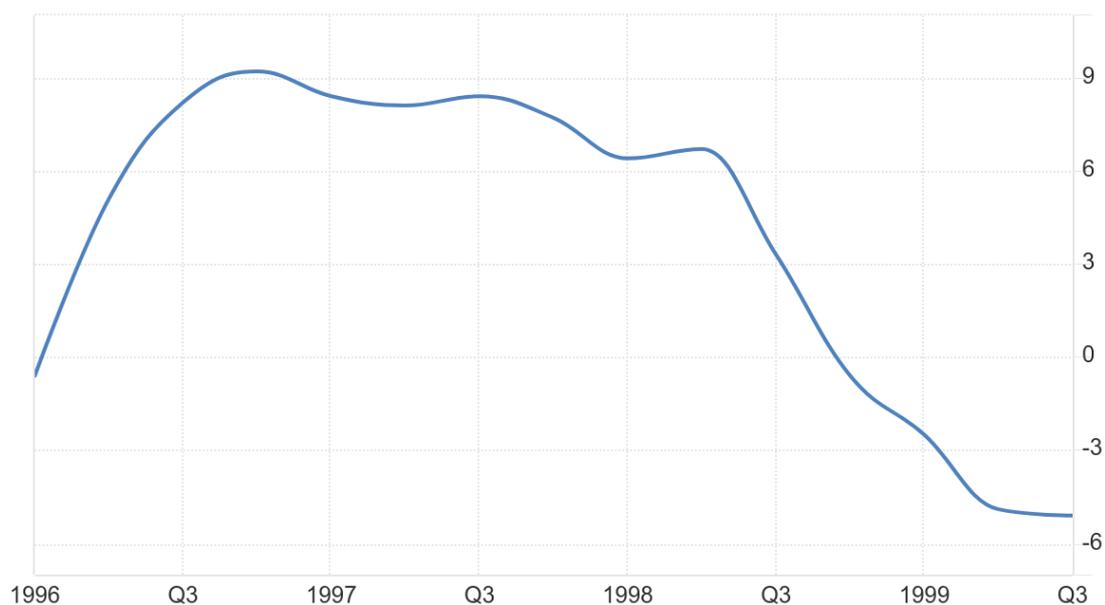
All these factors in common also made Argentina particularly vulnerable to external shocks, and increased the pressure on the Argentine peso. In a context of regional financial turmoil it was increasingly complicated for the country to maintain its fixed exchange rate, which in fact collapsed after a few years.

II.3. The end of the Menem government and the final default

As mentioned, the international currency crises, especially the Brazilian one, had a strong negative impact on the Argentine economy. The drastic decline in exports to

Brazil and the reduction in foreign investment led a large number of companies to reduce the production of goods or even to close down permanently, thus increasing the country's domestic unemployment rate. Argentina in 1999, due to these difficulties and the continued decline in GDP, officially entered recession. In addition, the public debt continued to rise inexorably, again due to investors' reluctance to finance Argentina's debt and to lost tax revenues due to the great contraction of exports and rising unemployment.

Graph 9: Argentina's annual GDP growth rate in percent (1996-1999)³²



As investment declined, the government had to look for a new way to raise the resources it needed to be able to finance its activities. Menem decided to issue new government bonds. These new bonds, however, because of previous international crises that had worsened the credibility and reliability of developing countries like Argentina, had to offer a much higher interest rate to be attractive. The administration, in order to be able to repay the increasingly high interest on the debt, had to implement a series of austerity policies, such as a major cut in government spending on basic services, as well as an increase in fees to use some of these services.

The reduction in the quality of life due to the decline in primary services, and the increase then in the tax burden on increasingly impoverished families, could only trigger a series of violence and protests throughout the country. Unions, workers as well

³² Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

as opposition parties returned to the streets to demand the resignation of the Menem government.

In October 1999, after ten years of the Menem government and the political dominance of the Justicialista Party, elections were won by Fernando de la Rúa, a member of the Unión Cívica Radical party.

The elections, which represent a crucial moment for this country, were held in a climate of growing discontent. The numerous strikes and protests that had preceded this event had established doubt that there might be clashes between the various political camps in the days leading up to it, with the risk that the military junta might intervene and seize power as had happened several times in previous years. The Argentine democratic system in that case demonstrated its solidity that had been lacking many times in the past, the citizens were able to express their preferences and thus influence the political course of the country by having an opposition party come to power peacefully and in a manner consistent with democratic principles. This historic victory of de la Rúa was interpreted as a need for a change of course desired by the Argentine electorate, in fact those dissatisfied with the Menem government who desired political change were growing by the day.

The new president and his party based their campaign on a series of economic and structural reform promises, such as: fiscal discipline policies to better manage public finances; policies to stimulate both domestic and foreign investment through tax breaks for businesses and simplification of bureaucracy so as to stimulate economic recovery and reduce unemployment; interventions aimed at modernizing infrastructure and public utilities so that economic growth could be sustained and the quality of life of the people improved; and reforms to ensure greater transparency in government activities and a tough fight against corruption.

These goals were to be achieved through regulations requiring public disclosure of expenditures incurred and administrative decisions and through the creation of independent institutions charged with monitoring and combating corruption. The issue of immorality in Argentina has long been at the center of public debate; in fact, the Menem government had been accused of dishonest dealings for years during his presidential term. During his ten years as president, various allegations and scandals emerged involving him and some of his closest aides. The government was indicted

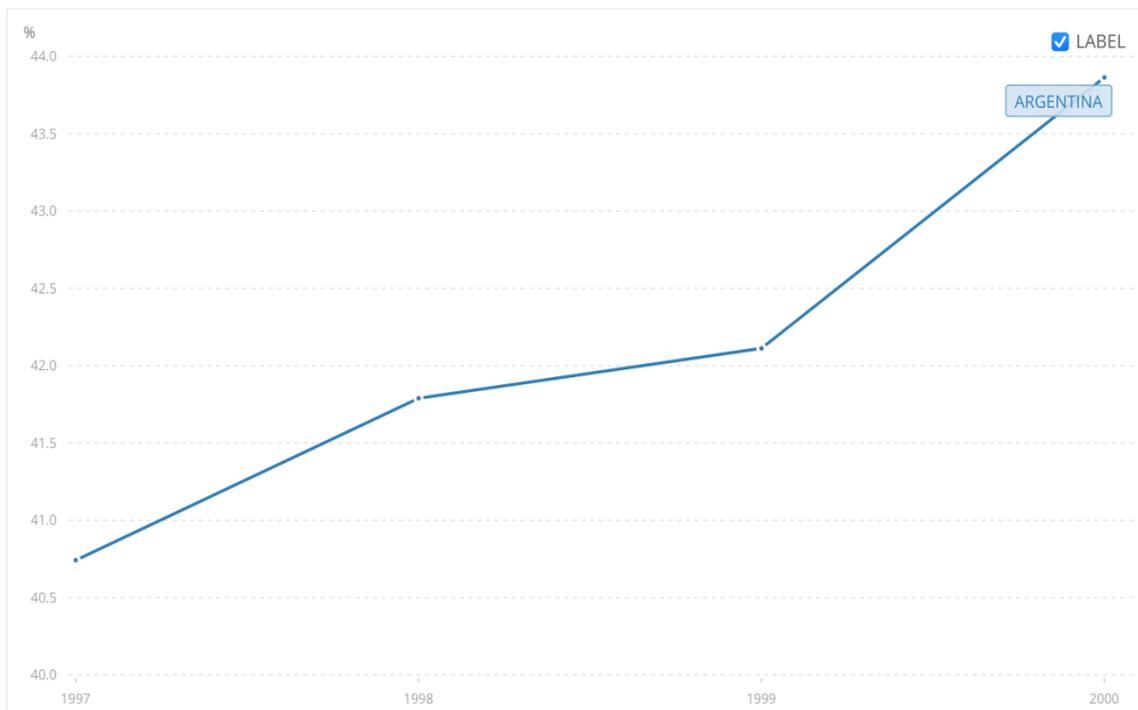
several times for misuse of public funds during his presidential years, despite investigations however, none of the members were ever convicted. Only in 2013 was the former president investigated and then later convicted for hiding public funds in Swiss bank accounts during his presidency. Two years later he was then sentenced to seven years in prison for obstructing an investigation into illegal arms sales during his term. Specifically, he was accused of interfering with the proper conduct of investigations regarding the Argentine government's alleged involvement in the sale of various armaments illegally to foreign countries.

Once the new president de la Rúa took office, he immediately implemented a number of economic policies that reflected the government's desire to stabilize the country's economy, reduce public debt and promote economic growth. One of the government's first moves was to implement fiscal austerity measures by cutting government spending; these cuts, nevertheless, involved non-essential sectors, for example, funds were cut for the construction of public infrastructure that was not considered urgent. He also reduced in government subsidies in some sectors. However, as he did not want to implement cuts in primary sectors such as education or health care, which accounted for a very significant part of expenditures, the reduction of the budget deficit did not have great results.

De la Rúa then realized that if he could not reduce spending he had to increase revenue, and the only way he could do that was to increase tax rates, as well as improve the method of collection and encourage the population to comply with tax laws. First the value-added tax was increased to 20%, then the personal income tax rate was raised, and finally an emergency tax on financial transactions was introduced. This new tax included a tax on all sales of bonds, securities and stocks.

The results of these policies did not have the desired effect, in fact the cuts on public spending, even though they affected secondary sectors, worsened the already precarious living conditions of citizens. The unemployment rate remained very high, moreover, the increase in taxes and the introduction of new taxes on incomes, tobacco and other consumer goods led to a reduction in consumption and to an increase in tax evasion, despite the fact that the government had conducted several communication campaigns to make the people aware of the importance of paying taxes and the contribution they would make to the country's economic stability.

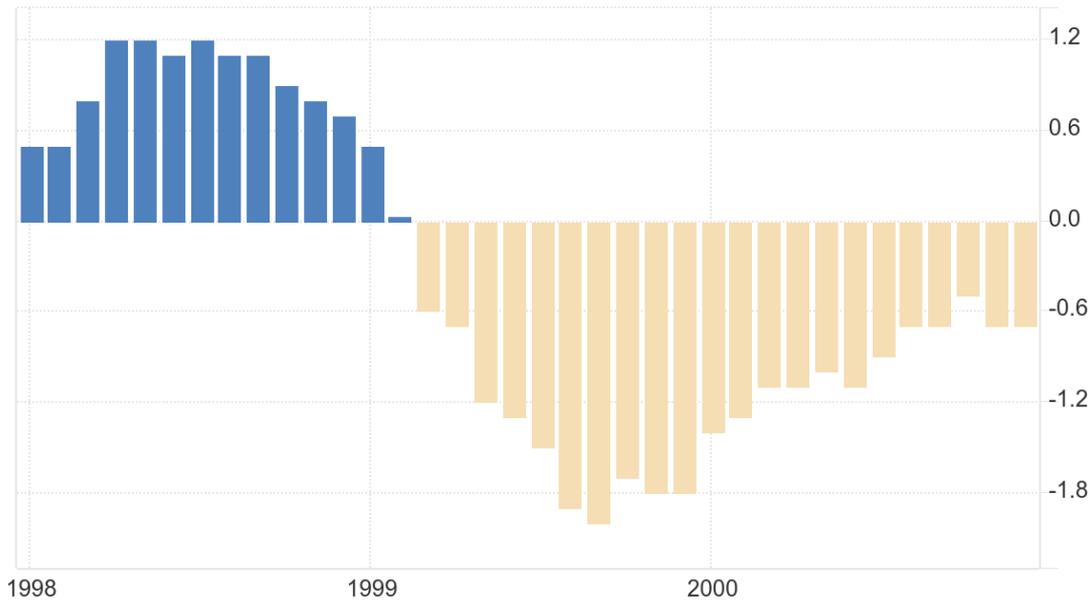
Graph 10: Taxes on goods and services (% of revenue) in Argentina (1997-2000)³³



During those years something occurred that had never happened before, a period of deflation. In fact, the inflation rate hovered between -0,7% and -2%. Although it may seem like a good thing to have falling prices, especially in a country like Argentina that has suffered from high inflation for years, this phenomenon is generally considered negative for a country's economy. When prices fall very often consumers postpone their purchases, hoping for an even greater drop in the future. This behavior reduces demand for goods and services, further contracting the revenues of businesses that had already seen their profit margins decline as selling prices fall. Businesses usually respond to this situation with cuts in investment and, more importantly, with job cuts that produce higher unemployment.

³³ Source: World Bank.

Graph 11: Argentina's inflation rate in percent, 1998-2000³⁴



In March 2001, due to poor economic performance and continued pressure from the opposition, Economy Minister Machinea resigned. After a very brief interlude of not even a month of Ricardo López Murphy as minister, Domingo Cavallo, former economy minister in the first Menem government, known mainly because he was the creator of the “Plan de Convertibilidad”, was appointed.

Cavallo's first move was to devise a new extraordinary plan, the so-called “Plan de Competitividad³⁵”, designed to address the now chronic economic crisis and precisely increase the country's competitiveness. Specific objectives of this plan included:

- Stimulate the country's economic activity. This included stimulating domestic production through policies designed to support local businesses and internal industries in key sectors of the economy. For example, it provided for reducing production costs and simplifying bureaucratic processes. The plan also included a series of tax incentives for foreign companies that decided to invest in Argentina, all to encourage the entry of foreign capital into the country. Duties were then introduced on the import of consumer goods, so as to reduce the dependence on imports that was limiting economic growth in many sectors;

³⁴ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

³⁵ Competitiveness Plan.

while taxes on exports were reduced, thus seeking to improve competitiveness in international markets.

- Creating new jobs in Argentina. During the 1999 election campaign Domingo Cavallo, then leader of the “Acción por la República³⁶” (AR) party, promised in the event of election the creation of one million new jobs. Upon becoming minister, his goal remained the same, and he intended to implement it through: a reduction in taxes that limited new investment, a simplification of the hiring process, a limitation of the powers of labor unions, and a promotion of further liberalization and privatization.

