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**FISCAL AND MONETARY ANOMIE IN ARGENTINA:  
A LEGACY OF ENDEMIC POPULISM**

**Emilio Ocampo**

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**Fiscal and Monetary Anomie in Argentina:  
The Legacy of Endemic Populism**

Emilio Ocampo\*

**Abstract**

Argentina's modern economic history offers perhaps the clearest evidence in support of a rules-based fiscal and monetary policy framework. From 1899 until 1914 the country abided by the rules of the gold standard and experienced rapid GDP growth with price stability. After WWI and until 1939, when it was mostly off the gold standard, its inflation rate and fiscal balances remained in line with those of the world's most developed countries. During the 1930s the Argentine Treasury was able to issue long-term debt in pesos at rates between 3% and 4% per annum. Something fundamental happened after 1945 and its effects proved persistent: since then inflation has averaged 143% a year –with several bouts of extreme inflation and hyperinflation. In the last 50 years, persistent and high fiscal imbalances, low growth and recurrent sovereign debt defaults have become semi-permanent features of the Argentine economy. This paper argues that Argentina suffers from a condition that can be described as fiscal and monetary anomie, the roots of which can be traced back to the establishment of a populist-corporatist economic regime in 1946. It also contends that the failure of the 1990s structural reforms reinforced this condition.

Keywords: Argentina, Economic History, Fiscal Policy, Monetary Policy, Populism.

JEL Codes: E5, E63, N16, O54.

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\* Professor of Finance and Economic History at Universidad del CEMA (UCEMA) in Buenos Aires. I received valuable comments from Jorge Streb. Any mistakes are my sole responsibility. The views expressed herein do not necessarily represent those of Universidad del CEMA (UCEMA).

# **Fiscal and Monetary Anomie in Argentina: The Legacy of Endemic Populism**

Emilio Ocampo

*When speaking of these countries, the manner in which they have been brought up by their unnatural parent, Spain, should always be borne in mind.*

Charles Darwin

*Populist regimes are the modern expression of the old patrimonialist systems.*

José Ignacio García Hamilton

## **1. Introduction**

Since the late 1980s the adoption of fiscal and monetary rules became a global trend. A rules-based framework for economic policy was a major factor behind the global disinflation trend of the last three decades. In the case of the advanced economies, fiscal rules were imposed to comply with supra-national treaties (e.g., Maastricht), whereas in emerging market economies, to commit to fiscal discipline after severe crises (e.g., Argentina), or to ensure sustained stability and growth (e.g., Chile). Monetary rules instead had price stability as their objective. Starting in 1989 Argentina was a pioneer in the adoption of fiscal and monetary rules. However, early success gave way to failure. By 2020, any semblance of a rules based policy framework had disappeared. This paper argues that Argentina suffers from a condition that can be described as fiscal and monetary anomie.

The remainder of the paper is organized as follows. Section 2 introduces the concept of anomie as distinct from anarchy and traces back its historical roots to the colonial system. Section 3 presents a brief fiscal and monetary history of Argentina and shows how anomie became institutionalized after 1946 with the establishment of a populist system. Section 4 briefly examines Argentina's reforms since 1989 and argues that their failure was due to a combination of fiscal and monetary anomie and perverse institutional incentives. The last section presents some tentative conclusions.

## 2. Anomie, Anarchy and Caudillismo

The term anomie dates back to ancient Greece but was popularized in the late 19th century by French sociologist Emile Durkheim (Deflem, 2015, p.719). Etymologically, it is derived from the Greek word *anomos*, which means lawlessness. The dictionary defines it as “lack of the usual social or ethical standards in an individual or group.” Argentine jurist Carlos Nino expanded the concept of anomie beyond the meaning assigned to it by sociologists. He defined anomie as “massive recurrent illegality” or “living outside the law.” Nino distinguished between institutional and social anomie. The former concerns actions by the Executive and government officials and the latter individual behavior. According to Nino, Argentina suffers from an “institutional imbalance” due to the gradual absorption of normative and legislative prerogatives by the Executive (Nino, 1992, p.73). Fiscal and monetary anomie is one manifestation of institutional anomie. Nino also introduced the concept of “dumb anomie”, which describes a situation in which the general disregard for rules leads to less efficient collective results than with compliance (ibid., pp.35-39.) In his view, Argentina’s reversal of development was partly a consequence of this condition.

There are several ways to measure anomie. One of its typical manifestations is corruption. Data from *Transparency International* shows that Argentina is one of the most corrupt countries in the world given its level of development (trailing Russia.) A recent survey by *La Nación* (2015) revealed that almost 80% of respondents considered that Argentina “lives most of the time outside the law” and about 90% believed that their fellow citizens were “rather disobedient or transgressors.” A wide majority of respondents (77%) identified politicians as the group most disrespectful of the law. There is another peculiar aspect of anomie in Argentina: the same politicians and legislators who propose and approve laws restricting the discretionary behavior of the Executive, only a few years later (and sometimes even sooner) champion or support their amendment or repeal at the request of the Executive. Rules are supposed to constrain behavior. As the experience of the last three decades shows, in Argentina rules are eliminated when they are likely to fulfill their original objective.

