



The Cost of Populism in Argentina, 2003-2015

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RESUMO

Este artigo estuda o contexto histórico e o impacto econômico e institucional das presidências de Néstor Kirchner e Cristina Fernández de Kirchner (administração Kirchner-Kirchner) na Argentina. Os efeitos das principais políticas econômicas durante a presidência são explicados, bem como a queda dos índices de qualidade institucional. Os desafios de sair do populismo também são mencionados.

ABSTRACT

This paper studies the historical context, and economic and institutional impact of the Néstor Kirchner's and Cristina Fernández de Kirchner's presidencies (Kirchner-Kirchner administration) in Argentina. The effects of the major economic policies during their presidency are explained as well as the indices fall of the institutional quality. The challenges of stepping out of populism are also mentioned.

RESUMEN

Este artículo estudia el contexto histórico y el impacto económico e institucional de las presidencias de Néstor Kirchner y Cristina Fernández de Kirchner (gobierno Kirchner-Kirchner) en Argentina. Los efectos de las principales políticas económicas durante ese período se explican, así como la caída de los índices de calidad institucional. Los desafíos de salir del populismo también se mencionan.

Classificação JEL: N16, N46, P21.

INTRODUCTION

The turn of the 21st century has seen a new wave of populist governments in regions such as Latin American, Europe and, arguably, the United States. Venezuela under Chavez and Maduro governments is the most well-known case in Latin America. However, this is hardly the only populist government in the region. Nicaragua with the Sandinistas, Ecuador with Rafael Correa, Bolivia with Evo Morales, and Argentina with the Kirchner-Kirchner's administration also represent populist experiments. It may also be argued that Lula da Silva and Dilma Rouseff in Brazil also represent a case of populism. In particular, the Foro de São Paulo can be seen as the organization that provided political, philosophical and financial basis for the populist movement in Latin America. These populist experiments have produced economic as well as institutional deterioration. This paper offers a case study of Argentina under the populist governments of Néstor Kirchner (2003 – 2007) and his wife, Cristina F. de Kirchner (2007 – 2015), with particular emphasis on the economic and institutional deterioration during their tenure.

It is still early to have a complete account of the populist impact on the region, since in many cases, populist governments are still either in office or they have only been recently replaced by new political movements. Nonetheless, some researches on the economic impact of populism can already be found by Cachanosky ([2017a](#), [2017b^a](#)), [Cachanosky and Padilla \(2018^a\)](#), [Edwards \(2010^a\)](#), [Grier and Maynard \(2016\)](#) and [Ocampo \(2015^a\)](#). This paper offers a more up-to-date analysis of the Argentine case as well as a specific case study rather than a general approach to the region or the country.

The next section discusses the issue of defining populism. Section 3 presents the historical setting of the rise of populism in Argentina, namely the effects of the 2001 crisis. Sections 4 and 5 discuss the economic and institutional deterioration under the Kirchner-Kirchner's administration respectively. Section 6 concludes it.

1 WHAT POPULISM IS

Populism is easier to identify than to define. It is hard to define since common features of populist governments are not exclusive of this type of regimes. For instance, mobilization, propaganda and a charismatic leader are features commonly found in populist regimes, but at least in principle, not exclusive of them. The economic policy of governments is also expansionary, where stimulus to consumption is exacerbated into an unsustainable path ([DORNBUSCH; EDWARDS, 1990](#); [KAUFMAN; STALLINGS, 1991](#); [RODRIGUEZ, 2012](#)). These Keynesian-

inspired policies, however, are not a monopoly of populist governments either ([BRESSER PEREIRA; DELL'ACQUA, 1991](#)).