Again, the government's plan did not bring the desired results; rather, the recession in Argentina continued to deepen. In this desperate situation to say the least, in order to secure help from the IMF, which required high interest rates for the granting of credit, the government imposed what is called the “zero deficit” program on its citizens. This new plan stipulated that the Argentine state could not spend a single cent more than it collected from tax revenues.

To achieve the goal of eliminating the budget deficit, the government implemented a series of cuts in public spending, where the most important and most discussed was the 13% cut on all pensions and salaries above a certain threshold. However, the government did not reckon with the reduction in tax revenues resulting from the contraction in consumption, which in turn resulted from a reduction in the purchasing power of a large part of the population. In fact, tax revenues decreased by almost 4% compared to the previous year, but despite this and in spite of mass protests and to continued unrest, Minister Cavallo considered this program a success, as he had managed to bring the deficit to zero and at the same time secure additional credit from the International Monetary Fund, which had appreciated the efforts shown by the Argentine government.

Then, in June 2001, what is called a mega-swap, or debt restructuring plan involving the exchange of bonds and financial securities, took place. The Argentine government offered five new bonds in exchange for fifty-two eligible bonds, with the goal of reducing payment obligations over the period 2001-2005. The exchange bore fruit as the

³⁶ Action for the Republic is an Argentine political party with a liberal-conservative tendency. (source: Wikipedia)

maturity of the bonds was extended by an average of 3,73 years. Despite the higher interest guaranteed by the new bonds, the government's move had a specific meaning and purpose: to solve the severe liquidity crisis that was affecting the country. In exchange for immediate relief of fifteen billion in missed payments, Argentina pledged to increase its debt over the long term to sixty-five billion. For a country in this condition, the bond swap represents one of the few viable moves not to declare immediate default, effectively betting on an improvement in its condition in the future.

Despite numerous efforts and policies implemented by the government, Argentina did not seem to be able to climb out of the black hole into which it had fallen. International investors were increasingly convinced in the inability of the Argentine government to improve the situation, and considered the abandonment of the currency board and the devaluation of the Argentine peso now inevitable. This distrust began to spread even within the country's borders, people began withdrawing large sums of money from their bank accounts, converting these sums to dollars and then sending them abroad.

Graph 12: Bank deposits in Argentina, January 3, 2000–December 31, 2001 (In billions of pesos)³⁷



³⁷ Source: IMF, data from Bloomberg.

To curb this behavior, on December 1, 2001, de la Rúa and his government announced the “corralito”, a package of measures designed to stop capital flight and stabilize the financial system. This economic measure froze all bank accounts for ninety days, leaving citizens to withdraw only two hundred and fifty pesos per week from their accounts. Withdrawals from bank accounts denominated in U.S. dollars were also not allowed unless these amounts were converted into Argentine pesos.

Immediately a series of fierce protests, known as the “cacerolazo”³⁸, broke out throughout the country. Participation was vast and involved people from different social strata, united in this case by anger and disappointment with the government of Fernando de la Rúa. Initially these demonstrations were peaceful, but as time passed the frustration of the citizens took over, and these protests turned into actual clashes between protesters and law enforcement. The epilogue came on December 19 when in Buenos Aires clashes between the two factions turned the streets of the Argentine capital into a veritable battleground. Many public and private buildings, especially bank branches, were looted and then set on fire. The government declared a state of emergency and authorized the police to respond violently to the protesters. This resulted in thirty-six casualties and thousands of injuries on both sides.

The following day, President de la Rúa, faced with a furious crowd trying to reach the Casa Rosada, decided to flee by helicopter from the roof of the palace. This gesture marked a turning point in the Argentine crisis, in fact it was interpreted by the people as an act of weakness and a surrender on the part of the government. The official resignation came the following day, and Adolfo Rodríguez Saá Montero was appointed interim president. At the same time, a series of negotiations began with the IMF to assess the country's condition and decide on a possible assistance program. However, when Argentina announced that it was suspending payments of maturing loans to the Fund, the Fund stopped aid to the country due to the lack of progress at the economic level, and the lack of economic reforms required as a condition for continued financing. The new Saá government, faced with this dire situation, announced on December 23, 2001 that the country would default on its external debt obligations, thus effectively

³⁸ Colloquial term in the Spanish language which indicates a form of peaceful and noisy demonstration, in private or public spaces, in which the public expression of protest, or dissent, is achieved through the noise obtained by unanimously striking objects suitable for the purpose, such as saucepans, pans, pots, lids, ladles, kitchen utensils, or other similar commonly used utensils. (source: Wikipedia)

declaring a default on debt amounting to some ninety-three billion dollars, one of the largest sovereign defaults in history.

II.4. A new era for Argentina

On January 1, 2002, Eduardo Duhalde was appointed as the new president, and as his first decision he made was to finally abandon after ten years the currency board introduced with the “Plan de Convertibilidad” by the Menem government. Initially the government with the cooperation of the Argentine Central Bank set a provisional exchange rate that allowed the Argentine peso to fluctuate within a range that had a minimum value of 1,40 and a maximum value of 1,60. The decision to initially introduce a managed range within which the peso-dollar exchange rate could fluctuate allowed the new government to gain more control over monetary policy and to decide on the first measures to be taken to combat this heavy crisis.

This method already represented a major change, but the real breakthrough came at the end of January when any control over the exchange rate was finally eliminated. From then on, the Argentine currency was able to float freely in the international currency markets against the U.S. dollar and other foreign currencies.

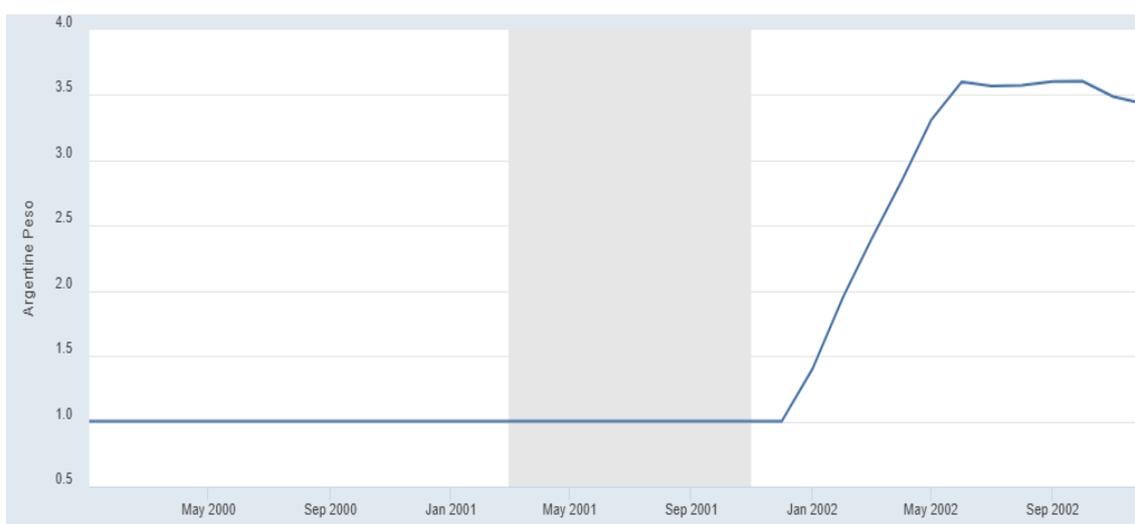
The new President Duhalde then enacted a measure known as “corralón”, an extension of the previous “corralito”. Whereas the previous measure was mainly concerned with controlling cash withdrawals from bank accounts, this new economic policy involved the forced conversion of all foreign currency deposits into Argentine pesos, using a government-imposed official exchange rate of 1,40. The government made this drastic decision for several reasons, the first reason was to prevent further capital flight thus preserving the banks' liquidity; secondly, it sought to stabilize the value of the peso as much as possible by effectively limiting the demand for foreign currency and discouraging speculative activities against the local currency; finally, with the forced conversion to pesos, an attempt was made to increase the money supply in the national economy so as to increase overall liquidity; in this way, an attempt was made to stimulate internal demand, as households and businesses had more financial resources available for purchases of domestic goods and services.

Discontent and mass protests were not long in coming; in fact, the forced “pesificación” of bank deposits at an exchange rate far below their real value effectively eroded the savings of many families and businesses that had chosen to protect their money from

the country's instability by converting it into dollars or other currencies. These policies fueled social discontent, negatively impacted the Argentine people's trust in politics, and undermined the credibility as well as the effectiveness of the new government. However, the government also made a decision aimed at protecting Argentine families and businesses; in fact, all debts incurred in dollars or other foreign currencies, regardless of their amount, were converted into pesos at the rate of one to one. In this way indebted citizens or businesses did not see their debts increase and limited their losses. Anyway, this decision heavily disadvantaged the banks, for for every dollar deposited they had to give 1,4 pesos, while for every dollar lent they received only one peso. This mismatch between assets and liabilities resulted in significant economic damage to the banking sector.

Since the abolition of the fixed exchange rate, the Argentine currency began to depreciate steadily, so much so that within a few months a U.S. dollar was trading for 3,70 Argentine pesos. Obviously this loss of value of the peso made Argentine goods and services more competitive in the international market and much cheaper for foreign buyers; in fact, exports increased sharply. At the same time the devaluation made imports more expensive and less attractive to the Argentine people. Nevertheless, the increase in demand for Argentine goods led to a rise in inflation, which reached as high as 40,6% in December 2002.

Graph 13: Argentine Pesos to U.S. Dollar spot exchange rate (2000-2002)³⁹

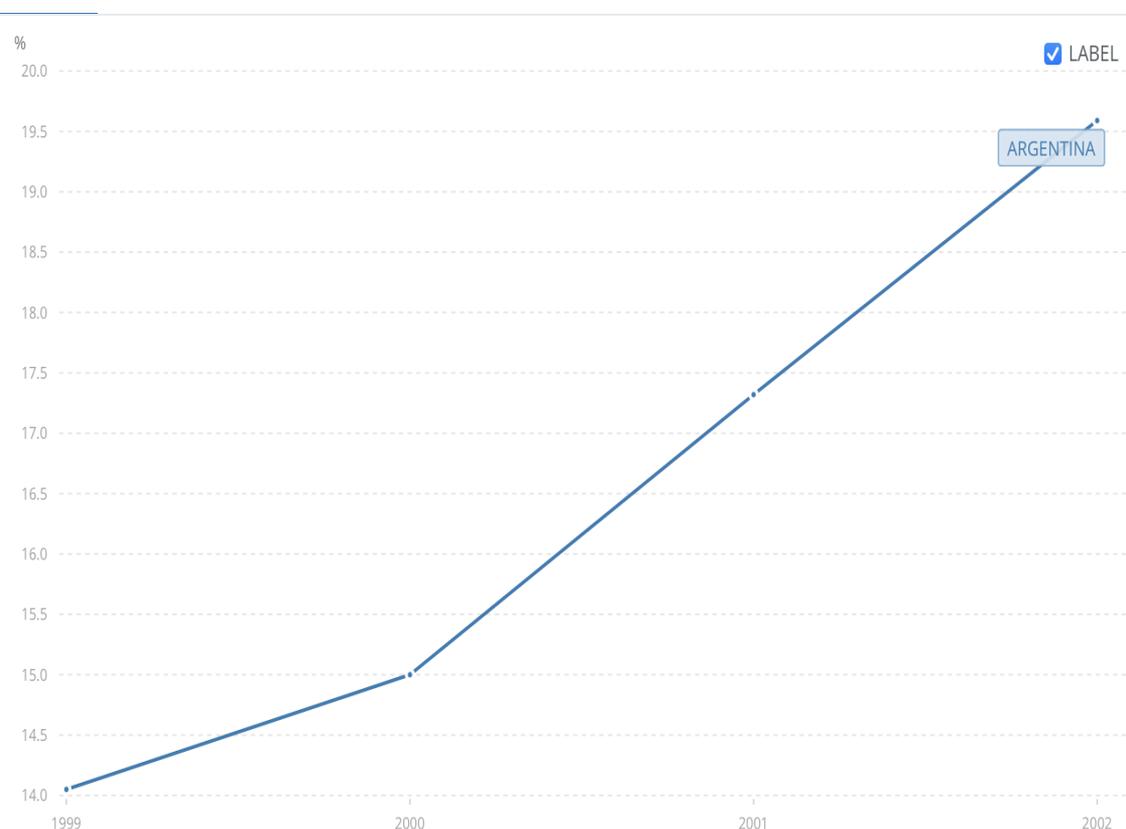


³⁹ Source: Federal Reserve Bank economic data.

The devaluation then also created an additional problem for the country, the increase in public debt. Since Argentina's debt was largely in U.S. dollars, the government had to commit more of its domestic currency to pay it off, thus increasing the debt burden on the national budget.

In addition, the devaluation of the peso increased the risk perceived by international creditors, who in fact demanded higher interest rates on bonds issued by the state. Other key economic indicators such as GDP and the unemployment rate also marked unpromising values, with the former in fact registering a decrease of 11%, while the latter marked a value of more than 20%.

Graph 14: Argentina's unemployment rate from 1999 to 2002 (% of total labor force)⁴⁰



II.5. International Monetary Fund (IMF) intervention and the functioning of the organization

The initial measures taken by the Duhalde government were unable to lift the situation; in fact, perhaps in some ways they even aggravated it. These decisions were taken without consultation with the IMF and, in fact, further increased the distrust of investors

⁴⁰ Source: World Bank.

and international markets, undermining the government's credibility. All economic policies were criticized, particularly that of forced “pesificación”. This caused a number of problems, especially in the banking sector. First, it increased the pressure on banks' liquidity; second, the decrease in confidence led to a reduction in deposits and consequently less willingness on the part of lending institutions to extend credit to households and businesses.

After difficult and lengthy negotiations, an agreement was reached between the Argentine government and the International Monetary Fund, which as of January 2003 granted two loans to the country, the first of \$2,174,500,000 while the second of \$8,981,000,000. Both loans granted by the Fund were Stand by Arrangement (SBA), a type of loan granted to member countries that provides immediate liquidity with the aim of supporting economic stability and implementing policies to correct macroeconomic imbalances while promoting sustainable growth.