Following Nino’s definition, anomie is different from anarchy. It denotes the absence of governmental authority or laws; anomie, persistent disregard for (or non-compliance with) established norms of social interaction. Both have strong cultural roots that can be traced back to the colonial period. Argentina was fundamentally different from other Spanish colonies: Buenos Aires was the center of contraband in South America. As noted by a pioneering sociological study, this left an indelible mark on Argentine culture:

Society is brought up to disregard the law; an idea so dominant and ingrained that after a short walk it became a feeling, it became ingrained, perverting the intelligence and morality of the *porteño*.<sup>1</sup> The worst thing about it is that the historian cannot condemn it; a supreme necessity excuses and justifies everything; they [the *porteños*] were forced to foster a pernicious germ that will continue to weaken Argentine society. This explains why they have always preferred men to laws and leaders to ideas (García, 1900, p.208).

Anomie is also related to *caudillismo* (the cult of the strongman), another legacy of the Spanish conquistadors (see Bunge, 1903 and Ayarragaray, 1913). *Caudillismo* in turn is a key ingredient of populism (see Ocampo, 2018). In a populist regime, the will of the leader (who supposedly incarnates the “will of the people”) supersedes any written or unwritten laws or norms. In this sense, populism is a regression to a more primitive form of political and social organization: the law of the strongest. During the second half of the 19<sup>th</sup> century, as Argentina developed institutionally it seemed as if it had gradually overcome this cultural legacy. However, Juan Bautista Alberdi, drafter of Argentina’s constitution, warned that a century would be necessary to completely eradicate it (Alberdi, 1854, p.57). This process of institutional development culminated with the electoral reform of 1912, which extended the voting franchise. Tragically, the election of Hipólito Yrigoyen to the presidency in 1916 reinvigorated *caudillismo*. It is not only tragic but also ironic that Yrigoyen, who was a champion of electoral reform and the full democratization of Argentina, reintroduced a cultural trait that was inimical to liberal democracy. The military coup that ousted him from power in 1930 marked the end of a virtuous process that had transformed Argentina from a backward pastoral country into an economic powerhouse. A vicious cycle of cultural and institutional reversal started.

The ascendancy of Perón to power through a military coup in June 1943 made *caudillismo* a permanent feature of Argentine life. Thanks to the decisive influence of his wife Eva Duarte, also known as *Evita*, Peronism also institutionalized nepotism, clientelism and patrimonialism. In essence, Perón reinstated many institutional characteristics of the Spanish colonial system and reinforced the cultural values that sustained them (García Hamilton, 2004, 2005 and 2006; Fernández y Monteserin, 2014). After 1945, as populism became endemic, anomie gradually coagulated into Argentine culture. Populism set off a vicious cycle of economic stagnation, financial crises, social frustration and institutional and cultural degradation. Entrenched interests and a weak political system with perverse incentives made the system increasingly intractable.

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<sup>1</sup> Porteño is a native of Buenos Aires.

The ouster of Perón in September 1955 raised hopes in Argentina and abroad that the country would be able to retake the path of institutional and economic development interrupted by Peronism and the 1930 and 1943 military coups. From 1955 until 1972 Argentina struggled to get rid of the legacy of populism alternating between military and democratically elected governments. With high inflation rates and relatively low growth it lost ground against any comparable country. For most of this period Peronism was proscribed and although it exerted considerable political influence through the labor unions, such influence was attenuated during military regimes (1955-1957 and 1966-1972). Until 1970 most business leaders believed it unlikely that Perón would return to power. However, by early 1972, after six years of military rule, it was clear to any well informed observer that: a) there would soon be elections, and, b) Perón would win. His landslide victory the following year confirmed that Peronism had become a permanent feature of Argentine politics.

Peron's death in July 1974 triggered internal fights within the Peronist Party that led to the political and economic chaos that provoked Argentina's first brush with hyperinflation. The military regime that governed Argentina between March 1976 and November 1983 never tackled the serious underlying structural problems it inherited and created some new ones – overvaluation of the peso and over-indebtedness– that proved fatal. The result was stagflation and increased political and macroeconomic instability. With Alfonsín's victory in 1983 the hopes that Argentina could be governed democratically by a non-Peronist revived. But Alfonsín embarked on a classic populist economic program of demand stimulus and fiscal profligacy that aggravated the imbalances he had inherited. These policies soon pushed the economy to the verge of hyperinflation. Alfonsín changed tack and launched an innovative heterodox stabilization plan. However, political instability and absence of structural reforms and fiscal adjustment eventually led to a much-feared hyperinflation in early 1989.

The transfer of presidential power six months ahead of schedule confirmed a widely held belief that a non-Peronist could not govern Argentina democratically. The new president, Carlos Menem, a Peronist, had made a "*salario*" (euphemism for a massive wage increase decreed by the government) was a key element of his platform. Surprisingly, Menem instead embraced free markets, foreign investment privatization, monetary and fiscal discipline. He also tried to heal the wounds Peronism had opened in Argentina society. For a while Argentina's economic future seemed bright again. The victory of Fernando De La Rúa at the head of a center-left coalition in 1999 raised optimism that it would be possible to preserve Menem's economic reforms while improving overall institutional quality. The December 2001 financial crisis, the deepest in the country's history, effectively ended the 1990 reforms.

