

Crises, Reforms, and Reversals

in Argentina, Chile and Peru

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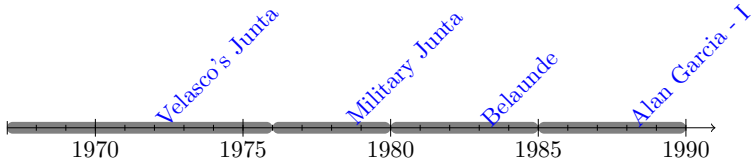
²NYU

A Personal Story ---

- Before I begin with the motivation let me tell you a story...

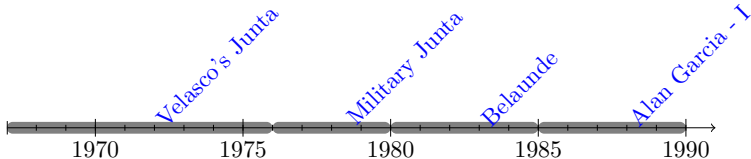
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- Balance of those decades and the decades after...

Peru in Figures

Peru

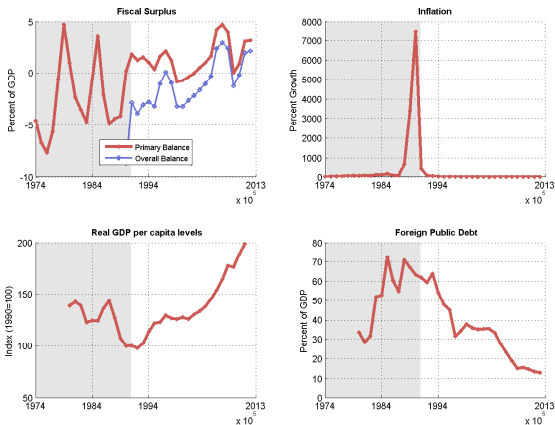


Figure : Peru: 1980-2013

Luck?

- Has success been luck?

Chile in Figures

Chile

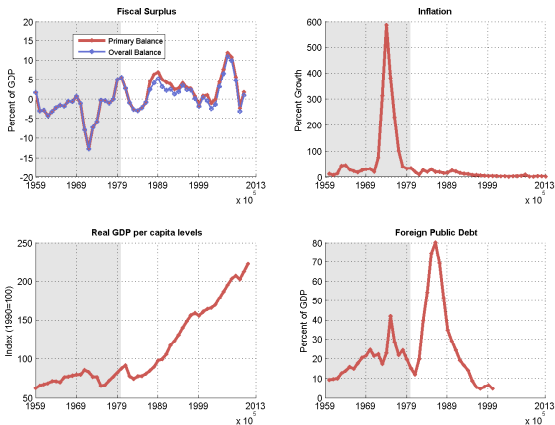


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Argentina in Figures

Argentina

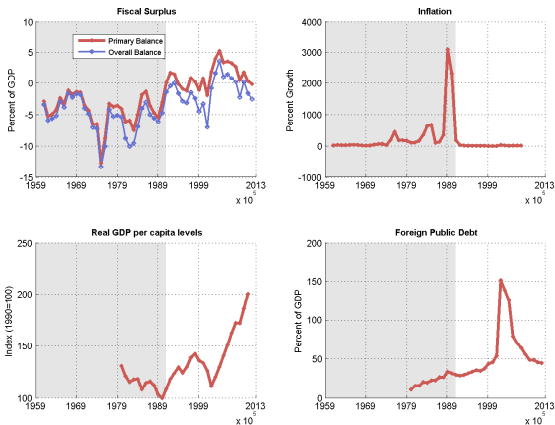


Figure : Argentina: 1980-2013

Three common histories

- **Argentina, Chile and Peru** remarkably similar histories:
 - 50-70s era of classical Latin American populism
 - Crises followed: hyperinflation, GDP decline
 - Violent Transitions

