Argentina

Argentina is expanding, not reducing, its public sector

Its entire history of the last 20 years is a perfect demonstration of what is wrong with the austerity policies advocated by the IMF and the EU, and why the public sector is a crucial engine of growth and social development. In the 1990s, Argentina was subject to austerity and privatisation programmes imposed by the IMF, which “created situations of widespread socio-economic hardship and an economic collapse, as the economy shrank by 20% between 1998 and 2002.

Argentina recovered by defaulting on $100billion in debts owed to banks, refusing to borrow from the IMF in future, and rejecting the IMF austerity policies in favour of expansionist policies and a stronger role for government services. Government spending rose from 14% of GDP in 2003 to 25% in 2010, through public investment in housing – 400,000 new low-cost homes have been built; transport - including public transport systems and roads such as a modern 400 kilometer highway between provincial capitals; social benefits, including a statutory minimum wage, higher pensions, and a new universal child benefit scheme, introduced in 2009, worth over 0.8% of GDP; and low-cost loans for small businesses. In 2009, like other countries, Argentina expanded government spending even more, as a stimulus to protect the economy form the effects of recession.

The economic and social results have been excellent. Economic growth has been over 6% per annum for 7 of the last 8 years, and in 2011 was running at 8% per annum – second only to China. Argentina’s policies have been recognised by articles in the New York Times – “an achievement that President Obama and Congress should look to for inspiration” and the Financial Times – “an economy firing on all cylinders…. an enviably low debt burden”.

It is continuing with these policies. It has no plans to cut back public spending, rather the opposite. It is increasing tax revenue by clamping down on tax avoidance, forcing the rich to disclose their credit card spending, purchases of luxury cars, and private school fees.

Argentina does not need and does not seek to borrow from or sell bonds to people or institutions outside the country: “Over the next few years, the authorities expect their financing needs to be satisfied by domestic sources, including pension funds, with very little dependence on external financing.”

Sources:
- New York Times September 1, 2011 Argentina’s Turnaround Tango
- Associated Press Sep 22, 2011 Argentine economic plan: Raise spending, salaries
- FT June 27 2011 Fernández looks set for poll victory
- IMF: 2010 A Status Update on Fiscal Exit Strategies

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