Nestor and Cristina Kirchners, who rose to power in 2003, decided to follow Perón's original playbook: hostility to foreign investment, protectionism, interventionism, crony capitalism, clientelism, nepotism and corruption. Just like in 1946, the upswing of the commodity super-cycle provided the resources to finance a "populist bash" (also at the expense of the agricultural sector). But in mid 2012 as the upward trend of the commodity cycle came to an end, the economy started to unravel. The election of Mauricio Macri in 2015 revived hopes that Argentina would leave populism behind. The return to power of Cristina Kirchner suggests that shaking off populism is unlikely in the short and medium term. A persistently high and growing inflation rate, historically high fiscal imbalances, rapid growth in monetary aggregates and a stagnating economy suggest that we may be witnessing the "acceleration phase" of a new hyperinflationary cycle.

### **3. A Brief Fiscal and Monetary History of Argentina**

Argentina's fiscal troubles started almost with its birth. Successive wars with Spain for independence (1810-1821) and with Brazil for control over Uruguay (1825-1828) put public finances under stress and led to persistent deficits and inflation (Cortés Conde, 2011, pp.121-137). In 1827 Argentina played a leading role in the first global emerging markets crisis by defaulting on its first sovereign bond issue. According to Della Paolera, Irigoien and Bozzoli (2003) fiscal discipline was "a transitory phenomenon from the 1850s to the 1930s, when budget deficits came to rule Argentine public finances." Another study (Araoz et al., 2007) found that between 1865 and 2002 fiscal sustainability was weak or non-existent.<sup>2</sup> However, it was relatively stronger during 1865-1914 and 1990-2002 when the economy was open to international trade and capital flows. In contrast, there was no sustainability in 1951-1989, a period during which the economy was relatively closed. This study also concluded that during the 20<sup>th</sup> century, lack of fiscal sustainability was a major explanatory factor in all major crises, most of which occurred after 1946 (Reinhart, 2010).

Despite the lack of consistent fiscal discipline, from 1860s until 1889 the economy experienced rapid growth punctuated by severe financial crisis. During this period, as the country strengthened its political institutions, fiscal and monetary anarchy was the norm and adherence to the gold standard was sporadic. But following the 1890 crisis, one of the deepest in the country's history, successive Argentine governments embarked on a series of structural reforms. By 1899 Argentina had returned to the gold standard and quickly became one of its most disciplined members. For the following fifteen years, the economy grew rapidly,

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<sup>2</sup> Fiscal deficits are sustainable if the current market value of government debt equals to the discounted sum of expected future surpluses.



inflation remained in check and country risk declined (Della Paolera and Taylor, 2001, p.122-124).

Argentina abandoned the gold standard on August 1914, and until 1927, when it rejoined it at the prewar parity, it followed a “dirty” convertibility. However, during the intervening years inflation was subdued and the government maintained, on average, a primary fiscal balance. The gold standard was abandoned again at the end of 1929 to avoid the deflationary impact of Wall Street’s crack. A mix of expansive monetary policies and fiscal austerity allowed the economy to weather the Great Depression relatively well but the economy never regained its former dynamism.

Despite this troubling trend, between 1918 and 1930, a period during which the discipline of the gold standard prevailed for only two years, on average, the inflation rate and fiscal balance of Argentina were not significantly out of line when compared with those of Australia and Canada, while its GDP per capita grew at higher rates.<sup>3</sup>

During the first half the 1930s fiscal discipline prevailed. With the creation of the Central Bank in 1935 the situation gradually started to change. Without external discipline, a flawed financial architecture and a relatively underdeveloped capital market, fiscal and monetary anomie started to rear its head. From 1936 onwards, successive governments started to rely on monetary expansion to finance public expenditures, which led to higher inflation. The chart below shows how fiscal and monetary discipline relaxed significantly after the creation of the Central Bank:

**Fiscal and Monetary Discipline from 1900 to 1945**

<b>Period</b>	<b>Primary Fiscal Balance</b>	<b>Real GDP per capita Growth</b>	<b>Annual Inflation</b>	<b>Base Money Growth</b>
1900-1913	1.1%	2.5%	1.7%	8.2%
1914-1929	-0.1%	1.8%	1.9%	3.0%
1930-1935	-0.0%	-1.2%	-6.3%	-1.8%
1935-1939	-0.5%	1.3%	3.0%	10.5%
1940-1945	-1.8%	1.1%	5.5%	21.9%

Source: Diaz Alejandro (1970), Ferreres (2010), Mauro et al. (2011).