A definition of populism should look at distinctive institutional characteristics rather than common descriptive features. [Abts and Rummens \(2007\)](#), [Cachanosky and Padilla \(2018^b\)](#), and [Weyland \(2001\)](#) argue that a distinctive feature of populism is to change the legitimacy of power from the anonymous albeit general “rule of law” into the vague expression of “the people”. This is not a minor semantic change. “The people” can be redefined as politically convenient for the populist leader. It also allows to create a division between “us” (the victims) and “them” (the threat). Furthermore, since the legitimacy of the political power is coming directly from the people, political institutions are either a tool to be used at the discretion of the leader, or an obstacle to be removed. They are not what they are supposed to be, an institutional constraint against the abuse of power. The misuse of political institutions is legitimized by executing the will of the people, according to the leader’s interpretation. It is no accident that populist government shares an anti-republic behavior. It is also no accident that populist governments share authoritarian characteristics of communist and fascist governments ([DE LA TORRE, 2016](#); [OCAMPO, 2015^b, p. 99](#)). The removal of republican constraints is achieved by a semantical confusion with democracy. A democratic victory on Election Day gives the leader full power. By merging the concept of republic into democracy, the populist leader keeps the source of its legitimacy on “the people”, but he removes the institutional constraints to his power. Even though, this definition of populism focuses on the institutional characteristics of a government, [Rode and Revuelta \(2015\)](#) find that the loss of economic freedom is statistically correlated with populist regimes. The lack of institutional constraints allows populist government to become depredatory, in the sense that they build a wealth extractive, rather than inclusive, entity as described by [Acemoglu and Robinson \(2012^a\)](#).

It should also be noted that defined this way is, at least in principle, possible to observe a populist government with free market policies ([RODRIK, 2018](#)). [Weyland \(1999; 2003\)](#), for instance, argues that the Latin America had experience neoliberal populism. The term neoliberal is vague, elusive, and imprecise. However, its more precise economic definition is associated with the ten recommendations of the Washington Consensus. As [Cachanosky \(2017b^b\)](#) and [Edwards \(2010^b\)](#) point out, the so-called neoliberal reforms in the region fall short from the Washington Consensus prescription. Since it is problematic to see a full neoliberal reform in Latin America, is it difficult to describe, at least these cases, as neoliberal populism.

2 HISTORICAL SETTING: THE 2001 CRISIS

It is hard to pinpoint exactly what led Argentina off-track of economic development. However, Juan D. Perón's emergence as a leading political actor is usually considered as a turning point. Perón's presence in Argentine politics lasts for a number of decades, since his participation in a military takeover in the 1940s until his passing during his third term in 1974. Perón became an influential figure in Latin American populism, and it is worth noting that he was influenced by Benito Mussolini when he was assigned to a military position in Italy. His social programs expanded the welfare state beyond its sustainable limits. Perón founded the Justicialist Party (PJ for its denomination in Spanish) in 1947, which is still one of the largest political parties in Argentina today. It is this fiscal disequilibrium that the different governments cannot or do not want to correct. This structural deficit produced decades of high inflation through deficit monetization.¹

After decades of high inflation rates, between 1989 and 1990, Argentina suffered a case of hyperinflation. This scenario resulted in the breakdown of the Argentina monetary system. Probably more due to necessity than conviction. The new President, Carlos S. Menem (PJ), with the aid of Economic Minister Domingo F. Cavallo, implemented a monetary reform transforming the Argentine central bank into a currency board with a fixed exchange rate of one Peso for one U.S. dollar. Nevertheless, as [Cachanosky and Ravier \(2014\)](#), and [Hanke \(2008\)](#) point out, this was an heterodox type of currency board. There were two conditions of an orthodox currency board that the Argentinean currency board overlooked. The first one is not having a 100% reserves (net of dollar liabilities) backing the Argentine Peso. The second one is not following a one-to-one pass-through between changes in reserves and changes in Peso circulation.

During the 1990s, the government carried heavy fiscal deficits financed with debt in U.S. dollars. The outstanding debt increased too fast and eventually Argentina ran out of credit in the financial markets and through institutions such as the International Monetary Fund. When the credit ran out in 2001, the government decided to declare the default of the sovereign debt, abandon the currency board, and break the peg over reducing government spending. The 2001 Crisis and default in, probably, the largest crisis in Argentine history. Economic activity fell by more

¹ For a review of Argentine economic history and the peronist movement, see ([CALVO, 1986^a](#); [CORTÉS CONDE, 2008](#); [DELLA PAOLERA; TAYLOR, 2001](#); [GERCHUNOFF; ROCCHI; ROSSI, 2008](#); [GUIDO; LAZZARI, 2003^a](#); [HANKE; SCHULER, 1999](#); [IRIGOIN, 1984](#); [OCAMPO, 2015^c](#)).

than 10%, with the subsequent effects on unemployment and poverty rates. In 2002, inflation rate reached 40%. In 2003, the poverty rate was still above 50%.²