Table 1: Lending Commitments in 2003⁴¹

Facility	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn	Amount Outstanding
Standby Arrangement	Sep 20, 2003	Jan 05, 2006	8,981,000	4,171,000	0
Standby Arrangement	Jan 24, 2003	Aug 31, 2003	2,174,500	2,174,500	0

(In Thousands of SDRs)

To better understand the issue at hand and how Argentina was helped, however, it is necessary to know about the International Monetary Fund (IMF) and how it operates in circumstances such as these.

The IMF was established in December 1945 as a result of the Bretton Woods Conference⁴² in July 1944, and officially became operational in May 1946. Originally

⁴¹ Source: IMF.

the purpose of this international organization was to promote international monetary cooperation and trade primarily through the maintenance of stable exchange rates between the various currencies of the member states, where the United States was committed to maintaining a fixed exchange rate between the dollar and gold, while the other states were to maintain a fixed exchange rate between their currency and the dollar.

In 1973, however, U.S. President Richard Nixon suspended this type of arrangement, announcing the suspension of the gold exchange standard, thus sanctioning the birth of a system with free exchange rates. From then on the International Monetary Fund mainly plays the role of a creditor to member states in case there is an imbalance in the balance of payments, in addition to this it is concerned with the economic development of third world countries through the restructuring of the external debt of these states.

Today day the IMF has 190 member countries, and is composed of three main bodies:

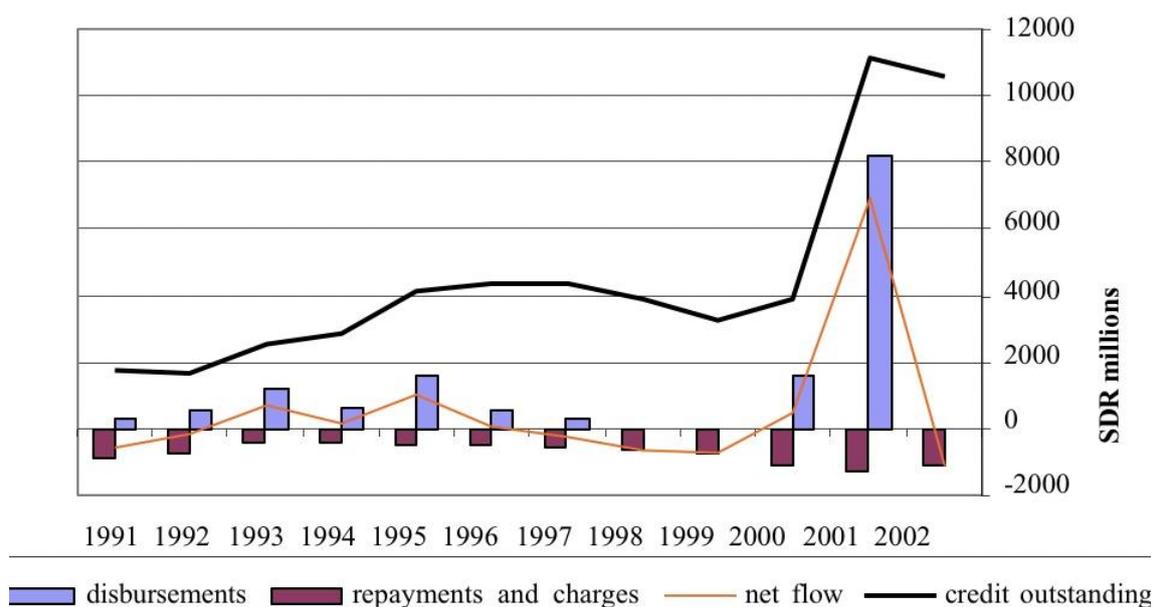
- the Board of Governors, the main governing body that makes major decisions; it meets only once a year and is made up of the various economic ministers of member states who have a number of votes commensurate with the quota paid by the state they represent;
- the Executive Board, an executive body that administers the organization on an ongoing basis and provides assistance to members, consists of twenty-four executive directors;
- the Managin Director, the most important figure within the organization who chairs the Executive Board, elected for a renewable five-year term.

The Fund has three main functions: the surveillance function, the technical assistance function and the financial assistance function. The organization carries out two types of surveillance, bilateral surveillance and multilateral surveillance. The first type is exercised with respect to individual member countries, while the second is exercised at the global and regional level. The Fund through this function monitors both the

⁴² Monetary and financial conference which was held from 1 to 24 July 1944 in the city of Bretton Woods, New Hampshire (USA), with the participation of delegates from all the main industrialized countries of the Western world. The resolutions came into force on December 27, 1945, and provided for the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development, now the World Bank. (source: Treccani)

conditions of a country's private sector and its macroeconomic conditions, then highlights possible vulnerability factors and proposes necessary adjustments. The second main function is technical assistance, where the IMF makes its expertise regarding various arrears available free of charge to member countries, with the aim of improving the country's economic and financial conditions. The third and final main function of the organization is financial assistance to member states in the event of balance of payments imbalances. The fund initially seeks to prevent and manage any debt crises through the surveillance function and the technical assistance function, but when a member state finds itself in a particularly difficult situation, the organization intervenes through various financial instruments to meet different needs.

Graph 15: Financial Transactions between Argentina and the IMF (1991-2002)⁴³



The Fund requires a policy of conditionality when it disburses its loans. This mechanism requires the recipient state to achieve a given outcome or take certain economic adjustment measures in order to receive the predetermined amount, these conditions can be set before the loan is granted or after it is granted. The IMF provides different types of financing to meet the various needs of member countries, these instruments are:

- Stand by Arrangement (SBA): this is the type of financing most widely used by the Fund, and is intended for countries facing short-term balance of payments

⁴³ Source: Independent Evaluation Office (IEO), data from IMF database.

problems. Financing lasts a maximum of three years, while repayments are due within three to five years.

- Stand by Credit Facilities (SCF): is very similar to the SBA, but in this case loans are made only to low-income countries (LICs). The purpose is to cope with short-term problems in the balance of payments, promote economic growth and avert increased poverty within the country. The maximum maturity is always three years, but the SCF has a repayment grace period of four years and a final maturity of eight years.
- Extended Fund Facility (EFF): loans are targeted to member countries facing long-term balance of payments problems, mainly due to structural impediments. Loans have a term of three years, but can be extended over time. Repayments must be made within a maximum of ten years. The recipient country in return is required to remove the structural impediments that led to the Fund's intervention.
- Extended Credit Facility (ECF): these are the equivalents of EFFs for low-income countries, and are also structured to address long-term structural problems. The duration and maturities are virtually the same as those of EFFs, but in this case the interest rate is lower.
- Rapid Financing Instrument (RFI): these are loans provided to member countries with urgent balance of payments needs, e.g. conflicts and commodity price shocks. Repayments usually take place over a period of three to five years at most. The loan, unlike the other facilities, is provided in a single tranche.
- Rapid Credit Facility (RCF): this is the equivalent of RFIs, but is targeted at low-income countries. The maturities are longer, and again the financing is provided in a single tranche.
- Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL): are targeted at those countries that are in a liquidity crisis that generates balance of payments difficulties. They function as a revolving credit line for one to two years, and repayment is required within five years maximum.
- Catastrophe Containment and Relief Trust (CCRT): this is not a loan but a grant, which the Fund provides to low-income countries in the form of debt relief. Designed to deal with exceptional natural disasters or public health emergencies.

- Policy Support Instrument (PSI): in this case it is not a loan at all, but from a series of consultations that the Fund offers to member countries that request them. The duration of this instrument is a maximum of five years, and its purpose is to improve the economic conditions of the country, as well as to increase the confidence of creditors and the general consideration of the country itself.

II.6. Responsibilities attributed to the International Monetary Fund

The policies imposed by the IMF on the country brought their own results. In fact, the conditions imposed by the Fund included a series of economic and political reforms aimed at stabilizing the Argentine economy and restoring investor confidence. The main demands were: to reduce the fiscal deficit through cuts in public spending and increased tax revenues; to control inflation through limitations on money printing; to implement structural policies to improve the competitiveness of the economy; and to reform the financial sector by making it more autonomous, stable and efficient, this through a series of rules aimed at modernizing and developing the capital market.

Despite the vital importance that the International Monetary Fund's intervention had on Argentina's recovery after one of the biggest defaults in history, its performance was subject to heavy criticism before and after the intervention in January 2002.

First, he was accused by several economists of endorsing the currency board system devised by the Menem government in 1991 to combat inflation. This system in fact, as we have seen with the cases of Brazil and Asia, makes countries that adopt it particularly susceptible to any external shocks. Once the inflation problem was fixed, the IMF should have enjoined Argentina to return to a free-floating exchange rate system since the fixed exchange rate is not sustainable in the long run, but that did not happen.

The Fund then was accused of promoting, through the policy of conditionality provided for the granting of loans, only austerity policies that favored international financial interests, at the expense of the consequences that these policies could have on the population, which many times saw its condition worsen further.

More specifically, the IMF has been accused of:

- Promoting austerity policies that have deepened the economic recession in Argentina rather than alleviating it. In fact, the Fund required the country to make heavy cuts in public spending as a condition for its financing. These cuts affected essential services such as education and health, effectively damaging the living conditions of the population. These policies then inevitably led to a significant reduction in wages in the public and private sectors, thus causing an inevitable reduction in the purchasing power of citizens and consequently a reduction in domestic demand. The decrease in sales inevitably reduced production, leading to a major increase in unemployment in the country. Importantly, these financial measures have also reduced tax revenues for the state, making it more difficult for the government to meet government targets and repay debts.
- Promoting unbridled privatization of public companies in key sectors of the Argentine economy such as infrastructure and utilities. After these privatizations many companies raised their prices but without significantly improving the quality of services offered, thus making it more difficult for an important segment of the population to access some essential services. The state then because of these sales lost the ability to intervene so that the interests of citizens were protected. Moreover, it is important to point out that these unchecked privatizations can lead to a concentration of power in the hands of a few players, who, through the creation of oligopolies and monopolies, limit competition within one or more key sectors.
- Lack of transparency in the decision-making process. Fund negotiations with countries in crisis were usually behind closed doors, thus making it complicated for citizens to fully understand the conditions and policies associated with financial aid packages. Conditions were imposed without any of the people's representatives being consulted, despite the fact that these decisions had a significant impact on people's daily lives. This over time generated suspicions about what interests actually guided the IMF's decisions, with many in fact claiming that the policies were geared more toward the interests of international creditors than the real needs of the Argentine economy and local people. The international organization was accused of protecting the interests of banks and financial institutions even at the expense of the welfare of the inhabitants.

Fueling suspicion and mistrust then was the fact that the Fund had no responsibility for the decisions it imposed, thus making it very difficult for outside parties to exercise control over Fund officials and their actions.

II.6.1. The Independent Evaluation Office (IEO)

It was precisely because of the harsh criticism of the International Monetary Fund in 2001 that The Independent Evaluation Office (IEO), an independent body established to conduct objective assessments of the Fund's policies and activities, was founded. This office in 2004 produced a report, "The IMF and Argentina, 1991-2001", where it listed a number of mistakes made by the Fund in its handling of the crisis of the early 2000s. The purpose of this paper is to impart some lessons to the Fund so that in its future interventions it will not make the same mistakes. The first main mistake made by the International Monetary Fund according to the IEO was the lack of clear risk assessment regarding the economic policies adopted by Argentina during the Menem government period. The fixed exchange rate regime, despite its initial advantages, over time brought a number of structural problems, such as the loss of monetary flexibility. As mentioned earlier, this system made the country very vulnerable to external shocks, as Argentina could not use tools such as devaluation to deal with any economic imbalances. In addition, liberalization policies made the country increasingly dependent on foreign investment, thus incentivizing foreign debt and the national economy's vulnerability to global financial crises. The Fund has always supported these policies, not carefully assessing the risks and consequences. The second mistake has been the one-size-fits-all approach that the IMF has used in all situations in which it has been called upon to intervene. The Fund applied a set of economic policies applied in other contexts previously to combat the Argentine crisis, without actually taking into account the specificity of the country's economy. The structural differences, internal dynamics and vulnerabilities of the national economy were completely ignored. This standard approach by the organization has contributed to deepening recession, economic instability and public discontent. The IEO went on to acknowledge its criticism of the Fund; in fact, it admitted that the continued austerity policies promoted and the lack of transparency and communication contributed to a loss of trust in the international organization by the Argentine public. The body went on to add some recommendations to improve the effectiveness of IMF policies in handling any future crises.

The main recommendations are:

- The Fund should have a contingency strategy from the outset. In the event that the policies chosen initially do not work, the organization must be prepared for a change in strategy and policy.
- When debt or exchange rate sustainability is at stake, the organization's support should be contingent on a significant change in policy within the country.
- The Fund should improve its tools for assessing the real exchange rate and debt sustainability by taking a long-term perspective that focuses on vulnerabilities that may emerge.
- Avoid entering into a program relationship with a member country when there is no immediate need, or there are some obstacles in implementing serious structural reform.
- Encourage close cooperation between domestic authorities and the IMF, including mandatory disclosure to the Board of Governors of any critical issues.
- A check by the Council on the decisions made by the Executive Board. In addition, there should be an exchange of information and opinions between the two bodies.