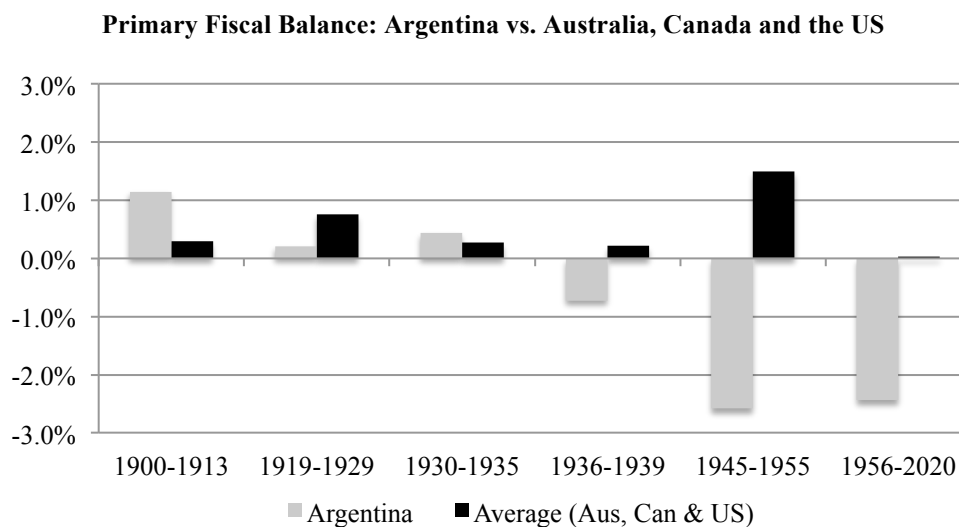
Something fundamental happened after WWII and its effects proved persistent: since 1945 inflation has averaged 143% a year –with several bouts of extreme inflation and hyperinflation. This period was also characterized by persistent and high fiscal imbalances,

<sup>3</sup> However, given that Argentina had a lower starting GDP per capita it should have grown at higher rates to converge to Canada and Australia. From this perspective its growth rate was slightly subpar.

low growth and recurrent sovereign debt defaults. Not surprisingly, Argentina’s position in global GDP per capita rankings dropped from an average of 7 during 1900-1945 to 73 in 2020.

It is important to note that despite a tendency towards fiscal profligacy, from 1871 until 1944 the budgetary process was timely and transparent. In every single year during this period, the Executive sent an annual budget to Congress before the start of the calendar year and Congress approved it within the timeframe specified by law (Ministerio de Hacienda, 1945, pp.217-219). From 1945 onwards, the quality of budgetary institutions deteriorated markedly. Since then, the timely presentation and approval of the annual budget has been the exception rather than the norm even under democratic governments. The evidence suggests that the quality of a country’s budgetary institutions, which include procedural rules, have a significant positive influence on fiscal discipline and stability (Alesina et al, 1996, Alesina and Perotti, 1996 and Von Hagen, 2002).

The chart below compares the evolution of the primary fiscal balances of Argentina with those Australia, Canada and the US, the countries that at the beginning of the 20<sup>th</sup> century the Argentine governing elite considered as proper comparables.



Source: IMF Public Finance Database, IMF World Economic Outlook, Cortes Conde (2009) and Ferreres (2010).

The end of WWII presented an extraordinary opportunity for Argentina. In a comparative study of Argentina and Australia, Smithies (1965) concluded that in the postwar era both countries were set for “another period of parallel advance seemed likely” (p.23). In 1945, it had the fifth largest gold reserves in the world (UN, 1951, p.462). At the time more than 160% of the monetary base was backed by reserves and the Treasury could borrow long term in pesos at an interest rate of 4-5% a year. But according to Smithies “a *diabolus ex machina* appeared in Argentina” (ibid., p.23). He was referring to Juan Perón, who ruled Argentina

from mid 1943 until September 1955 and between 1973 and 1974 and whose political party has dominated Argentine politics since 1983. There is probably no other country comparable to Argentina at the start of WWII, in which political events that took place at that time had such a lasting impact. In fact, none of Perón contemporaries had as much influence in current politics as he still does in Argentina.

Starting with the first Peronist government (1946-1955), Argentina had “a fundamental, dynamic and long-term imbalance in its public finances” (Tanzi, 2007, p.46). It was during this period when fiscal and monetary anomie became endemic. Under Peron’s regime, government expenditures as a percentage of GDP increased to 30%, on average, compared to slightly less than 20% in the previous decade. This level was extraordinarily high for a country of Argentina’s development. For example, in Australia and Canada the percentage was approximately half. Perón built a massive welfare state that he was able to finance for a couple of years thanks to the reserves accumulated during WWII and high prices for agricultural commodities (ibid., p.28).

Perón’s economic policies soon made it even less sustainable and by creating entrenched interests also politically intractable. Three pillars of the Perón regime became a permanent features of the Argentine economy: 1) the merger of the labor union movement and the Peronist party, 2) the establishment of a corporatist relationship between labor unions and the State, and 3) “radical protectionism” of an inefficient and inward oriented manufacturing sector (Waisman, 1989). The combination of the first two meant the “marriage” of the State and the Peronist party. The second and third meant the divorce of domestic and international prices and wages and productivity. The state became the key decision maker in the allocation of economic resources, triggering a struggle among interest groups to control it. Long-term fiscal unsustainability was born. Without Perón in power, political instability was inevitable. The consequences of this regime were sub-par economic growth, chronic inflation, crony capitalism and corruption.