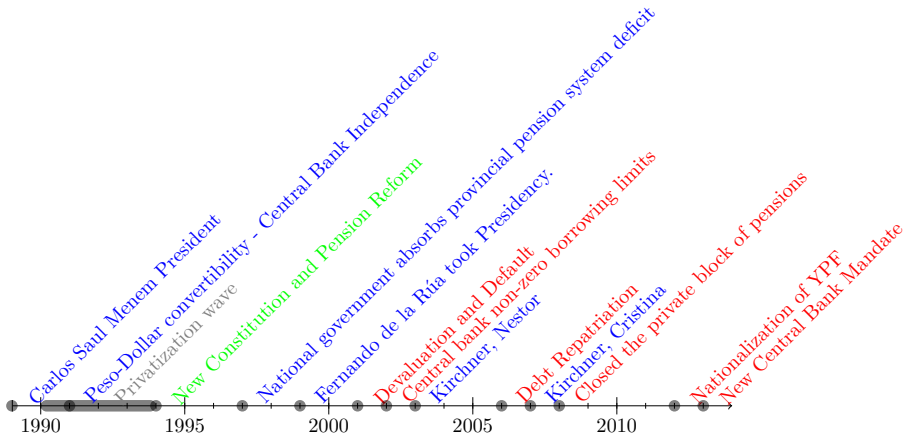
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- ...but Argentina is different
 - Why?

Reversals in Argentina



Inflation in Argentina

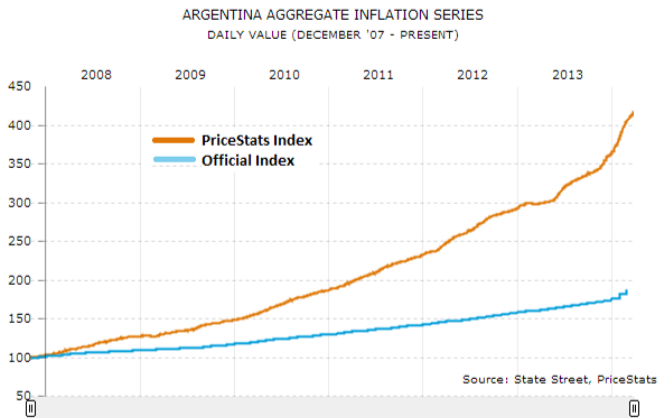


Figure : Argentina: Official and Unofficial (Internet) CPI index

Our Paper

- **Historical Narrative**
 - Study three parallel histories

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- **Postulate:** Argentina's inability to fix its political economy of budget deficits

- *Common theme in other countries...*

Three Quotations...

“Keeping books on social aid is capitalistic nonsense. I just use the money for the poor. I can’t stop to count it.”

- Attributed to Eva Perón. Circa 1950s.

“Placed in a historic transition, I will pay for loyalty to the people with my life.”

- Salvador Allende. Final words delivered September 11, 1973.

“My government policies have been described as liberal [i.e., free market] by certain individuals who like to label reality. I am sorry but you have the wrong label. My government and I are simply pragmatic. This means that I do not pay homage to theories, dogmas or myths. I am an agronomist, but I do not breed cows and I do not believe in sacred cows.”

- Alberto Fujimori, Inaugurating speech of the Constituent Congress. July 28 1993.

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- **Menem in Argentina:**
 - Menem had to negotiate approval of reforms with Congress
 - Provincial Governments
 - No hard evidence
 - To understand this → Argentina's political institutions

Popular Opposition in Chile

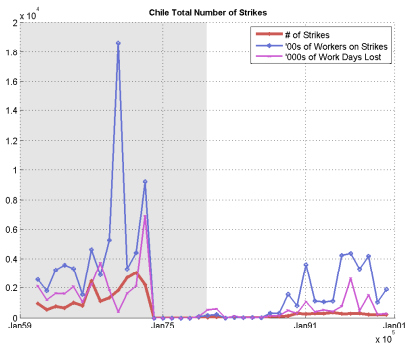


Figure : Chile: Worker Strikes

- **Chile:** Electoral Rules *after 89 Constitution*
 - Electoral districts with only two slots (similar to US)
 - Coalition formation
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- **Peru:** Electoral Rules **after 93 Constitution**
 - Regional Proportional Representation
 - Fragmented Unicameral Congress
 - Caudillo-based parties
 - One traditional party - APRA
 - Regional Governments - Low Budget, low participation
 - Limits on infrastructure investment

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 - Provinces can issue debt \Rightarrow bargaining instrument