Table 2: Argentina key economic indicators 1991-2002⁴⁴

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Real GDP growth (percent)	10.5	10.3	6.3	5.8	-2.8	5.5	8.1	3.8	-3.4	-0.8	-4.4	-11.0
Real private consumption (percent)	...	...	...	6.1	-4.4	5.5	9.0	3.5	-2.0	-0.7	-5.7	-14.4
Real government consumption (percent)	...	...	...	0.4	0.8	2.2	3.2	3.4	2.6	0.6	-2.1	-5.1
Real fixed investment (percent)	...	...	...	13.7	-13.1	8.9	17.7	6.5	-12.6	-6.8	-15.7	-36.1
Inflation (CPI, Dec/Dec, percent)	84.0	17.5	7.4	3.9	1.6	0.1	0.3	0.7	-1.8	-0.7	-1.5	41.0
Money (M1, Dec/Dec, percent, in pesos)	148.6	49.0	33.0	8.2	1.6	14.6	12.8	0.0	1.6	-9.1	-20.1	80.9
Quasi- money (Dec/Dec, percent, in pesos)	136.8	71.4	54.2	22.3	-4.7	20.8	31.2	14.5	4.9	5.0	-19.2	3.4
Current Account (in billions US\$)	-0.4	-6.5	-8.0	-11.1	-5.2	-6.8	-12.2	-14.5	-11.9	-8.8	-4.4	8.6
(In percent of GDP)	-0.2	-2.8	-3.4	-4.3	-2.0	-2.5	-4.2	-4.9	-4.2	-3.1	-1.7	8.3
Total Exports growth (in US\$, percent)	-2.1	3.4	8.5	17.8	28.9	13.6	9.0	0.7	-10.5	11.8	-0.6	-8.2
Total Imports growth (in US\$, percent)	68.3	58.8	30.3	11.3	-4.6	15.8	24.1	3.4	-15.3	0.4	-16.6	-51.8
External debt (in billions of US\$)	62.3	62.7	72.2	85.7	98.5	109.8	124.9	141.4	144.5	146.3	140.3	136.6
(In percent of GDP)	32.9	27.4	30.5	33.3	38.2	40.3	42.7	47.3	51.0	51.5	52.2	132.6
Debt service ratio / exports (percent)	33.6	27.5	30.9	25.2	30.2	39.4	50.0	57.6	75.4	70.8	66.3	...
International reserves (in billions of US\$)	6.0	10.0	13.8	14.3	14.3	18.1	22.3	24.8	26.3	25.1	14.6	10.5
Exchange rate (peso/\$, end-period)	0.9985	0.9905	0.9985	0.9995	1.0000	0.9995	0.9995	0.9995	0.9995	0.9995	0.999	3.3200
Real effective exchange rate (end-period) 1/	140.5	165.5	178.0	169.5	163.2	163.7	176.3	171.2	178.2	185.6	185.7	72.0
Terms of Trade (percent change)	7.6	6.1	-7.7	14.4	-4.5	9.9	0.2	-5.1	-8.4	7.5	-5.7	-16.0
Primary balance (in millions of pesos)	-483	1,043	3,685	2,890	1,156	-1,420	-1,580	2,388	1,413	-2,672	1,709	-2,844
Federal government (in millions of pesos)	371	2,278	3,928	4,177	2,776	1,107	-1,392	1,450	2,187	21	3,150	1,295
Provincial government (in millions of pesos)	-854	-1,235	-243	-1,287	-1,620	-2,527	-188	938	-774	-2,693	-1,44	-4,139
Overall balance (in millions of pesos)	-1,190	-1,464	710	-151	-2,607	-6,224	-7,212	-4,396	-6,418	-12,30	-9,78	-15,44
Federal government (in millions of pesos)	-245	37	1,307	1,607	-416	-2,976	-6,020	-4,282	-4,453	-8,180	-6,46	-8,875
Provincial government (in millions of pesos)	-944	-1,501	-596	-1,758	-2,191	-3,248	-1,192	-114	-1,964	-4,125	-3,31	-6,570

⁴⁴ Source: Independent Evaluation Office (IEO), data from IMF database.

CHAPTER III: Cycles of crisis and recovery: the Argentine economy in the new millennium

III.1. The new Kirchner government and recovery

In April 2003, after about two years as president, the term of interim president Eduardo Duhalde came to an end. His appointment was temporary in nature; in fact, the goal of this government was to lead the country through a period of transition and stabilization after the crisis. In this year Argentina was beginning to recover from the severe economic crisis of December 2001, so it was deemed necessary to return to elect a new president through regular democratic elections.

On April 27, the former president of Santa Cruz province and member of the “Partido Justicialista”, Néstor Carlos Kirchner, won the election against Carlos Menem with 22% of the vote. The elections were held in a tense atmosphere, in fact the Argentine people still harbored a feeling of frustration and disappointment with politics, but in spite of this they saw significant participation, a sign that citizens were eager for change after the crisis and the strong austerity policies imposed by previous governments.

Kirchner was able to win because of his campaign promises, in particular the new president pledged to combat some of the country's endemic problems, such as: corruption, economic crisis, and social inequalities. Another point that worked in Kirchner's favor was his commitment, excellently completed once elected, to bring to justice those responsible for numerous human rights violations during Argentina's military dictatorship; in fact, prior to this election many perpetrators did not face criminal prosecution thanks to amnesty laws. The candidate of the justicialist party made justice for the victims a central theme of his campaign, managing to have a significant impact on a large part of the Argentine people, still scarred by the violence of the past.

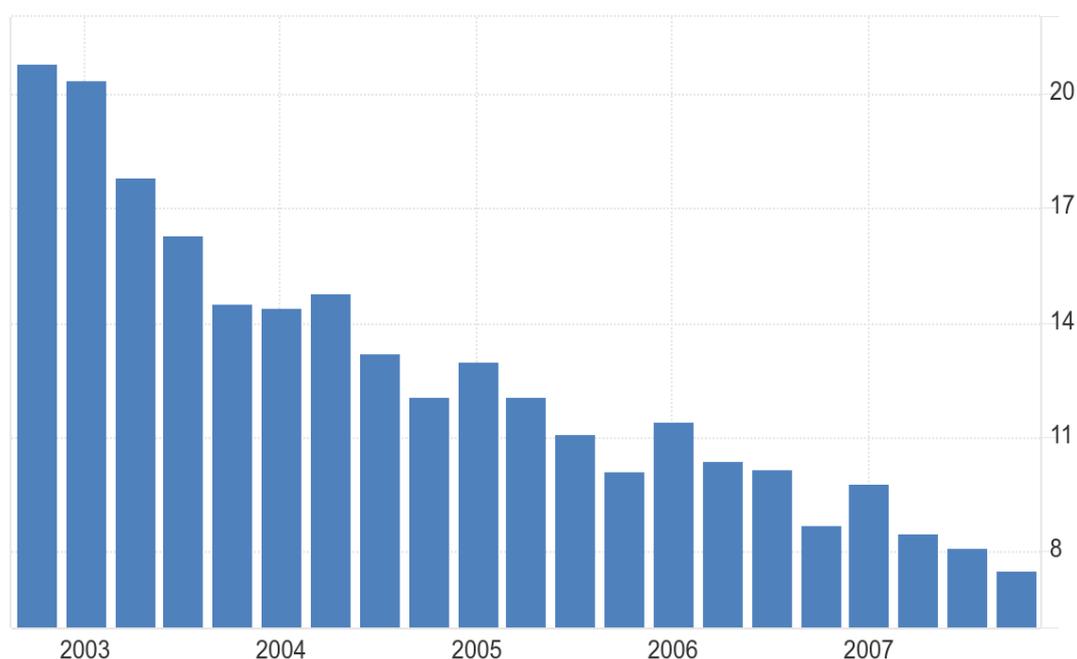
Néstor Kirchner had the difficult task of getting Argentina to recover from one of the greatest crises in history, both economically and socially.

In order to lift the country, the new government adopted expansionary fiscal policies aimed at stimulating domestic demand so as to boost internal production, increase and reduce unemployment. These measures were in sharp contrast to those adopted under IMF leadership in previous years. Therefore, to prevent the Fund from interfering in

policy choices, in 2006 the administration decided to repay the entire outstanding debt of 9.6 billion to the international organization, despite the fact that the due date was two years later.

First, Kirchner undertook an ambitious program of investment in public infrastructure, such as: roads, railways, airports, and ports. These interventions were seen as a means to stimulate economic growth in the long term, as they improved the efficiency of transportation of goods and people. These interventions were important increase employment in the country through the creation of new jobs. The results were satisfactory as the unemployment rate dropped from 21,5% in 2002, to 8% in 2007, the year the presidential term ended. In addition, the creation of new infrastructure, or the renovation of old, drastically improved the quality of life for many people. Facilitated access to some essential services reduced inequality within the country, especially in some less developed rural areas.

Graph 16: Argentina's unemployment rate in percent during the Kirchner government (2003-2007)⁴⁵

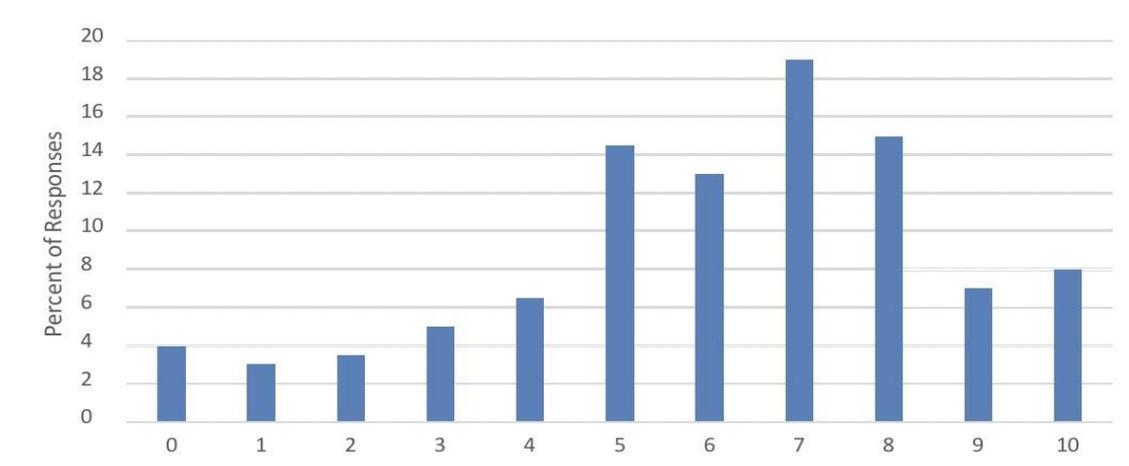


⁴⁵ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

To revitalize Argentina's economy, and in particular its industrial sector, the government adopted a series of protectionist measures designed to support the country's industry by restricting imports while encouraging exports. Tariffs were raised on a wide range of imported products, while a series of subsidies and tax breaks were introduced so as to encourage local production and investment in the modernization of production facilities. The government then promoted preferential purchasing policies, in which government agencies were incentivized to purchase products and services from domestic suppliers. Subsidies and tax refunds for the agricultural sector were implemented, thus boosting exports of products such as grain and soybeans. The government also signed a series of trade agreements with other states so as to promote Argentine products abroad, opening the country to new markets.

These policies had good results; in fact, restricting imports helped revive industrial sectors that had been hard hit during the crisis. What's more, protection from foreign competition premised Argentine industries on producing goods that were once imported, reducing import dependence even more. Growth in exports, on the other hand, especially for the agricultural sector, meant that companies invested their increased income in new technologies designed to increase the sector's productivity in the long run. Declining imports and expanding exports helped improve the country's trade balance, as well as increase domestic foreign exchange reserves.

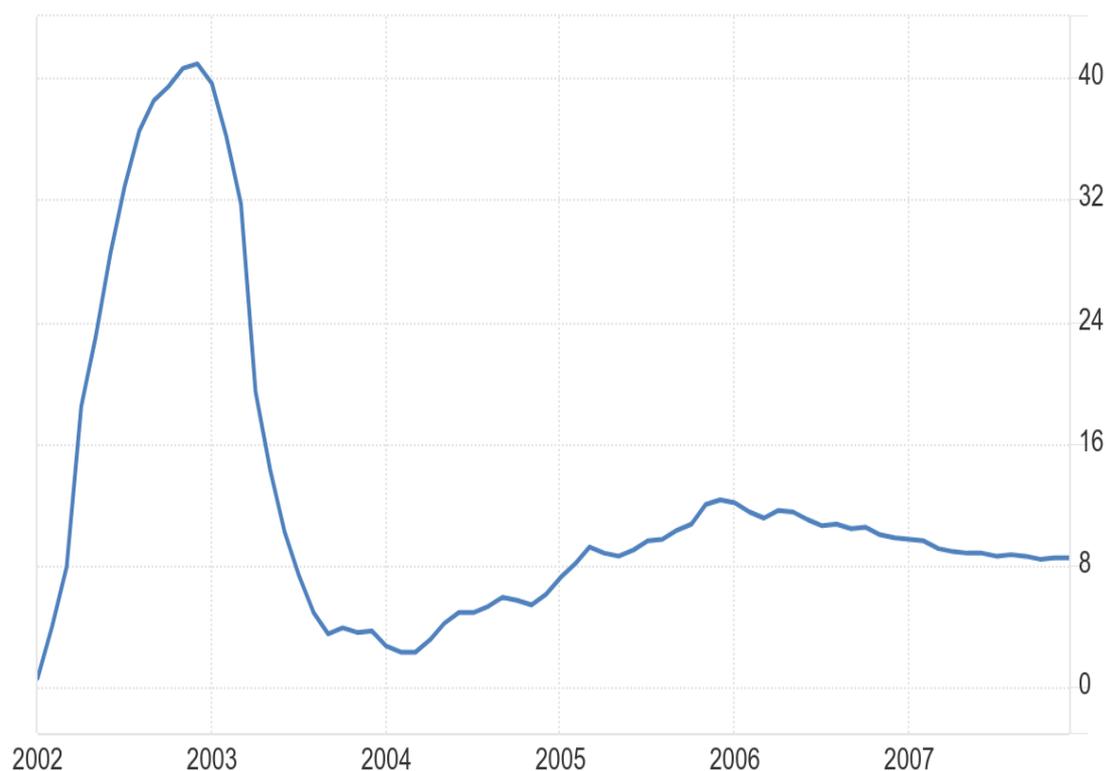
Graph 17: Popularity of Néstor Kirchner on a 1-10 Scale⁴⁶



⁴⁶ Source: Pita, N. (2017), “Is Populism Against Trade? Argentina's Trade Policy in the Context of Latin American Populism”, data from Latinobarometro.