During 1946-1955 an off-budget scheme involving the Central Bank and IAPI (a government agency that monopolized foreign trade) was used to finance large military expenditures and massive increases in public employment, an ambitious public works program and the nationalization of foreign owned companies. During ten years of Peronism, off-budget expenditures, the most significant of which were the losses incurred by IAPI, amounted to almost half of budgeted expenditures (Reutz, 1991, p.120). The Central Bank extended special credit lines to state-owned banks with which they financed those deficits. Between 1946 and 1949 IAPI’s borrowings increased eight times in nominal terms and grew to represent almost 16% of GDP. Given that IAPI didn’t publish its accounting statements until

1949, these financing gimmicks allowed the regime to “hide under the rug” almost a third of total government expenditures. IAPI closed the loop by financing the government directly with loans. With this opaque financing scheme, the government didn’t have to report almost all half of its expenditures and the Central Bank avoided statutory limits on financing public spending. In essence, IAPI functioned as a “parallel” Treasury (Cortés Conde, 2009, pp.161-164)

With Law 12961 approved in 1947 by a Congress dominated by Perón, delays in the submission of the national budget by the Executive became institutionalized. The law also allowed for the disbursement of funds for urgent expenditures even if the budget was not yet approved (Nino, 1992, p.79).<sup>4</sup> During the Perón regime the Treasury also started using “creative” accounting methods to disguise growing fiscal imbalances. Its annual report for 1945 indicated that the government had a deficit equivalent to 0.9% of GDP. In reality it was ten times higher. The trick was simply to count the increase in public debt as a source of revenue. The following year, the clarity and quality of the information provided by the Treasury about Argentina’s public finances deteriorated further.<sup>5</sup> In 1946 total government expenditures increased by almost 70% in real terms due to increase in off budget items while revenues declined slightly (Reutz, 1991, p.122). However, official statistics showed a slight surplus equivalent to 0.1% of GDP. This creative accounting didn’t seem particularly troubling given that starting in 1946 a significant portion of the budget deficit was “borrowed” at artificially low interest rates from the state run social security system.<sup>6</sup> In 1949 Perón boasted “we have closed our budgets with a surplus” (Perón, 1949, Vol.II, p. 191). In fact, during the previous year the cash deficit had reached almost 16% of GDP and in 1949 it would reach 13% of GDP (Reutz, 1991, p.136). Transparency also suffered as the Treasury delayed the publication of its annual reports by eighteen months and sometimes even more.

On the monetary side there was also a fundamental break after 1946, when Perón nationalized the Central Bank and all the deposits in the banking system. The expansion of credit to finance budget and off-budget expenditures increased at unprecedented rates.

**Monetary and Credit Expansion under Peronism (1946-1955)**  
(compounded annual growth rates)

Year	Monetary	M1	M2	Total	Credit to	Credit to
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<sup>4</sup> This law was annulled in 1956 by a decree by the military government that overthrew Perón due to the “fundamental flaws” it introduced in the system of control of public finances.

<sup>5</sup> In 1946, the Treasury pushed back the discussion of public finances to the back of its annual report instead of starting with it as it had been the tradition for decades. The quality and clarity of the information included in the *Memorias del Ministerio de Hacienda* deteriorated markedly after 1944.

<sup>6</sup> The revenues of the social security system increased significantly during this period because Peron’s reforms had broadened coverage to almost all workers, thereby increasing contributions, while the number of people reaching the retirement age was small in comparison (see Cortés Conde, 2009, pp.164-165).

	Base			Credit	Public Sector	Private Sector
1946	-18.3%	27.4%	26.8%	58.3%	400.0%	27.3%
1947	31.0%	24.7%	20.1%	89.5%	186.7%	54.8%
1948	43.5%	44.5%	35.4%	60.2%	95.3%	36.9%
1949	32.5%	23.4%	21.0%	24.3%	31.0%	18.0%
1950	29.8%	23.7%	20.0%	18.1%	3.6%	33.3%
1951	33.0%	22.6%	18.3%	26.0%	4.4%	43.6%
1952	20.1%	13.1%	14.5%	15.3%	6.7%	20.4%
1953	24.5%	26.2%	25.7%	16.3%	26.8%	10.7%
1954	19.2%	21.0%	20.6%	20.3%	26.7%	16.4%

Source: BCRA *Estadísticas Monetarias* and Orlando J. Ferreres (2010). Growth rates are based on end of calendar year figures.

In August 1948, when the Argentine economy started to show signs of an impending external crisis, the Central Bank stopped publishing its monthly bulletin, which included detailed monetary and financial statistics. By the end of the Peronist regime, the debasement of the Argentine currency was almost complete: reserve backing of the monetary base had dropped from 160% in 1945 to 4% in 1955.