Even before the default, the economic downturn produced the fall of Fernando de la Rúa's presidency (UCR –Unión Cívica Radical- Party), who has taken office in 1999 after Menem's two terms in office. The political crisis circa 2001 was that the four Presidents, all from the Justicialist (Peronist) Party, were in office between de la Rúa's resignation in 2001 and Néstor Kirchner (PJ) taking office in May 2003. De la Rúa's resigns on December 20th, 2001. He is replaced by Ramón Puerta (PJ) for a period of two days, after Adolfo Rodríguez Saá (PJ)(who takes office on December 22nd). It is Rodríguez Saá who declares the default. He was in office only for one week, being forced to step down from the presidency on December 30th. Finally, on January 2nd, Eduardo Duhalde (PJ) is appointed President by the Congress with the mandate to finish de la Rúa's term and call new elections. Duhalde breaks the currency board and the peg and swaps the U.S. dollars deposits into Pesos at an exchange rate of 1.4 Pesos per U.S. dollar, significantly below the market value. Withdrawal of deposits was virtually forbidden, allowing only for small amount of cash to leak from the banks. Due to social unrest and still facing the economic consequences of the crisis, Duhalde calls for early elections and turns the Presidency to Nestor Kirchner on May 25th (a national holiday) 2003, before this term was due on December 10th of that same year. Nestor Kirchner receives a broken country, in default, after a currency crisis and with an increased poverty rate. A perfect scenario for a populist government to gain public support and carry unsustainable policies.