President Kirchner's term was also marked by a series of social policies directed at combating poverty and promoting inclusion. One program of particular note was initiated in 2002 under the name “Plan Jefes y Jefas de Hogar⁴⁷”. It was introduced by the previous government but implemented significantly by the new administration. It provided for the provision of temporary employment opportunity to heads of households in severe economic hardship. It enabled the neediest families to take advantage of a minimum income that could meet their basic needs. Through this program, numerous families were able to move away from a situation of absolute poverty, while also improving their inclusion within Argentine society. To ensure a decent standard of living for all citizens and to reduce inequality within the country, the government introduced other social and redistribution policies, such as raising all minimum wages. Progressive fiscal policies were then introduced to redistribute wealth, and to ensure that the wealthiest people contributed more to government spending.

Graph 18: Argentina's inflation rate in percent, 2002-2007⁴⁸

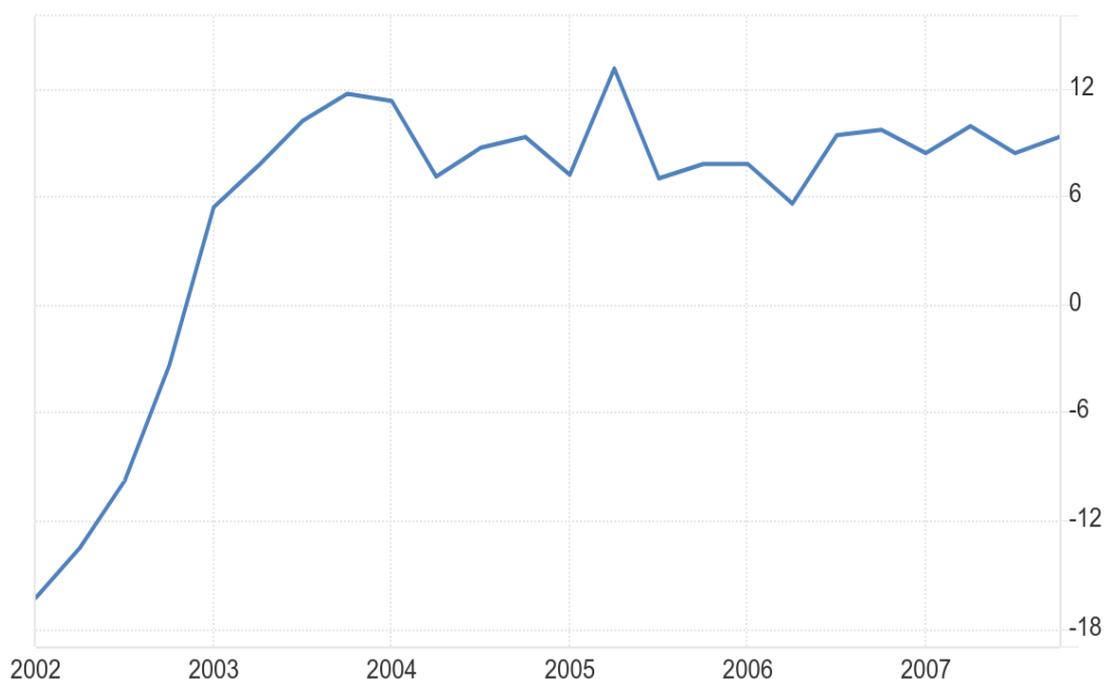


⁴⁷ Household head plan.

⁴⁸ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

During the four years of Néstor Kirchner's rule, Argentina recorded significant improvements in several areas. The results of economic policies were very encouraging, for example, inflation fell below 10%, while GDP grew by an average of 9% each year. Social policies also had a positive response, in addition to decreasing unemployment, the government managed to reduce the poverty rate by as much as twenty-eight percentage points during his tenure. Although his presidency could be described as very positive, Kirchner decided not to run again in the October 2007 elections. Despite this refusal to run again he remained a very influential political figure in Argentina, popular with citizens who recognized his economic and social achievements. His active participation in the campaign of his wife Cristina, who was running for president, was thus essential to her victory in the elections held that fall.

Graph 19: Argentina's GDP annual growth rate in percent (2002-2007)⁴⁹



III.2. Debt restructuring

President Kirchner, in addition to attempting to lift Argentina's tragic economic situation, had to face another very daunting task, namely completing the long and torturous debt restructuring. After Argentina decided to suspend interest and principal

⁴⁹ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

payments to holders of its public debt, a series of consultations and negotiations began almost immediately between creditors, including investment funds, and the Argentine government to seek agreement on repayment arrangements. Kirchner aimed to reduce the total amount of debt to make it more sustainable in the long run, he also emphasized the importance of national sovereignty and economic independence in the restructuring process, in fact he assured citizens that he would not accept any agreement that imposed further austerity measures too onerous for the country.

Following these guidelines, and after a long tug-of-war between government and creditors, finally in 2005 came the first offer from Argentina, which involved exchanging the old bonds for new ones. These new bonds, however, included a present value reduced by 75% compared to the previous ones, a reduction in interest as well as a maturity date much further out in time. The Argentine government also passed a law called the “most favored creditor clause” by which it declared that this was a unilateral, nonnegotiable offer, and therefore there would be no other type of payment for creditors who refused to accept this offer. About 76% of the creditors agreed to participate in the bond exchange, thus \$62.3 billion of the total \$81.1 was exchanged. The remaining 24%, equal to 18.6 billion, who had not accepted the Argentine government's offer, decided to take legal action, requesting the full restitution of the nominal value of the old bonds.

In 2010 Argentina offered a new bond exchange to holdouts, that is, creditors who had not accepted it five years earlier. To incentivize the exchange in this case, a distinction was made between small investors and institutional investors, such as banks, investment funds, and insurance companies. The former were offered a new bond with the same par value as the old one to be replaced, plus it would take into account past due interest. Institutional investors, on the other hand, were offered a bond with a value of 33,7% over the old par value. Creditors who had already participated in the first bond exchange in 2005 also got better terms than those entering the process for the first time. The acceptance rate was 67,7%, so there was a bond exchange of almost thirteen billion, a success for the Argentine government. The remaining creditors who had again rejected the exchange offer continued their legal battle, these were in most cases large investment groups who could sustain the long judicial process and the enormous costs associated with it without too much trouble.

The first turning point came in 2012, when the U.S. Supreme Court ruled that Argentina had to repay in full the claims held by NML Capital, a fund managed by Elliott Management Corporation⁵⁰. Exacerbating the Argentine situation was the continuation of the Supreme Court⁵¹'s ruling, where it ruled that there could be no distinction between creditors who had accepted the earlier exchanges, known as holdins, and those who had not, and that therefore the Argentine government had to repay the holdouts at the same time as creditors who had accepted the restructuring. The judge also blocked payments to the holdins until Argentina settled its debts to creditors who had not accepted the previous restructurings. This would almost certainly have led the country to default again since it was completely unable to meet these costs.

The Argentine government heavily opposed the ruling, stating that it could not recognize it because it took place in a foreign country; in response, the U.S. fund demanded and obtained a freeze on some Argentine assets on U.S. soil. After numerous judicial appeals and postponements, in 2014 the Supreme Court gave Argentina a couple of months to repay the holdouts, but the Argentine government, aware that it was unable to sustain such payments, announced in July 2014 that it was defaulting on a sum close to thirty billion dollars.

After a series of long and exhausting negotiations between the remaining creditors and the government headed by Mauricio Macri, an agreement was reached in 2016 that provided for the payment of 75% of the face value plus interest accrued over time. To do so, Argentina had to issue new bonds to finance the payment, the so-called “Tango Bonds”.

Although the agreement helped the country restore its financial credibility in international markets, showing that the government was serious about resolving its financial disputes in a responsible manner, it also had a significant impact on Argentina's budget and economy. Indeed, the repayment required a considerable amount of resources, reducing the availability of funds for other public spending priorities, such

⁵⁰ Elliott Management Corporation is an American investment management company founded in 1977 in New York by Paul Singer, and is considered one of the largest activist investment funds in the world. (source: Wikipedia)

⁵¹ The Supreme Court of the United States of America is the highest federal judiciary court in the United States of America. As the supreme court, it has broad appellate jurisdiction of last resort over all cases in federal courts and state courts that cross federal law. (source: Wikipedia)

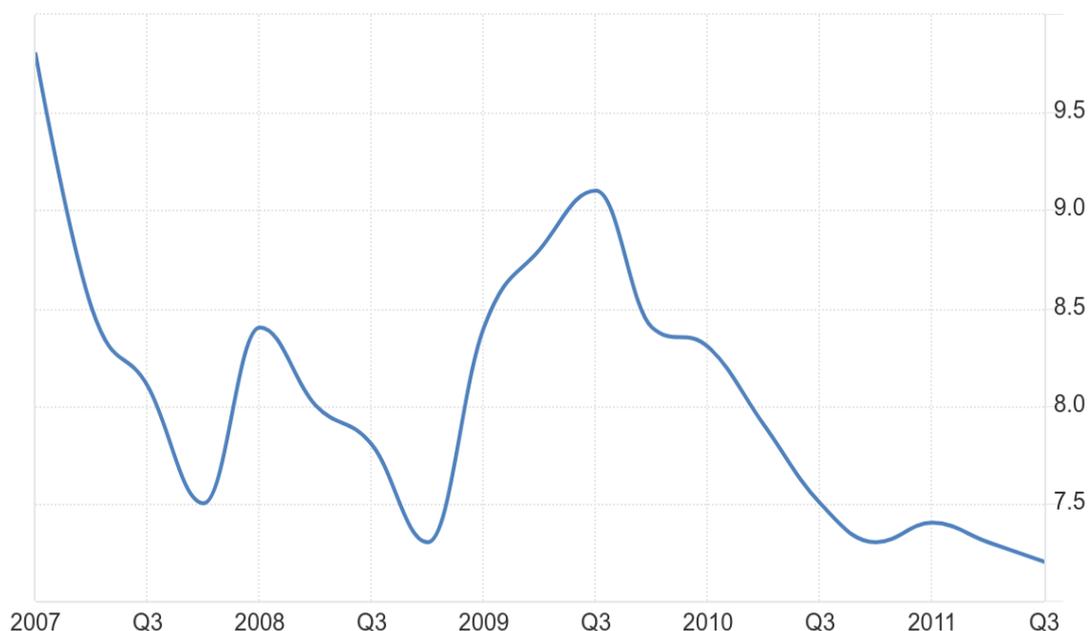
as health and education. It then increased the country's public debt, consequently increasing interest expenses, further reducing available resources.

This payment to the remaining creditors allowed the country to end a long legal dispute and avoid further complications, served to restore its reputation in the markets, but at the expense of negative implications for the state budget.

III.3. Cristina Kirchner's first government

The newly elected president Cristina Kirchner advocated an active role for the state in the national economy, in fact she carried forward many of the social and economic policies of her predecessor husband. She further expanded welfare policies⁵², for example introducing a subsidy program for children of low-income families aimed at boosting education and child health in poorer areas. He also continued with state investment in the country's infrastructure, with the aim of stimulating the economy and creating more jobs.

Graph 20: Argentina's unemployment rate in percent during Cristina Kirchner's first government (2007-2011)⁵³



⁵² Complex of public policies implemented by a State that intervenes, in a market economy, to guarantee the assistance and well-being of citizens. (source: Treccani)

⁵³ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

During his tenure, another key component of his economic policies were the nationalizations of sectors considered strategic. The main nationalizations to delve into were: the nationalization of the flagship airline, “Aerolíneas Argentinas”, and the nationalization of the national social security system. Both were previously privatized in the 1990s during the Menem government, and over the years their management passed to various owners. The airline faced serious economic difficulties in the 2000s, causing serious shortcomings in the service provided to customers. Therefore, to ensure the continuity of national air service and protect the many jobs, the government decided to intervene by taking control of the company. Private pension funds at that time in history were also facing a downturn, offering returns below expectations and thereby increasing insecurity among retirees and workers. In this circumstance, too, the government felt compelled to intervene in defense of its citizens, so it decided to regain control over all pension contributions and savings. This nationalization transferred substantial financial resources into the government's coffers, allowing it to use them to finance its social programs and infrastructure investments.

To continue to curb inflation, which was hovering around 9% in those years, the administration introduced price controls on essential consumer goods, such as food and fuel. It also made agreements with local businesses for them to maintain stable prices. However, these measures caused a shortage of products in the market, as producers many times found it more profitable to stop production than to sell their products at government-imposed prices, which in some cases were even below production costs. Instead, in some cases producers reduced the quality of the items they offered in order to cut production costs and make a small profit. These shortages of consumer goods generated a black market where products were sold at significantly higher prices than those provided by the government.

The government also implemented restrictions on the purchase of foreign currencies. Indeed, Argentine citizens continued to safeguard their savings by converting their assets into other currencies, typically the dollar. The president to limit this practice decided to enact a measure restricting the amount of dollars that could be purchased. Again, the restrictions led to the creation of a parallel market, known as “dólar blue⁵⁴”,

⁵⁴ The blue dollar is the informal name given to the U.S. dollar bills you can find on the blue market. The Blue Market got its name from the blue strip in the newer one hundred dollar bills. Basically, it consists of money changers on the streets who give better rates for hard currency.