According to official statistics, gross public debt decreased from 63% of GDP in 1945 to 45% in 1955. However, if the off-budget debt incurred by IAPI is taken into account this ratio actually increased to 74% of GDP. A perverse consequence of financial repression was the destruction of the domestic capital market. As a result, Argentina became an “original sinner” (see Eichengreen, Hausmann and Panizza, 2005) and the public sector was never able again to borrow long term in pesos. Without a local capital market and limited access to international capital markets, successive governments were forced to resort to increasingly devious mechanisms to finance recurrent fiscal deficits. The preferred options were deficit monetization and the confiscation of private savings.

Besides reshaping Argentine politics, Peronism also had a lasting impact on the economy. During 1945-2019 the country experienced the period of highest macroeconomic instability in its history, which included, among other things, four hyperinflationary bouts (1975-76, 1984-85, 1989-90 and 1990-91), six banking crises (1980, 1982, 1995, 2001, 2008 and 2019), five balance of payments crises (1958, 1962, 1981-82, 1989 and 2018-19), four external public debt defaults (1982, 1989, 2001 and 2020) and three local public debt defaults (1989, 2007-2009 and 2019). A recent study of Argentina’s monetary and fiscal history concluded that this endless string of crisis showed “symptoms of the same disease: the government’s inability to restrict spending to genuine tax revenues” (Buera and Nicolini, 2019, p.23).

#### **Fiscal Anomie in Historical Context (1956-2019)**

Period	Primary Fiscal	Interest on	Net	Gross	Inflation	Real GDP pc
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	Balance (% GDP)	Public Debt (% GDP)	Fiscal Balance (% GDP)	Public Debt (% GDP)	Rate	growth rate
1956-1972	-3.5%	0.1%	-3.5%	15.1%	30.5%	2.1%
1973-1975*	-9.4%	-1.0%	-8.4%	19.6%	89.0%	-0.9%
1976-1981	-5.2%	1.4%	-6.6%	20.3%	193.3%	-0.4%
1982-1991*	-3.6%	4.0%	-7.6%	62.0%	793.7%	-1.0%
1992-2001	0.1%	2.0%	-1.8%	34.7%	5.0%	0.5%
2002-2005	3.4%	1.9%	1.5%	119.9%	13.3%	7.6%
2006-2015*	-0.1%	2.2%	-2.2%	50.6%	23.2%	1.7%
2016-2019	-2.8%	2.5%	-5.3%	72.4%	41.0%	-2.5%

Source: BCRA, IMF World Economic Outlook (2019), Ferreres (2010) and Mauro et al (2013). Note: \* indicates a period during which populist economic policies were in place.

Argentina's persistently high fiscal deficits during the last seven decades reflect the inability (or unwillingness) of Argentine society to live within the constraints imposed by economic reality. Peronism has been the main (but not exclusive) "enabler" of this fantasy, promising greater equality and rising prosperity without ever tackling the structural barriers that prevented both. Perón never fulfilled his promise of turning Argentina into an industrial power. Instead, his policies led to secular stagnation and high inflation with growing poverty and inequality. With Peronism, fiscal and monetary anomie became a chronic disease.

Over the course of the last 200 years the fundamental cause of Argentina's fiscal unsustainability changed. In the first years after independence, it was military expenditures due to continued wars; from 1860 until 1939, bailouts of an over-extended financial sector; during the Perón years, the growth of the populist welfare state; in the sixties and early seventies, growing losses of inefficient state-owned companies; in the late seventies, again military expenditures and war; in the eighties, the cost of excessive foreign and local debt (partly generated by earlier bailouts of the private sector); in the nineties, the profligacy of provincial governments and state-owned banks; and in the first decade of 21<sup>st</sup> century, once again the unsustainable growth of the populist welfare state.

#### **4. The Failed Reforms of the 1990s**

One of the most remarkable aspects of the Argentine case is that after two consecutive hyperinflationary bouts, starting in March 1991, in order to regain price and economic stability, the Argentine government finally applied a rules-based policy framework, which reflected global "best practices" and was enacted by law. The pillar of this framework was the Convertibility Law approved in March 1991, which created a convertible peso and legalized

the use of the dollar and any other convertible currency in any kind of transaction or contract.<sup>7</sup> In the following decade, Congress also approved a Public Financial Management Law (1992) and a Fiscal Convertibility Law (1999) to: a) provide transparency and accountability, and, b) limit the growth of primary expenditures and recurrent fiscal deficits (see Appendix A for a list of the major laws connected with fiscal and monetary rules approved during this period).

Strict compliance with these rules, which was sporadic even during 1991-99, vanished in the 21<sup>st</sup> century. During 2006-2017, *The Open Budget Index* (OBI), an independent global assessment of budget transparency, consistently placed Argentina near the middle of its global ranking, with scores that ranged between 40 and 60 points on a 100-point scale (Diaz Frers, 2017). In 2017, the last year for which there is data, the country occupied the 46<sup>th</sup> position in global rankings, between Ghana and Namibia. More importantly, an examination of the Congressional record (see Appendix) shows a national proclivity to amend and repeal any rules that restrain the power of the Executive branch with “Emergency Laws”, also approved by Congress, always with the excuse that an imminent or ongoing financial crisis requires giving the former ample discretionary powers. Argentine politicians don’t seem (or want) to understand that the point of having rules is to prevent such emergencies.

