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New Argentine Government’s Economic Policies Face Mounting Questions

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After 100 days in office, a time frame political scientists often use to measure the early accomplishments of new leaders, Argentine President Mauricio Macri is fulfilling his promise to do away with the socio-economic system he inherited and replace it with a completely new model.

So far, however, the new president has been unable to justify the abrupt change of course, which has cost him politically and put him squarely at odds with workers in both the public and private sectors. State employees have already held two work stoppages: one for 24 hours, the other for 48. And the country’s three leading private-sector labor unions have decided to put aside their historic differences to hold a joint protest in April. Unemployment and inflation, in the meantime, are on the rise, prompting people to be more worried about job loss and salary depreciation than they are about crime, their top concern during the electoral campaign.

On March 14, just ahead of the new government’s 100-day mark, the Consejo Nacional de Investigaciones Científicas y Técnicas (National Scientific and Technical Research Council, CONICET) released a study suggesting that the poorest 10% of the population had lost a quarter of its purchasing power since Macri’s arrival in power. CONICET is an autarchic body under the Ministry of Science and Technology, which is considered the leading institution in the promotion of science and technology in Argentina.

The report found that policies implemented by the new government, such as a 42% devaluation of the currency, the elimination of taxes on agricultural products, the elimination of all export taxes on mining products, the easing of export quotas for key consumer goods (such as beef), the end of energy consumption subsidies, and massive public sector layoffs that contributed to a sharp drop in domestic consumption, “drove inflation up and generated notable pressures on the quality of life of low-income workers while improving the already generous benefits received by the wealthier sectors of the population and principal economic players.”

The CONICET report predicted, furthermore, that the interannual inflation rate, which stood at 32.9% at the end of February, would reach 55% by October. The alarming numbers were endorsed by the Macri administration, which, lacking its own statistics, has been using local government figures from the Ciudad Autónoma de Buenos Aires (CABA), the Argentine capital. The CABA numbers suggest that consumer prices rose 4.4% in February, 8.3% overall in the first two months of the year, and are up 12.5% since Macri’s inauguration on Dec. 10 (NotiSur, Dec. 4, 2015).

In May, the government plans to announce new (non-subsidized) prices for natural gas. Costs for many other staples have already spiked. Since October 2015, when Alfonso Prat-Gay, now the minister of the economy, announced a possible currency devaluation that the financial paper Ámbito Financiero described as “an act of extreme imprudence,” prices are up 13.5% for bread and other wheat-based products, 25.5% for beef, 22.2% for fish, 14.4% for cooking oils, 13.3% for milk products, and 42.5% for fruit. “This level of inflation is unacceptable,” President Macri told reporters in mid-February.
Falling demand

Another problem is declining domestic consumption, which for certain industrial sectors fell by as much as 20% in the past four months, according to economic analyst David Cufré. “The thing that sustained the economy in recent years is teetering,” he wrote in a Feb. 13 article for the daily Página 12. The refrigeration industry, he noted, reported a 7.2% drop in demand for beef in January compared to the same month in 2015. Cement producers have also taken a beating: after reaching record numbers in 2015, cement sales fell 8.7% in January due to the currency devaluation and a sudden crisis in the construction industry.

The abrupt change in consumer behavior began late last year, before the runoff election on Nov. 22, when Prat-Gay promised, upon a Macri victory, to impose “a necessary devaluation that will in no way affect the economic process because markets are already operating with an [unofficial exchange rate] of 16 pesos to the dollar.” The official exchange rate at the time was 9.40 pesos per US$1.00. Domestic consumption fell even more sharply in December, when Macri took office and Prat-Gay, tapped as the new minister of the economy, put the devaluation into effect. Since then, according to the Confederación Argentina de la Mediana Empresa (an organization representing mid-size businesses, CAME), small- and medium-sized companies in the food, textile, footwear, leather goods, household appliance, metal-mechanics, and retail industries have suffered a drop in demand of 15% to 20%.

Cufré sees the decline as a direct consequence of government policy. “Before the devaluation, the dismantling of the apparatus tasked with implementing state controls over prices, the elimination of export taxes on cereals, meat and mining products, the rise in [energy] rates, the increase of banking rates and the tens of thousands of layoffs, economic activity and consumption were rising while inflation was dropping,” the analyst wrote.

The US consulting firm Manpower, in a study done for the conservative newspaper La Nación, reported earlier this month that there have already been nearly 100,000 layoffs this year (42,000 in January and nearly 66,000 in February) and predicted that the economy would not begin creating new jobs until at least June. The firm, which specializes in human resources, found that 78% of companies do not expect to make personnel changes, 11% want to add employees, and 5% plan further layoffs. “In February, 65,798 people lost their jobs, 72 times more than in February 2015,” the report, published March 8, noted.

The next day, Juan Chediack, the president of the Cámara Argentina de la Construcción (CAC), which brings together representatives of the construction industry, acknowledged that the sector was “facing its most difficult moment of the past three decades” and is responsible for more than half (54,000) of the recent layoffs.

Words of warning

Earlier in the year, Joseph Stiglitz, winner of the Nobel Memorial Prize in Economic Sciences in 2001, sounded an alarm about the “worrisome” policies being implemented by Macri, then just 50 days into his presidency. In a Jan. 29 article titled “Argentina’s Uncertain Prospects,” which he coauthored with economist Martín Guzmán for the news commentary site Project Syndicate, Stiglitz described the permanent cut in export taxes as “a large transfer to the wealthy, at great cost to ordinary workers.” He also warned about the impact devaluation would have on domestic prices,
and made a troubling prediction: “Rising redundancies in non-bottleneck sectors would most likely push up the overall unemployment rate, with inflation only partly tamed.” That, then, could produce “stagflation,” an explosive mix of economic stagnation and inflation, the article suggested.

Stiglitz, who never hid a moderate sympathy for the economic model followed by outgoing president Cristina Fernández de Kirchner, offered an overview of Argentina’s economic situation (as it stood upon Macri’s arrival) that contrasts with what the new administration describes as the “heavy legacy” of the previous government. “Some aspects of Argentina’s economic situation... are highly desirable, not least its low debt-to-GDP ratio,” Stiglitz and Guzmán wrote. “Macri’s task is to address the external and fiscal imbalances and reduce inflation, without undoing what has been achieved.”

The authors noted that in its first weeks, the Macri government eliminated or reduced taxes on commodity exports and abolished exchange controls, resulting in a de facto devaluation of approximately 35% against the US dollar. “If higher prices for domestic goods previously subject to export taxes and higher import prices [as a result of devaluation] are passed on to consumers, real wages will fall, in which case workers are likely to demand larger pay increases, pushing up inflation,” they wrote.

With that theory now confirmed, Macri responded on March 13 by warning that if Congress fails to approve his plan for taking on debt to finance growth, Argentina will either face “adjustment or hyperinflation,” two emergencies that the population, based on experience, have good reason to fear.

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