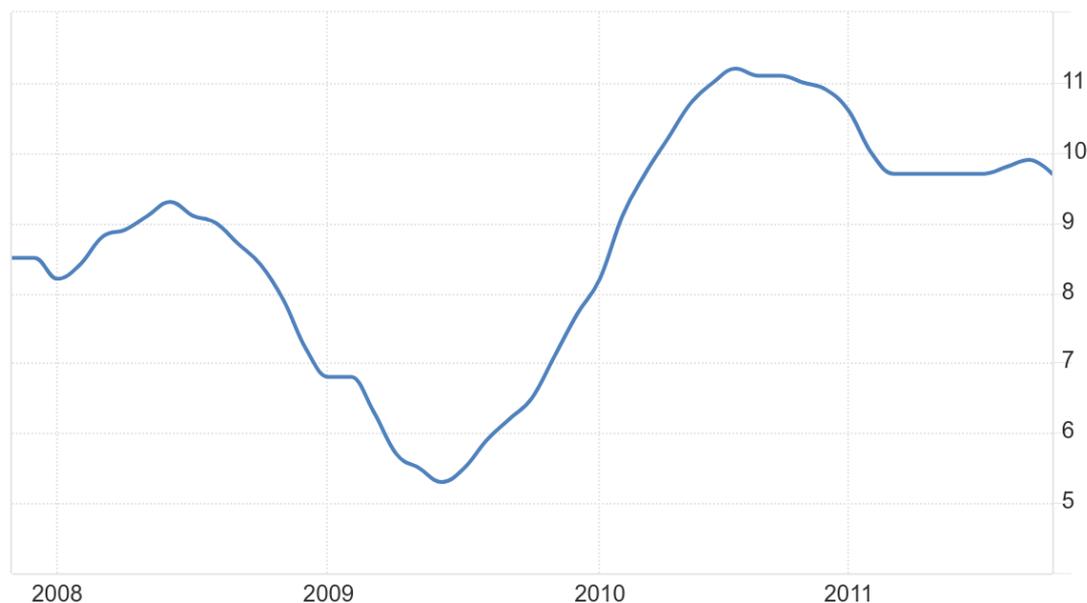
where exchange rates were significantly higher than the official rates, making it more expensive for savers to buy U.S. currency. These restrictions on currency exchange contributed to growing discontent among the population, who felt that these policies excessively controlled their lives and freedom.

Policies aimed at stimulating the economy through major investments in new infrastructure, and increased welfare policies directed at improving the quality of life within the country, could only lead to a considerable increase in public spending. This increase in spending was covered partly by the imposition of new taxes, and partly by recourse to public debt. The government issued new government bonds that were sold on both the national and international markets. This increase in debt relative to GDP triggered a series of criticisms from oppositions, who considered it unsustainable in the long run. The imposition of new taxes also triggered strong reactions in the country, especially in the agricultural sector. Indeed, Cristina Kirchner's government introduced a new tax on agricultural exports that increased as commodity prices rose. There were heavy protests from farmers, as they felt that this new tax made agricultural production no longer profitable.

In 2008, the country faced the effects of the global crisis. Although the country was in a relatively isolated position, partly due to the policies adopted after the default, the economic repercussions were felt in various sectors of the national economy. Global demand for raw materials fell sharply, negatively affecting Argentine exports, especially those of agricultural products. Commodity prices collapsed, leading to a further reduction in exports, and thus a reduction in tax revenues. Investment in the country also declined; in fact, global uncertainty had led to growing risk aversion on the part of investors.

It's not technically legal or monitored by authorities, but it operates in the open and changing money in the Blue Market is considered routine. (source: internationalteflacademy.com)

Graph 21: Argentina inflation rate in percent, 2007-2011 (data released by government, deemed unreliable)⁵⁵



Kirchner then faced numerous accusations regarding the manipulation of economic data, particularly inflation data. In fact, the data published by the “Instituto Nacional de Estadística y Censos⁵⁶” (INDEC), the Argentine government agency in charge of statistical collection and processing, were significantly lower than the estimates of several independent economists and academic institutions. The latter believed that the inflation rate was actually twice as high as the official data stated, thus that it was actually 20% and not 9%. These imputations led to a significant loss of credibility with the government, both domestically and internationally. The International Monetary Fund also expressed serious concerns about the transparency and credibility of the economic data provided by Argentina. In 2013, during Cristina Kirchner's second term, the international organization adopted a censure statement against the country, further plunging the country's reputation in global financial markets. It also demanded that the government take concrete measures to bring its statistics back in line with accepted international standards. The chairwoman rejected all the accusations, defending her

⁵⁵ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

⁵⁶ The National Institute of Statistics and Censuses is a decentralized public body of a technical nature, within the orbit of the Ministry of Economy of the Nation, which exercises the superior management of all official statistical activities carried out in the Argentine Republic. (source: INDEC official website, indec.gob.ar)

actions, although she accepted the request to reform the way statistics were collected and reported.

III.4. The new default of 2014 and the Mauricio Macri government

Despite the counterfeit economic data scandal, in the presidential election held in 2011 Cristina Kirchner was re-elected by an overwhelming margin, in fact winning with 54% of the vote. Argentine citizens had appreciated the welfare measures adopted by the government.

This second government aimed to maintain the country's economic growth of recent years, as well as further implement social policies. The administration continued to increase public spending to improve the purchasing power of households and thereby support domestic consumption. New subsidies were introduced to facilitate access to education for the neediest children and to keep down the cost of some essential services, such as transportation. Investment in infrastructure also continued to increase, especially social housing projects.

Restrictions on the purchase of foreign currencies were then further tightened, in fact citizens from that time onwards to make one or more dollar-denominated transactions had to obtain authorization from the “Administración Federal de Ingresos Públicos⁵⁷” (AFIP) which was very often denied. These constraints harmed companies that needed foreign currency to import goods, further increasing the black market for dollars in the country.

Economic recovery in the country seemed to continue, with GDP growing 8,6% in the first year of the legislature. Unemployment also remained low, with annual rates just over 8%. Inflation according to official government figures remained around 10%, although by several independent estimates rates hovered between 25%-30%. The only negative figure was the fiscal deficit, which, as widely expected, was rising steadily, reflecting an increase in government spending unaccompanied by a corresponding growth in revenue.

As early as 2012, Argentina's economic recovery slowed, with GDP growth close to zero. The reasons for this slowdown can be traced to: unfavorable weather conditions

⁵⁷ Federal Administration of Public Income. It is the revenue service of Argentina and administers taxation in the country. (fonte: Wikipedia)

that severely damaged the agricultural harvest and thus limited exports; the continued increase in government spending; reduced international investment due to the introduction of strict currency exchange restrictions; and the actual rise in inflation.

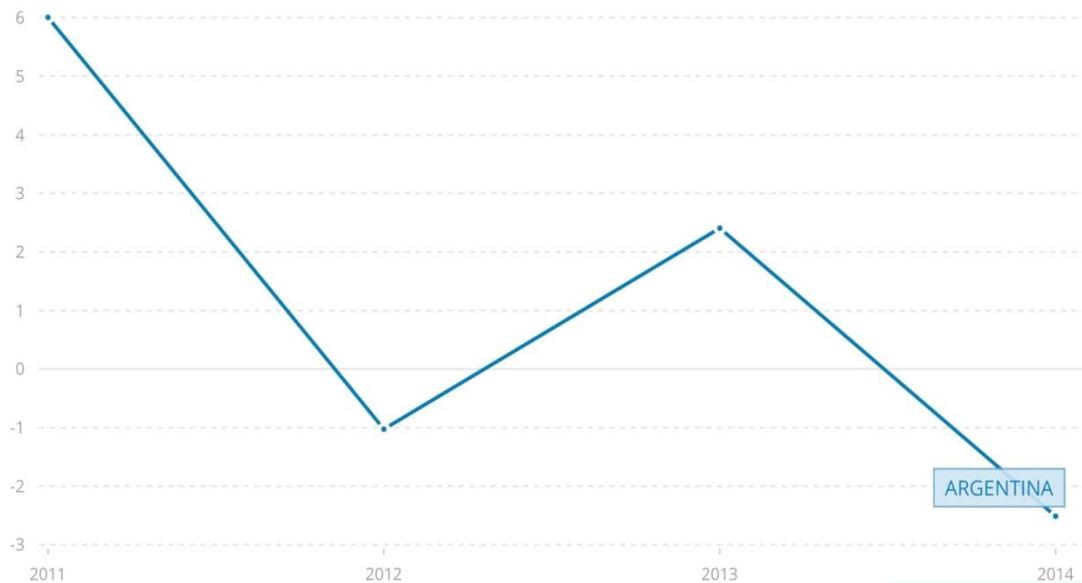
It was Cristina Kirchner's last year in office, however, 2014, that sealed the return of the crisis in Argentina. For as seen above, the government, following the U.S. Supreme Court ruling ordering the country to compensate the holdouts in conjunction with the holdouts, declared itself insolvent to the tune of twenty-nine billion dollars.

Argentina was immediately excluded from international financial markets, making it impossible for the country to issue new debt to finance the budget deficit. The government in this way was forced to use domestic and less conventional methods of financing. Extensive use was made of the Central Bank of Argentina, through the issuance of new currency and the use of foreign exchange reserves to repay foreign debts, which led to a considerable reduction in reserves, from about fifty billion in 2010 to about twenty-eight in 2014. Short- and long-term treasury bonds with high interest rates were issued, this was done to attract national investors and raise funds needed for the financial needs of the state. The government even went so far as to use previously nationalized pension funds to buy government bonds and finance its own expenditures, but in doing so reduced pensioner returns.

These methods inevitably led to a number of negative consequences. In that year, GDP recorded a reduction of 2,5%, while inflation, after a methodological change in calculation, according to official estimates reached 24%. Concern in citizens grew, and the conversion of savings into currencies considered more stable and capital flight increased more and more.

Faced with this desperate situation, President Kirchner implemented a series of price controls on consumer goods so as to curb inflation. However, these controls very often only fueled the black market, as producers were unwilling to sell their products at the imposed prices. The government then attempted to increase its exports and increase its trade with new international partners by entering into new trade agreements. It was decided to keep government spending high so as to stimulate domestic demand, despite the increase in the fiscal deficit. Social assistance programs, such as subsidies for families to access essential services, were maintained.

Graph 22: Argentina's annual GDP growth in percente from 2011 to 2014⁵⁸



Right around the time of the 2015 presidential elections, Argentina was once again in an economic downturn, characterized by: a high level of inflation, a lack of international investment, a rising unemployment rate, and an increase in poverty. All these factors exacerbated social tensions within the country, which turned into violent demonstrations throughout the country.

It was Mauricio Macri, candidate of the “Cambiamos⁵⁹” breakfast, who ended the Kircherismo era after twelve years as president. During his election campaign, the new one highlighted the need to liberalize the economy in the country, with the goal of attracting more foreign investment and reducing the budget deficit.

The first economic policies implemented by the new Macri government in December 2015 were focused on eliminating the currency controls introduced by the previous government. The tight restrictions, introduced by the governments of the two Kirchner spouses to protect foreign currency reserves in the country and limit capital flight, had limited citizens' and businesses' access to purchase foreign currency . These measures had created a thriving black market, the “dólar blue”, where Argentines daily purchased U.S. dollars at rates significantly higher than official rates. This contributed to the

⁵⁸ Source: World Bank.

⁵⁹ “Cambiamos” was a centre-right political coalition founded in 2015 to compete in the national elections held that year, on the basis of the agreement established between the ARI Civic Coalition, the Republican Proposal, the Radical Civic Union and other forces policies. (source: Wikipedia)

spread of a climate of economic uncertainty that limited confidence, and thus discouraged, investment from abroad.

The president's aim with this measure was to eliminate the black market by re-establishing a single, transparent foreign exchange system. It was believed that with this decision a more stable and predictable economic environment could be created, where investors regained confidence in the country, and international transactions, such as imports and exports, were facilitated.

The elimination of these controls allowed the peso to float freely in the market, allowing supply and demand to determine its value. Immediately the Argentine currency devalued, rising from ten pesos per dollar to thirteen in a matter of days, to sixty pesos per dollar within a few years. This led to an increase in the prices of consumer goods, further reducing the purchasing power of households. Businesses that depended on exports benefited from a weaker currency, while those that imported goods and services saw their operating costs rise.

To lower the ever-rising inflation, and which was hovering between 35% and 40% in those years, the new administration decided to implement a restrictive monetary policy, in contrast to the policies of previous governments. The first move was to raise interest rates significantly, so as to reduce the demand for credit by making it more expensive, thus limiting spending and investment. The Central Bank of Argentina in addition adopted policies to control the expansion of the monetary base, seeking to reduce the quantity of money in circulation on the national territory.

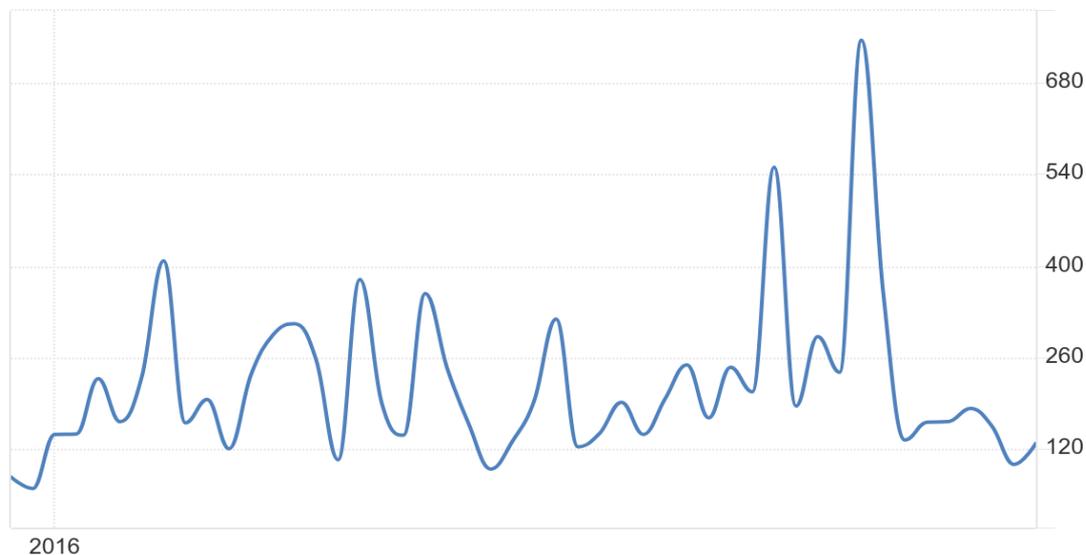
At the time of Macri's inauguration, another problem in Argentina was the rigidity of the labor market, which limited firms' flexibility. For this reason, the government implemented a series of reforms aimed at making firing and hiring practices less costly and easier for companies by, among other things, reintroducing temporary employment contracts. Initiatives, such as subsidies, directed at encouraging the hiring of young people were also proposed. Increasing the international competitiveness of Argentine companies and attracting new foreign investors were two of the central points of the government's program, and only a more pro-growth and flexible environment could help achieve this. For the same reason, a simplification of the tax system was proposed that aimed to reduce taxes and make the collection and control system more effective so as to combat high tax evasion. With this reform, the government believed it could lower

the tax burden on businesses, but at the same time increase revenue, and thus reduce the fiscal deficit.