The Appendix includes a long list of all the laws approved by Congress since 1989 that had as an objective the establishment of fiscal and monetary discipline. It shows the dates the laws were passed and how many times they were amended since. It basically confirms Argentina’s anomie. The laws were not worth the paper they were written on.

According to the Constitution Argentina has representative, federal and republican system. In reality it has none of its features for a number of institutional design flaws implemented by military governments and preserved by an unrepresentative Congress (see Streb, 2018). First, large single districts and electoral representation through party lists (“*lista sábana*”) eliminate the link between legislators and their constituencies. To be included in the party list a politician does not have to respond to his or her potential voters but to the party’s hierarchy. In essence, the constituency of an Argentine legislator is the Party boss. This seriously undermines separation of powers when the party the legislator belongs to controls the Executive. Second, the provinces with the largest population (which also happen to be also the most economically productive) are underrepresented in Congress because their number of representatives has not been modified despite the growth in their population. Third, the tax revenue sharing mechanism between the national and provincial governments creates perverse incentives for provincial governors in poor provinces to finance clientelism with

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<sup>7</sup> As Steve Hanke observed in a previous version of this paper, the system implanted by Cavallo in 1991 was not an orthodox currency board since it allowed for much fiscal and monetary discretion. See Hanke (2002).

subsidized spending. As a result, these provinces are “local bastions of power dominated by entrenched elites, characterized by scarce political competition, weak division of powers, and clientelistic political linkages.” Ardanaz, Leiras and Tommasi (2012) identified another perverse effects of this system: provincial governors are very influential at the national level and if they reach the presidency have a tendency “to import into the national level some of the “backward” practices that made them successful.” (p.40).

Two recent instances exemplify the extent of Argentina’s fiscal and monetary anomie. At the end of 2017 Congress approved a Fiscal Responsibility law that capped the rate of growth of primary expenditures and public employment. At the same time the National Government reached an agreement with Provincial Governments to limit spending and reduce taxes. The stated objective of both measures was to gradually reduce the weight of public spending on GDP and create “the fiscal space to also lower the tax burden and improve the tax system” (Galiani, 2018). Months later, in October 2018, as part of an agreement with the IMF, the Central Bank replaced the existing inflation targeting framework with a simple monetary policy rule that limited monetary base growth to zero and allowed the exchange rate to float within a pre-specified band. The goal was to reduce inflation and let inflationary expectations push down the interest rate gradually. Simultaneously, to ensure public debt sustainability the government committed itself to achieving a primary fiscal balance in 2019 and modest surpluses starting in 2020 (IMF, 2018). Twelve months later both rules were abandoned after election results triggered a severe currency crisis.

By December 2019, the remnants of Central Bank independence had completely disappeared and Congress approved an “Emergency Law” that gave “super powers” to the incoming president, Alberto Fernández, a Peronist. In this ignominious way ended Argentina’s last experiment with fiscal and monetary rules.

In Argentina, “Emergency Laws” have become one of the most effective methods for undermining constitutional separation of powers. They allow the Executive to arbitrarily intervene in markets, impose taxes or exactions and/or confiscate resources (usually from savers or exporters) without the prior approval of (or debate by) Congress. The ultimate objective of these laws is to find creative ways of financing an ever growing fiscal deficit.

## **5. Conclusion**

Fiscal and monetary anomie is part of a broader phenomenon that pervades Argentina’s culture and politics. Its roots can be traced back to the country’s colonial past. Although it was never completely eradicated with independence, its effects were neutered with the



process of institutional development that started in 1853. Between 1916 and 1930 it revived and gradually gathered strength. Anomie became a permanent feature of Argentine society in 1946 with the establishment of a populist system. Institutional development was aborted and anomie became a chronic disease.

No matter how well designed, monetary and fiscal rules will not be complied by the Executive under a dysfunctional political system beholden to special interest groups and dominated by actors driven by perverse incentives. Anomie has trapped Argentina in a vicious circle: inflation conspires against sustained economic growth, price stability cannot be achieved without monetary restraint and monetary restraint is not sustainable without fiscal discipline.

More research is needed to understand better how the interaction of flawed institutions, cultural values inherited from its colonial past and reinforced by populism and deeply entrenched economic interests made Argentina the poster child of economic decline.