Budget Assignment in Argentina

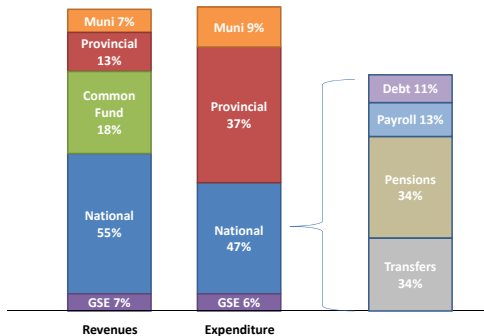


Figure : Argentina: Revenues and Expense Decomposition - 2004

Who determines budgets? _____

- Scartascini and Stein (2009)
 1. Proposal
 - Executive
 - Negotiations and Approvals
 2. Execution
 3. Performance Balance

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- **Argentina - is different**

Budget Proposals - Argentina _____

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 - Powerful Provincial Governors
 - Executive vs. Provincial Governors

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- **On the other hand...**

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 1. Forecast Manipulation
 - Extra surplus: assigned to Federal Accounts
 2. Administration of Quota System
 - Tax Collection by Federal Government
 - Choice in timing delivery
 3. Use of “Decretos Ley”
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- Once Provinces have their shares
 - Hard to coordinate in Congress
 - **ex-ante:** credible commitments?

Checks and Balances ---

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- Argentina: two audit and control institutions
 - Abuelafia et al. (2009):
 - SIGEN (Executive's office) \Rightarrow controlled
 - AGN (Congress's office) \Rightarrow bargaining tool

Social Security

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- *Privatization:*
 - Chile: national level
 - Peru: parallel system
 - Argentina: **tranch system**

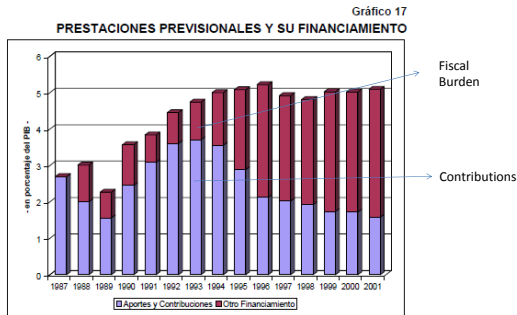
Social Security - Fiscal Burden

- Transition from Pay-as-you-Go to Individual accounts
- Chile
 - Forced participation of new workers to private system
 - Choice between private and public fund for pre-reform participants
 - Incentive scheme to join private funds
 - 96% by 1999
- Peru
 - Private System modelled on Chile
 - Original failure to attract majority of pensions
 - Majority switch to private system (76%) after incentive scheme

Social Security - Fiscal Burden

- Argentina
 - Public vs. mixed schemes
 - Mixed schemes: pay-as-you-go up to limit
 - Individual account, after-limit of contribution
 - *Reversed in 2008*
- Portfolio-Investment limits
 - Subsidy to public debt - 2006 IMF debt repay

Social Security - Fiscal Burden



Fuente: Elaboración propia en base a datos del ANSES, AFIP y Secretaría de Hacienda y CEPAL, Oficina en Buenos Aires.

Figure : Argentina: Pension Self-Funding Deficit, Source: Centragolo and Jimenez (2003)

Privatization

- Arguments: - Free markets, no government intervention
 - Efficiency?
 - Revenue source to stop inflation quickly
 - Argentina raising revenues explicit goal
 - 91-94: Average Privatization Revenues 1% GDP

Efficiency or Fiscal Deficits?

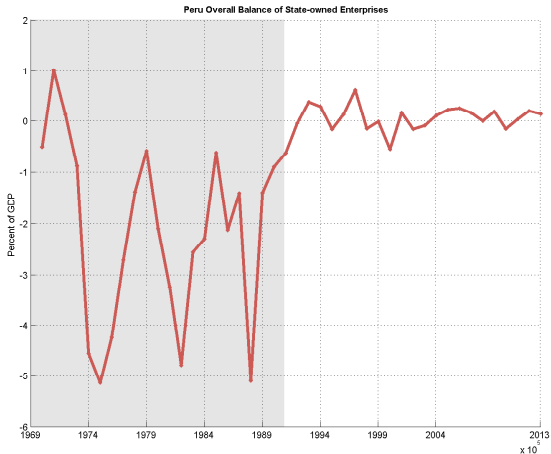


Figure : Peru: Budget Deficits of GSE (% of GDP)

Privatization in Argentina

- Fiscal accounts needed those revenues...