Regarding the extensive welfare policies introduced by previous governments, which had been credited with succeeding in reducing poverty especially in the most rural areas, President Macri decided to remove subsidies for access to essential services such as public transportation and electricity. He tried, nevertheless, to maintain aid to support struggling families, who, however, between rising inflation and rising utility rates, were seeing their purchasing power erode day by day. This situation could only lead to numerous protests and growing dissatisfaction among the population.

These economic measures that aimed to liberalize the market and reduce bureaucratic barriers received the support of many businesses and multinationals, which saw in these actions an opportunity to increase their competitiveness. International investors also returned to invest in Argentina, in fact they saw Macri's policies as a step toward greater economic stability in the country.

Graph 23: Argentina Foreign Direct Investment during the Macri government (USD millions)⁶⁰



The new government also managed to gain the approval of major international organizations, especially the International Monetary Fund. It was the latter that in 2018 approved the Argentine government's requests and granted the country a Stand by

⁶⁰ Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

Arrangement of fifty-seven billion dollars distributed in several tranches, thus making it the largest loan in the IMF's history. The planned duration was thirty-six months, and disbursement of the funds, in accordance with the usual policy of conditionality adopted by the organization, was subject to compliance with specific economic and fiscal conditions. The first tranche of fifteen billion was disbursed immediately after the agreement was approved, while subsequent tranches were disbursed at regular intervals, subject to the Fund's assessment of Argentina's progress in meeting the predetermined targets. In fact, the organization carried out periodic evaluations to monitor economic progress and compliance with agreed conditions. The main conditions required were:

- The reduction of the fiscal deficit through austerity measures and major cuts in public spending;
- the adoption by the Central Bank of Argentina of restrictive monetary policies so as to stabilize the currency and reduce inflation;
- the implementation of major structural reforms that would seek to stabilize the economy and make the country even more attractive in the eyes of foreign investors.

Despite the international commitment and support, the policies decided upon by the Macri government did not lead to the desired results; in fact, if possible, they worsened the country's economic stability and the living conditions of Argentine citizens. After initial figures showing GDP growing by about three percentage points, it seemed that the nation was able to recover from the 2014 default, but starting in 2018, GDP began to decline, reaching -2,5% in 2018. Moreover, despite the restrictive monetary policies implemented, inflation returned to a steep rise, even reaching a rate of 50% in the last year of the presidential term. Rising interest rates then made access to credit very difficult for Argentine companies and households, thus leading to a contraction in investment and domestic consumption. Policies related to the labor market also proved a disappointment, as despite the implementation of targeted initiatives, unemployment grew to 10% and the phenomenon of “undeclared work” did not seem to subside. The reliance on international borrowing to finance the budget deficit and stabilize the economy led to a considerable increase in external debt, which rose from one hundred and sixty in 2015 to two hundred and eighty billion dollars. The contraction of social policies then led, as widely expected, to the increase of poor families and economic inequality within the country, the poverty rate in fact reached 36%. The only positive

results came from tax reform, in fact the decrease in taxes attracted some investment, while the measures taken improved the method of tax collection, but despite these improvements the fiscal deficit remained high.

III.5. The return of the Peronists and the global pandemic

Argentina was in a recession, characterized by shrinking GDP, high inflation, and rising poverty. Promises of economic recovery were not kept by Mauricio Macri, which is why he was not reappointed in the elections held in October 2019. Argentina's new president became Alberto Fernández, candidate of the “Partido Justicialista”, a party with a strong Peronist orientation.

His campaign heavily criticized Macri's economic management, accusing him of worsening the living conditions of Argentine citizens. He promised a radical change in economic policies if elected, promising measures much more oriented toward social protection and reducing economic inequality within the country.

The government's main goals were to combat the inflationary spiral and ensure greater purchasing power for families. To do this it imposed price controls on basic necessities and reintroduced subsidies for energy and public transportation, making essential services accessible again for everyone. Of course, these measures were an additional burden on the already overburdened public budget.

The new government's pains were turned upside down within a very few months of taking office, as it faced an unprecedented phenomenon, a global pandemic due to the virus known as COVID-19⁶¹.

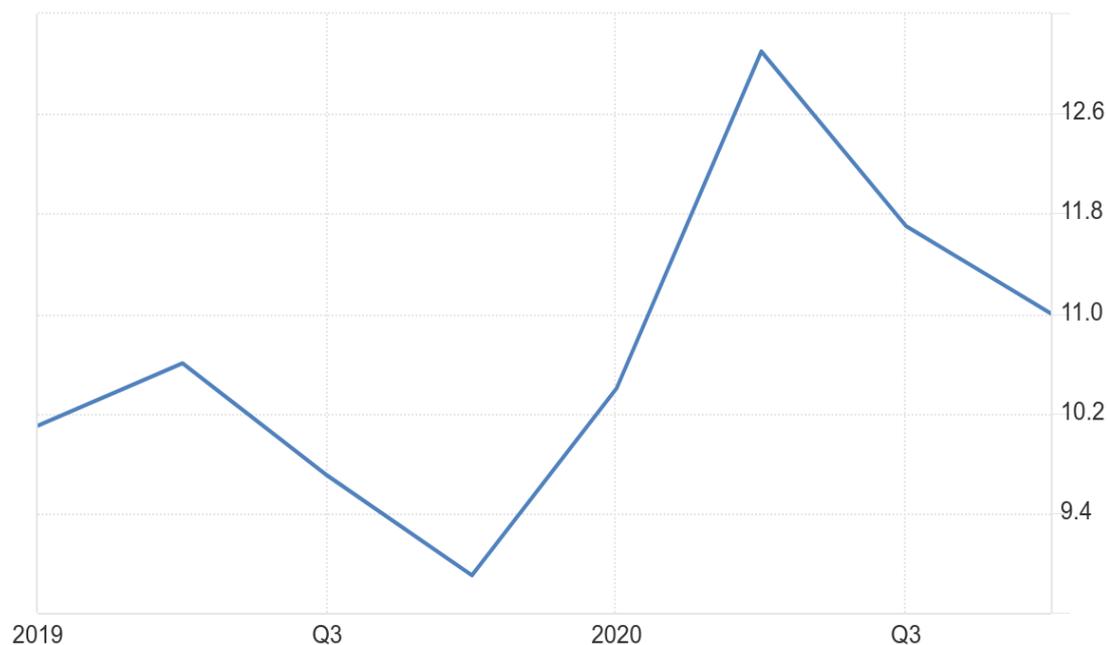
Argentina handled the pandemic in much the same way as Italy, imposing a strict national lockdown of several months, with a gradual easing depending on the regions and the course of the contagions. All international travel was greatly reduced and all the country's borders were closed, thus trying to limit the entry of new cases. New field hospitals were built and new medical equipment was purchased to cope with the increased pressure on the health care system. With the arrival of vaccines, in much the same way as in our country, the Argentine government focused on mass vaccination,

⁶¹ COronaVirus Disease 19. Disease caused in humans by the SARS-CoV-2 virus and characterized by fever, cough, breathing difficulties, while in more serious cases it can manifest itself as pneumonia, severe acute respiratory syndrome, renal failure, even leading to death. (source: Treccani)

starting with health personnel and at-risk individuals. It then conducted campaigns to raise awareness of vaccination and the use of masks in enclosed or crowded spaces.

Of course, this extraordinary extraordinary situation could only have devastating effects on the national economy. In 2020 Argentina's GDP suffered one of the most severe economic contractions in history, registering a 10% decrease. The severe lockdown resulted in the closure of numerous companies, which beyond production and consumption, caused a significant increase in unemployment, which reached a rate of 13%. Of course, the poverty rate also increased; in fact, citizens living below the poverty line in 2020 were as high as 42%, seven percentage points higher than the previous year.

Graph 24: Argentina's unemployment rate in percente, single year period (2019-2020)⁶²



To try to revive the national economy, the Fernández government adopted a series of emergency measures. The administration provided millions of people with a series of direct subsidies in order to financially support those who had lost their jobs or suffered income reductions due to the pandemic. Benefits for children from low-income families and food assistance programs were also increased, with the distribution of basic

⁶² Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

necessities. These programs helped stabilize the income of the neediest families, reducing situations of extreme poverty and hardship in the country.

Many key economic sectors in the country, such as tourism, catering and trade, were hard hit by the virus containment policies. To avoid closures and subsequent layoffs, the state provided subsidies to companies so that they could support the payment of salaries and fixed costs. Through very low-interest loans, access to credit was then facilitated for businesses to provide the liquidity needed to overcome economic difficulties.

Obviously, these policies to support the population and businesses involved a major economic outlay for the state, which saw its budget situation deteriorate further. To finance part of these emergency policies and maintain economic stability, the state devised a series of measures to increase tax revenues. The most important of these was the introduction of a tax, known as the “Proyecto de Ley de aporte solidario y extraordinario⁶³”, which would affect assets over two hundred million pesos. This new tax aroused much controversy, as it had the peculiarity of affecting assets in the national territory held by individuals residing abroad. This seemed to conflict with Argentine tax residency rules and the definition of residency agreed between Argentina and the countries with which it has double taxation agreements. Rates were then increased on exports of agricultural products, which accounted for the majority of products exported from the country. This measure sparked the anger of agricultural producers, who organized strikes and demonstrations with demands for tax reductions and the introduction of incentives for the sector.

After the measures taken to try to combat the crisis caused by the pandemic, in the following two years the government continued to direct its efforts and economic policies toward stability and stimulating economic growth. The year 2021 was a year of recovery for Argentina; in fact, GDP recorded a 10,5% increase. Nevertheless, inflation continued to register rates close to 50%, partly due to the extraordinary plans implemented during the emergency. The poverty rate also remained high, with values above 50%.

The Fernández government's main concern, however, was the high public debt, which had reached 95% of GDP. For this reason, the president renegotiated the terms of debt

⁶³ Solidarity and Extraordinary Contribution Bill. The rates ranged from a minimum of 2% up to a maximum of 5,25%, based on the value of the property and its location.

restructuring with the International Monetary Fund. Argentina was in great difficulty in repaying the debt incurred during the Macri government, partly because of the worsening economic difficulties during the previous year. The Fund and the administration after several negotiations came to an agreement that provided for forty-five billion dollars in new financing, as well as lengthening the repayment schedule, so as to make the debt more manageable. Of course, to get it, the government had to commit to austerity measures and the implementation of some structural reforms.

Alberto Fernández's term in office ended in 2023, marked by the inability to fully implement the economic policies promised during his inauguration, due to a tremendous economic crisis caused by an unprecedented event. Social tensions and public discontent within the country were steadily increasing, and in fact contributed to the growing desire for change in the population that led to the president's failure to be re-elected in that year's elections.

III.6. The rise of Javier Milei

Presidential elections held on November 19, 2023 in Argentina saw the candidate of “La Libertad Avanza⁶⁴” (LLA) Javier Milei triumph with 55,69% of the vote, defeating challenger Sergio Massa, representative of the Peronist party “Unión por la Patria⁶⁵” (UP).

The rise of Milei, nicknamed “el loco⁶⁶”, has been very fast, in fact, from being a simple Argentine economist and economic adviser he has managed in recent years to gain notoriety, especially due to his deeply libertarian positions and his heavy criticism of Argentina's political system, which he considers corrupt and inefficient. The new president's campaign played a key role in the election, especially during the runoff. His radical character and provocative style caused many Argentine citizens to overturn predictions and vote for him. Many voters were, and still are, by now exhausted and disillusioned with Argentine politics that has led the country into the abyss several times over the years. His campaign challenged the very foundations of institutional politics,

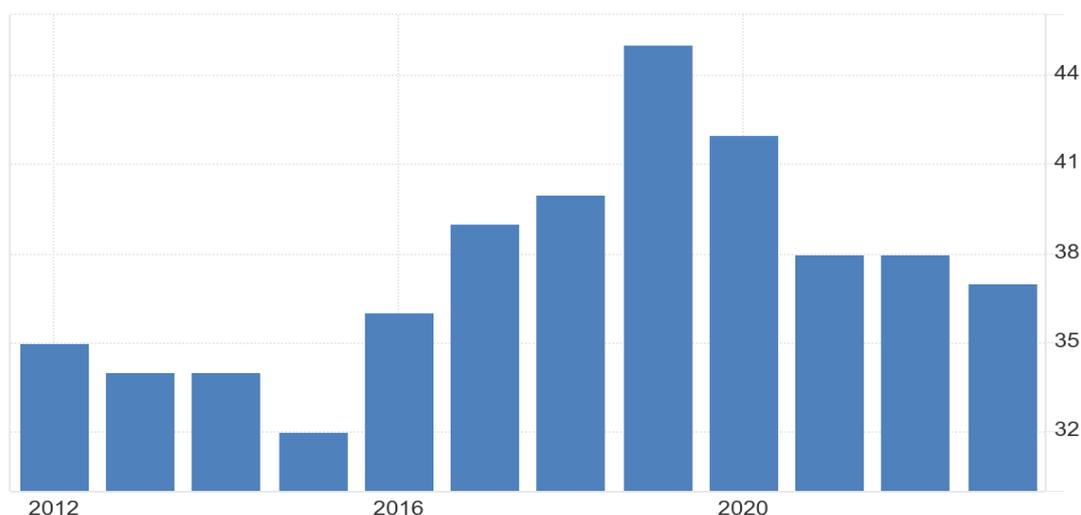
⁶⁴ Argentine political coalition of the right and far right, with a conservative ideology on a social and cultural level and a libertarian one in economics. (source: Wikipedia)

⁶⁵ Argentine political coalition of Peronist and Kirchnerist parties, formed in view of the 2023 presidential elections. (source: Wikipedia)

⁶⁶ The crazy. Named this way because of his date of birth, October 22nd, considered the number of fools in the tarot. More likely he is nicknamed this because of his bizarre and over the top statements and behavior. (source: Mondointernazionale.org)

proposing an alternative model based on libertarian and free-market principles. With his extreme criticism of Argentina's political class, he succeeded in getting many people tired of the situation inside the country to identify with him, who saw in him a real possibility for change. Milei through very direct language, often even containing insults, and a series of catch phrases that have gone viral over time, has managed to build a solid base of support and to mobilize a section of the embittered electorate. He was able to effectively use the national media to reach a wider audience, frequently participating in television interviews and debates that often turned into a full-fledged show. Harsh criticism and insults of his political opponents, such as “thieves” and “parasites”, and accusations of corruption and inefficiency of the traditional political class ensured that a sharp division was created between his supporters and opponents, which made the political debate more contentious, but also increased cohesion among his voters, made up of young people seeking change and middle-class entrepreneurs attracted by the promise of lower taxes.