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**Appendix: Summary of Legislation involving Fiscal and Monetary Matters since 1989**

Date	Law Number and Title		Brief Description	First Amended by Law on		Total number of Amendments
	Number	Title				
Sep-1989	23697	Economic Emergency	Gave the Executive branch flexibility and power to deal with the crisis: reformed Central Bank, suspended subsidies and Industrial and Mining Promotion schemes, facilitated foreign investment, consolidated public debt, established emergency budgetary provisions, limits growth in expenditures of state owned companies, froze public hiring, etc.	M	Oct-1990	106
Sep-1990	23967	Economic Emergency	Repealed article 34 of Law 23697			0
Mar-1991	23928	Convertibility	Established a new peso convertible to the US\$ at 1 to 1 exchange rate. Legalized transactions in US\$. Central Bank reserves must be equal to 100% of the Monetary Base. Eliminated indexation.	R	Jan-2002	67
Sep-1992	24144	Independence of the Central Bank	Established the Central Bank as an independent entity. President and Board members nominated by the Executive with a term of six years with the consent of the Senate	M	Mar-2012	93
Sep-1992	24156	Financial management of Public Sector	Established criteria for financial management of public sector including budgeting, accounting and treasury.	M	Nov-2003	1054
Feb-1996	24629	Rules for national government's budget	Added the obligation to produce data on expenditures by geographic distribution, In-Year Reports on budget execution, and the Pre-Budget Statement. The law mentions	M	Aug-1999	36

			Congress as the direct recipient for these documents.			
Aug-1999	<u>25152</u>	Fiscal Convertibility	Established that a) the primary fiscal deficit could not exceed 1.9% of GDP, b) primary expenditures could not grow faster than real GDP, c) 3-year budgeting process and 4) set limits to the growth in public debt.	M	Mar-2002	168
Oct-2000	<u>25344</u>	Economic-Financial Emergency	Allowed the Executive to take extraordinary measures to deal with crisis such as unilateral termination of supply contracts and renegotiation of public debt. Allowed a one-year with a possible extension of another year.	M	Dec-2001	54
Dec-2001	<u>1602</u>	Economic-Financial Emergency	Extended Law 23544 for another year.			0
Jan-2002	25561	Emergency	Repealed the Convertibility Law. Gave the Executive flexibility to adopt any economic and financial measures to minimize the impact of the crisis.	M	Dec-2003	279
Dec-2003	25820	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 25561 and extended it for another year.	M	Nov-2004	10
Nov-2003	25827	Budget approval and modification	Approved 2004 budget and modified Law 24156 giving significant leeway to the Executive to reallocate expenses at its discretion and raise debt.			168
Aug-2004	25917	Federal Fiscal Responsibility	Imposed transparency and reporting criteria for budgets at all levels of government. Delegates powers on the Executive to restructure budget credits.	M	Dec-2004	49

Nov-2004	25972	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 25820 and extended at the request of the Executive for another year. Prohibited private sector companies from firing employees	M	Dec-2005	6
Dec-2005	26077	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 25561 and extended at the request of the Executive for another year.	M	Dec-2006	4
Aug-2006	26124	Financial management and control systems for National Public Sector	Allowed Executive branch to make any reallocations in the budget as long as total budget did not change Congress to approve total level of revenues, expenditure and debt.			1
Dec-2006	26204	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 25561 and extended at the request of the Executive for another year.	M	Dec-2007	8
Dec-2007	26339	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26204 and extended at the request of the Executive for another year.	M	Dec-2008	4
Dec-2008	26456	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26339 and extended at the request of the Executive for another year.	M	Dec-2009	7
Oct-2009	26530	Fiscal Responsibility for Provincial Governments			Nov-2011	7
Dec-2009	26563	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26456 and extended at the request of the Executive for two years	M	Dec-2011	3
Dec-2011	26728	National Budget for 2012	Approved budget. Modified Law 26530 and 26456.	M	Nov-2012	67
Dec-2011	26729	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26443 and extended at the request of the Executive for two years	M	Oct-2013	4

Mar-2012	26739	Reform of the Central Bank	Modified Law 24144. Nominally preserved independent status but established that monetary policies have to "conform" the policies set by the Executive. Allowed the National Government to finance itself with the reserves of the Central Bank.	M		3
Oct-2013	26896	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26739 and extended at the request of the Executive for two years	M	Nov-2015	3
Nov-2015	27200	Public Emergency and Reform of Foreign Exchange Regime	Modified Law 26204 and extended at the request of the Executive for two years	M	Dec-2016	5
Sep-2016	27275	Right to access to public information	Guaranteed public access to any information produced or held by the government, including specific details about the allocation of public expenditure.			46
Dec-2016	27342	Financial management and control systems for National Public Sector	Modified Law article 37 of Law 24156 granting the Executive Allowed the Executive to rearrange budgetary allocations within the total amount approved up to certain limits that decreased after 2017.	M	Dec-2019	2
Dec-2016	27345	Public Emergency and Reform of Foreign Exchange Regime	Extended Law 27200 until 31 December 2019, created "National Council for the Popular Economy and Complementary Social Wages" and allowed the Executive to fund the expenditures required to implement the law			6
Dec-2017	27428	Fiscal Responsibility Law	Established financial agreement between National and provincial governments to limit growth in expenditures.	M	Jan-2018	2



			Established rewards to provinces with fiscal balance or surplus. Required transparency and performance reports.			
Jan-2018	27429	Fiscal Consensus	Approval			
Dec-2019	27541	Economic Emergency	Declared the country in a state of economic, financial and social emergency. Gave "super-powers" to the Executive branch.			26
Jan-2020	27544	Restoration of Public Debt Sustainability	Allowed the Executive to restructure the public debt to achieve sustainability.			2

Source: Infoleg. M=modified, R=repealed.