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Monetary Independence

“I believe we should put a final end to the convertibility plan with a Central Bank that is not limited to preserve monetary stability, but that also preserves fiscal and production stability. A Central Bank that interacts with the real economy is what we need.”

Cristina Kirchner, 01/03/2012

Past Experiences... ---

- I don't think I have to say much
- Sargent, Williams and Zha (2009)
 - Illustrate statistically how seigniorage financing is a risky (fragile) game

Conclusion



Figure : Argentina, Protests Against Inflation 04-10-14

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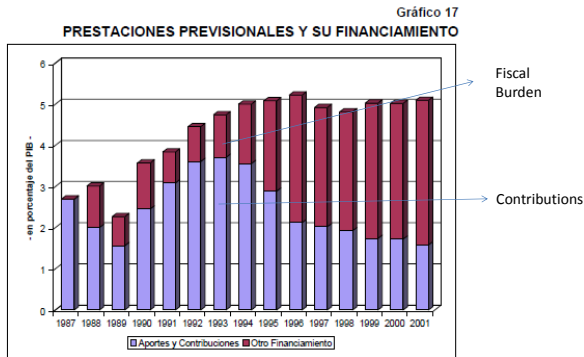
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- Pecking-order theory of populism funding
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- As revenues sources disappear, potential social unrest
- Argentina will see this cycle, let's hope Peru is already on Chile's side

Argentina - Pension Fiscal Burden



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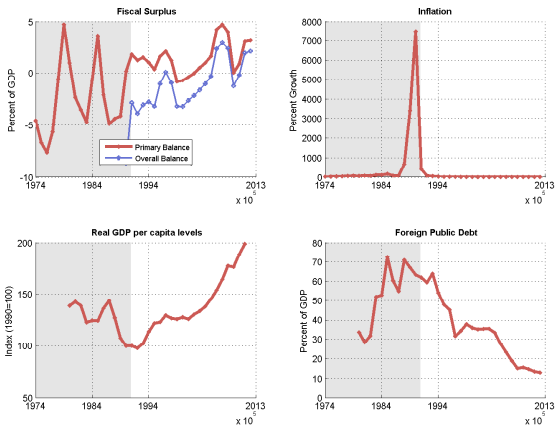


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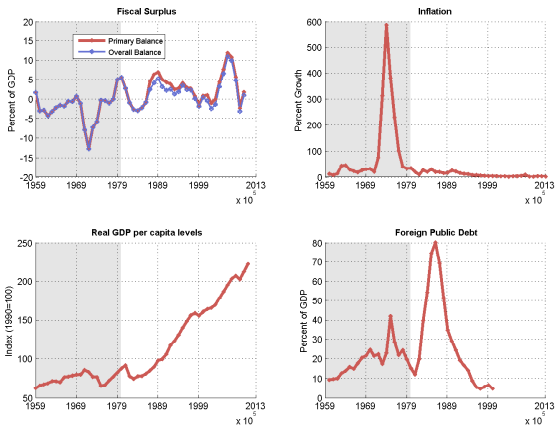


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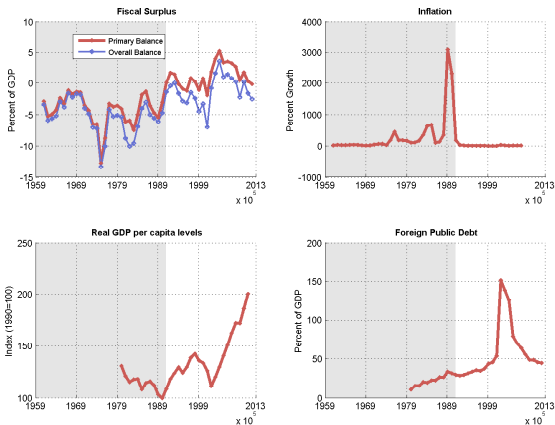


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