Graph 25: Corruption perception index in Argentina on a scale of 1 to 100⁶⁷



Argentina during 2023 was in the midst of yet another economic-financial crisis, which saw an annual inflation rate around 140%, a public debt in excess of 420 billion dollars, and about 40% of the population living below the poverty line. Milei with his radical economic proposals, markedly liberal and geared toward a reduction of state

⁶⁷ Source: tradingeconomics.com, data from Transparency International.

intervention in the economy, convinced a good portion of the public in his ability to lift the country back up. The main economic policies proposed are:

- The dollarization of the Argentine economy. The new president argues that adopting the dollar as the official currency can stabilize prices and reduce inflation, causing the Argentine people to regain purchasing power. This decision would lead to an increase in the country's credibility in the eyes of international investors, thereby attracting more foreign investment. The adoption of a stable and internationally recognized currency such as the dollar would then be able to simplify the lives of citizens, as it would make official a currency that in many cases is already held clandestinely, and thus restore Argentines' confidence in the national currency. In addition, in this scenario proposed by the government there would be a reduction in interest rates, which would facilitate access to credit for households and businesses. With this measure, Argentina would lose the ability to conduct an independent monetary policy as it would rely solely on Federal Reserve⁶⁸ policy. For this reason, Milei even went so far as to propose the abolition of Argentina's Central Bank because, according to the new president, its monetary policies over the years have led the country to suffer from high inflation.
- Reducing public spending. One of the central themes of Milei's election campaign was reducing the fiscal deficit and improving efficiency in the public sector. To do this, the new government has proposed the closure of several ministries deemed non-essential to streamline the state apparatus, for example, the closure of the Ministry of Culture and the Ministry of Science and Technology has been proposed. This would, as mentioned, lead to a reduction in costs, as well as bureaucratic simplification that can improve decision-making efficiency. Also in the government's intentions is the reduction of civil servants' salaries and the elimination of numerous social spending programs.
- Deregulation and market liberalization. The new government aims to remove constraints that it believes limit the country's economic growth. This is to be done by eliminating numerous regulations, such as limits on overtime and dismissal requirements, as well as introducing more flexible forms of contract

⁶⁸ The Federal Reserve Bank (or Fed) is the central bank responsible for monetary and financial stability in the United States. (source: Treccani)

that would boost employment. According to Milei, there is also a need to simplify the bureaucratic procedures that are essential for obtaining permits and licenses, thereby facilitating the start-up of industrial projects in the country. This flexibility would lead to increased investment, which would contribute to overall economic growth.

- Privatization of state-owned enterprises or long-term concessions. To further reduce state costs, the Milei government plans to sell state-owned enterprises through public auctions open to both domestic and international investors. As an alternative to selling, the administration intends to give away long-term concessions, which would allow the state greater oversight and regulation. In addition to reducing operating costs, this policy would lead to increased investment needed to modernize certain sectors, increasing the services offered and thus the benefits to end users.
- Reform of the tax system. To make Argentina a more attractive and investment-friendly country, the government plans to reduce corporate tax rates. For the same reason, they intend to introduce tax incentives and relief for businesses. In addition, the goal is to simplify the tax system through digitization and improvement of the payment process.

As expected, these extreme economic policies proposed by Milei have attracted much criticism from multiple actors, such as national and international economists, opposition political parties, international organizations such as the IMF and World Bank, nongovernmental organizations, and many others. The main concerns include dependence on the Fed and the loss of monetary policy tools during any crisis, such as the ability to devalue the national currency and the ability to adjust interest rates. The transition from the peso to the dollar could also lead to price distortion in markets, which would increase costs for citizens and businesses. In addition, reduced labor market regulation and cuts in public spending are likely to worsen the quality of life of the most fragile people. Heavy cuts in the public sector will lead to an increase in unemployment, while the introduction of more flexible labor contracts will lead to a worsening of working conditions and a reduction in the economic stability of many Argentine families. Privatization, on the other hand, will lead to a concentration of economic power in the hands of a few, enriching the already wealthy at the expense of the general welfare, which will further increase economic inequality across the country.

Many opponents of the government have also raised doubts about the quality of services that will be offered after the sale, for there is a fear that, as has happened in the past, despite the price increase the quality of services offered will not vary too much from the previous one.

In these first months of his government, Milei has fulfilled only some of the election promises he made. One of his first measures was laying off twenty-four thousand public employees, especially in government agencies such as CONICET⁶⁹ and INCAA⁷⁰. Funding for public education and culture was also cut as promised, causing major protests by students, teachers and workers in the affected sectors. So far only a few public companies have actually been privatized, and they are mainly small and not too significant. The process of simplifying and increasing the efficiency of the tax system has begun, but the results are not yet visible at the moment. As for dollarization, despite the many promises made in the election campaign, the new president once he came to power opted to postpone the measure. Instead, he opted for a series of reforms aimed at preparing the country for possible future dollarization, such as issuing dollar-denominated bonds and encouraging the use of the U.S. currency. The reason for this decision, according to the government, is the insufficient foreign exchange reserves needed to make the transition.

The results of these early economic policies of the government have been mostly negative. In just a few months, poverty has increased dramatically, from 45% to 57%; in addition, UNICEF⁷¹ warns that child poverty in the country could reach as high as 70%. Public spending cuts have resulted in a significant reduction in essential services to citizens, who have begun to express their dissatisfaction and anger through large demonstrations. The cuts in public wages and pensions have led to a reduction in the economic well-being of Argentine families, inevitably causing a contraction in

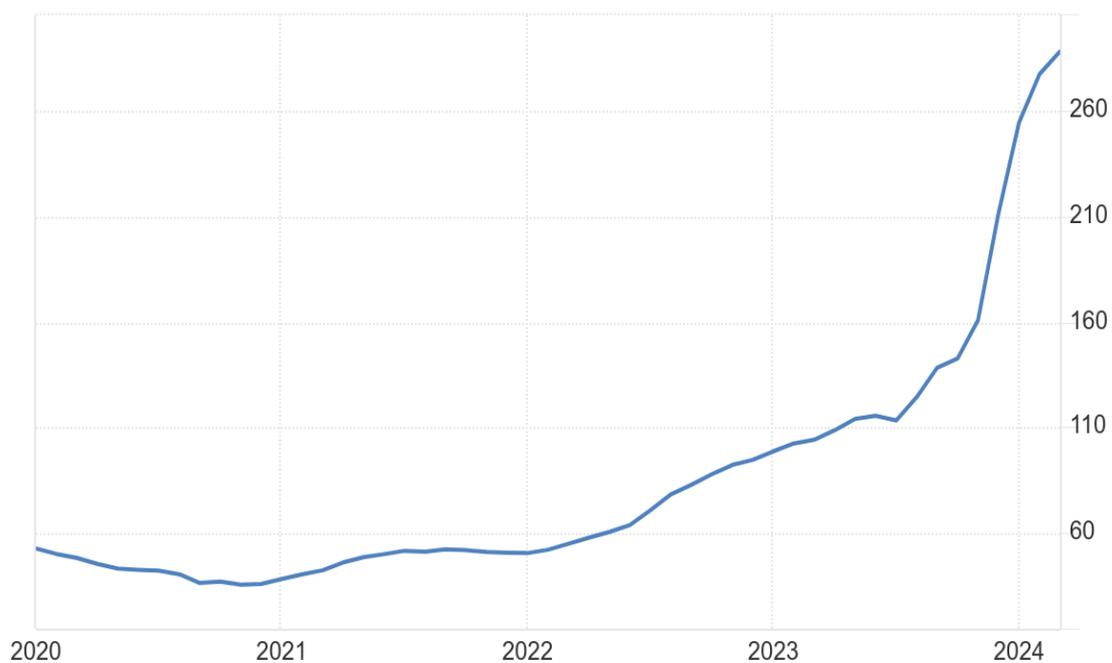
⁶⁹ “Consejo Nacional de Investigaciones Científicas y Técnicas”. The National Scientific and Technical Research Council is an Argentine government agency which directs and co-ordinates most of the scientific and technical research done in universities and institutes. (source: Wikipedia)

⁷⁰ “Instituto Nacional de Cine y Artes Audiovisuales”. The National Institute of Cinema and Audiovisual Arts is an agency of the Government of Argentina. It promotes the Argentine film industry by funding qualified Argentine film production companies and supporting new filmmakers. (source: Wikipedia)

⁷¹ United Nations International Children's Emergency Fund. United Nations Children's Fund that works around the world for the benefit of girls and boys. It works to promote respect for the rights of minors, to satisfy their primary needs and to improve their opportunities. (source: UNICEF official website, unicef.it)

consumption. The only positive figure is the stabilization of inflation which, despite remaining at very high levels, has stopped growing in the last period, thanks mainly to heavy cuts in state spending.

Graph 26: Argentina's inflation rate in percent from 2020 to March 2024⁷²



⁷² Source: tradingeconomics.com, data from the Instituto Nacional de Estadística y Censos (INDEC).

CONCLUSION

In this paper, I have attempted to trace the economic and social history of Argentina, from the beginning of the twentieth century to the challenges of the twenty-first century, trying to provide a testimony of the interaction between political actions and economic outcomes. The Latin American country is now considered by many to be a country in perpetual crisis, unable to stabilize its economy, and with a quality of life among the worst in the world. Despite the abundance of natural resources and the presence of a dynamic population, Argentina has experienced periods of growth and prosperity, followed by cycles of instability and severe economic crises. In the first half of the twentieth century, the country was experiencing a golden age, characterized by strong economic expansion mainly due to the production of wheat and beef. However, this growth was accompanied by significant social inequalities. The concentration of wealth in the hands of a few and the poor conditions of the laborers created profound social tensions that would influence future political and economic instability. It was precisely this context that favored the rise of Juan Domingo Perón, perhaps the most significant figure in recent Argentine history. His policies in favor of workers garnered him great support, but his economic management led to a growing public debt and a series of structural problems still not fully resolved. After his fall, the country entered a long period of frequent governments and military interventions, which fueled political instability and the people's distrust of institutions. From that moment on, Argentina began to go through recurring economic crises, which highlighted the vulnerabilities of the Argentine economic model. None of the administrations in power managed to stabilize the national economy, and the economic policies implemented only exacerbated the chronic problems of the nation, such as high public spending, uncontrolled inflation, dependence on exports, and vulnerability to external shocks. The epilogue came in December 2001, when the interim president, Rodríguez Saá, declared a default on most of the public debt. The beginning of the twenty-first century marked a period of recovery, thanks to the policies implemented under the leadership of the Kirchners. However, during a period of relative stability, the conflict with the vulture funds regarding the restructuring of the old debt led Argentina to a new partial default in 2014. This situation further complicated the country's access to international financial markets and exacerbated the state's economic difficulties. From that moment, the Argentine economy continued to be afflicted by structural problems, despite the

succession of governments with different political orientations. The pandemic of 2020 then imposed a series of restrictive measures that had a devastating impact on the already very fragile national economy. The Argentine people, now tired of recurring economic crises and traditional political management, chose to elect Javier Milei in 2023. The latter proposes a drastic downsizing of the role of the state in the economy, encouraging measures that include the privatization of state-owned companies, the reduction of bureaucracy, and greater openness to international markets. These proposals have sparked heated debates, with supporters seeing Milei as a real possibility for renewal and opponents concerned about the potential social consequences of his policies.

The economic history of Argentina is a testimony of the importance of sustainable economic policies that balance growth and equity, and the necessity of stability to support long-term development. Especially the economic crisis of 2001 offered numerous lessons on various aspects of economic and political management, which can help not only Argentina but also other economies, to not repeat the same mistakes and build a more stable economic foundation. Debt management has been a constant challenge for past governments; now it is essential to develop a sustainable fiscal policy that does not need frequent loans and renegotiations. Although the country has demonstrated over the years remarkable resilience and recovery capacity, recurring crises indicate that profound structural reforms are necessary to ensure stability and lasting prospects. One of the most evident lessons is the need for sustainable long-term economic policies. In fact, during previous mandates, we observed how short-term economic measures, often populist, caused structural problems difficult to solve later. It is now clear that reforms must aim to strengthen the economic foundations through investments in essential infrastructure and innovation. Furthermore, the continuous changes of government and risky economic policies have limited investors' confidence, making it difficult for Argentina to attract foreign investments. To promote sustainable growth, it is also important that the state invests in human capital, promoting access to education and professional training. Future economic policies should then focus on diversifying the economy, reducing dependence on exports, and strengthening national industries. It is necessary, in my opinion, that institutions are transparent, responsible, and respond to the real needs of the population.

In my opinion, the country has the possibility and the capabilities to overcome its historical limits and realize its economic potential, building a more prosperous and inclusive future. However, it is important that there is a constant commitment to profound reforms and a long-term vision, which simultaneously integrates economic growth and social justice, so that inequalities and poverty are no longer such a heavy problem. With the right policies and seriousness, Argentina can look to the future with optimism, overcoming current challenges and building a better society to live in.

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