

Argentina, developmentalism and populism

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The Argentinian case shows how an initially competent developmentalism may later drift to fiscal and exchange rate populism

Economic liberalism and developmentalism are capitalism's two forms of economic and social organization and two styles of economic policy. In this second meaning, the choice of the style would involve an exchange: more stability, if liberalism is chosen; more growth, if developmentalism is chosen.

Actually, economic liberalism rejects public deficits, but accepts chronic current account deficits, and therefore is permanently subject to balance-of-payment crises. Yet competent developmentalism rejects both deficits and promotes growth with stability, whereas populist developmentalism accepts both deficits and ends up achieving neither growth nor stability.

Liberal economic policies, by approving chronic current account deficits, which they call “foreign savings”, are practicing exchange rate populism: they think they are promoting an increase in investment but, by leading the country as a whole to spend more than permitted by its export revenues, they appreciate the exchange rate, promote rather consumption than investment, and ultimately lead the country to a crisis.

The Argentinian case shows how an initially competent developmentalism may later drift to fiscal and exchange rate populism (“fiscal populism” if the State spends irresponsibly, “exchange rate populism” if the country as a whole does the same). After a brutal crisis caused by the implementation of orthodox policies, the peso depreciated. The new government that emerged from the crisis established a taxation on commodity exports that neutralized the Dutch disease and produced current account surpluses; at the same time, it adopted a responsible fiscal policy, achieved fiscal surpluses and restructured its external debt with courage and firmness. The result of those developmentalist policies was the appearance of lucrative investment opportunities for the enterprises; the investment rate increased and the country experienced very high growth rates during several years: 8.5% on average.

In 2007, however, inflation, that was around 9%, jumped to 18% due to the previous years' accelerated growth. In view of this situation, the government, in a full employment setting, instead of adopting a hard fiscal and monetary policy and adjusting the economy, curbed the exchange rate in order to control inflation, and increased public expenses. Consequently, the peso appreciated by 41% between 2007 and 2012, the country lost competitiveness and went into a current account deficit.

Due to this combination of exchange rate and fiscal populism, the economy still grew strongly in 2010 and 2011 but, as inevitable, in 2012 the GDP growth rate was just 1.9%, and a black market for dollars reappeared. Today the dollar is being bought in this market at double the official rate because the exchange rate overvaluation instilled again in the population the fear of a new exchange rate crisis.

For a certain time, watching the fiscal responsibility, the current account surplus and the neutralization of the Dutch disease, I believed that the Argentinians had learned to manage their exchange rate and to guarantee their country's competitiveness, and that they might be an example of new developmentalism to Brazil, that has still not learned this lesson. But now I sadly see that a development strategy that could have warranted prosperity and stability to Argentina is headed for failure.