3 THE ECONOMIC COST OF POPULISM

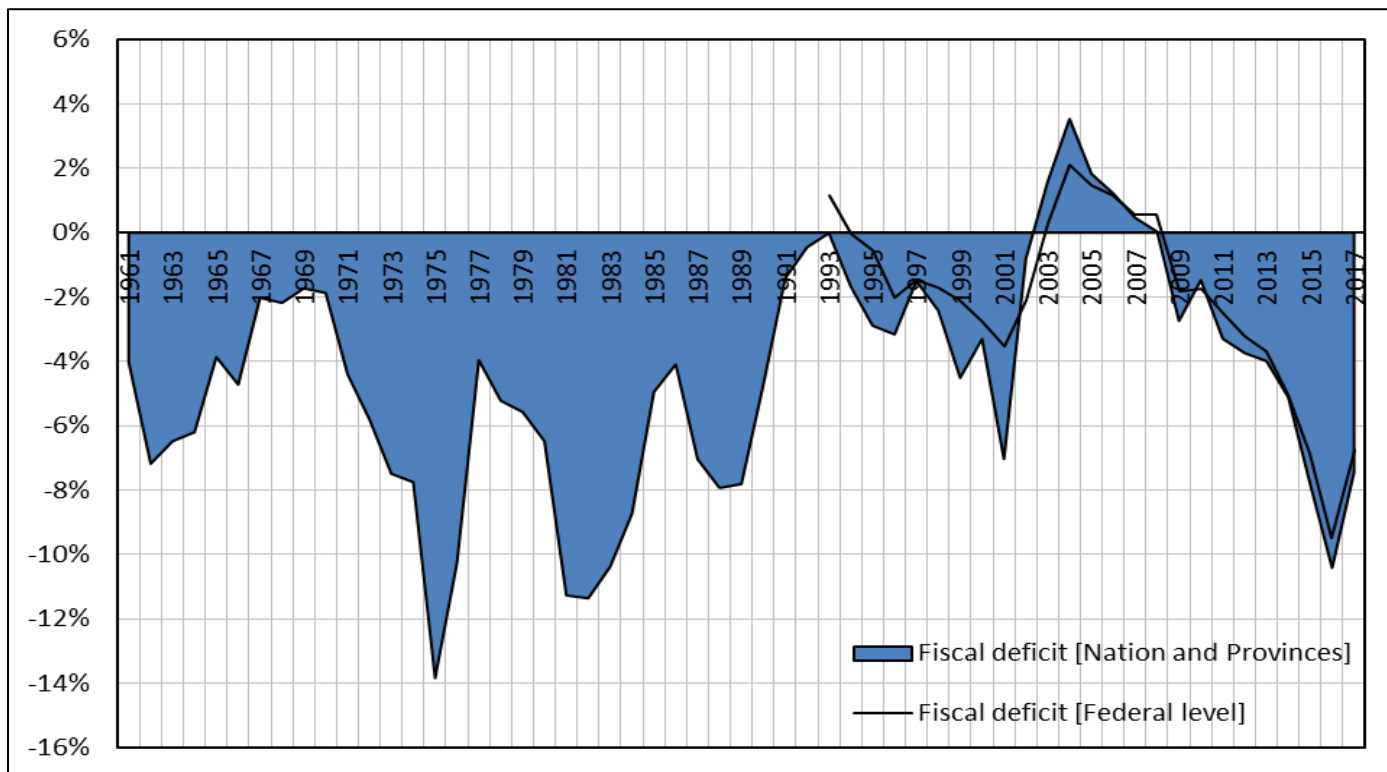
3.1 Fiscal Policy

The 2001 crisis only brought temporary relief to Argentina's fiscal deficit. The default, currency depreciation, and tax increases brought surplus to the treasury (Figure 1). This surplus, however, starts to deteriorate immediately when Nestor Kirchner starts his presidency, falling from a peak of 3.1%(2003) in term of nominal GDP to 0.6% (2007). The speed in the fall of the budget coincides with the change of presidency from Nestor to Cristina Kirchner. Given the rapid fall in surplus with respect to GDP, it would be inaccurate to argue that NK was concerned with having a

² For a more detailed account of the 1990s economy and the 2001 crisis, see [Guido and Lazzari \(2003^b\)](#), [Hanke and Schuler \(2002\)](#), [Kaminsky, Mati, and Choueri \(2009\)](#), [Lacoste \(2005\)](#), and [Thomas and Cachanosky \(2016\)](#).

fiscal deficit while CFK did not. Since 1961 to 2017, there were four debt defaults and the “Rodrigazo” crisis³. The 2001 crisis was the only one preceded by a temporary fiscal surplus.

Figure 1 - Fiscal deficit. Nation and Nation plus Provinces. 1961 – 2017



Source: Ministerio de Hacienda and author’s estimations (2018).

When the fiscal situation worsens in 2007, the Kirchner’s administration started to tamper with economic indicators. The most well-known case is the one of the official inflation numbers (discussed below). Fiscal numbers were also affected, albeit in a more subtle way. Inside the small revenue account Property Rents, the government started to include transfers from the central bank and the national pension fund. The central bank would transfer profits to the central government. The central bank profit, however, was calculated with tampered inflation numbers. Between 2007 and 2015, this account grew 33 times, adjusted with private estimations of inflation, the real growth was 5.4 times. This account went from representing 3 % to explain 10 % of total revenue. Without these transfers, the fiscal deficit increases 7 % in nominal terms (Figure 1 shows figures).

³ The Rodrigazo crisis is named after Economic Minister Celestino Rodrigo, who lifted price controls after a year of high inflation. The result was a rapid increase in prices with social unrest manifestations. [Calvo \(1986^b\)](#) suggests that the social effects of the Rodrigazo could have contributed to the Argentine guerilla movement that in turn led to the military government between 1976 and 1983.

Yet, other two issues drove the high deficit of the Kirchner's administration. With the impact of the crisis, social welfare spending expanded significantly. The inefficiency of the social plans is shown by the fact that such transfers do not go down on time. If these plans were successful in reducing poverty, then its amount should fall. But, this is not what happened. In real terms, social welfare transfers increased 1.7 times between 2007 and 2015. In 2004 these transfers amounted for 28 % of total outlays and this number raised to 38% in 2015⁴.

The other variable that increased the fiscal deficit is subsidized into utility firms. To mitigate the impact of the crisis on families and firms, the government decided to freeze the cost of utilities such as water, electricity, and gas. To compensate firms for freezing prices below equilibrium, the government decided to increase the subsidies given to utility firms. In the year 2000, transfers to the private sector represented 10% of current outlays; by 2015 this number was 23%. In 2015, social welfare and transfers to the private sector represent 61 % of total spending.⁵ This cost structure of the Argentine central government makes it very difficult to succeed in reducing spending without serious fiscal, institutional, and policy reforms. The price control on utilities still produced another unintended consequence. The shortage of energy increased the imports of electricity, oil and related resources.

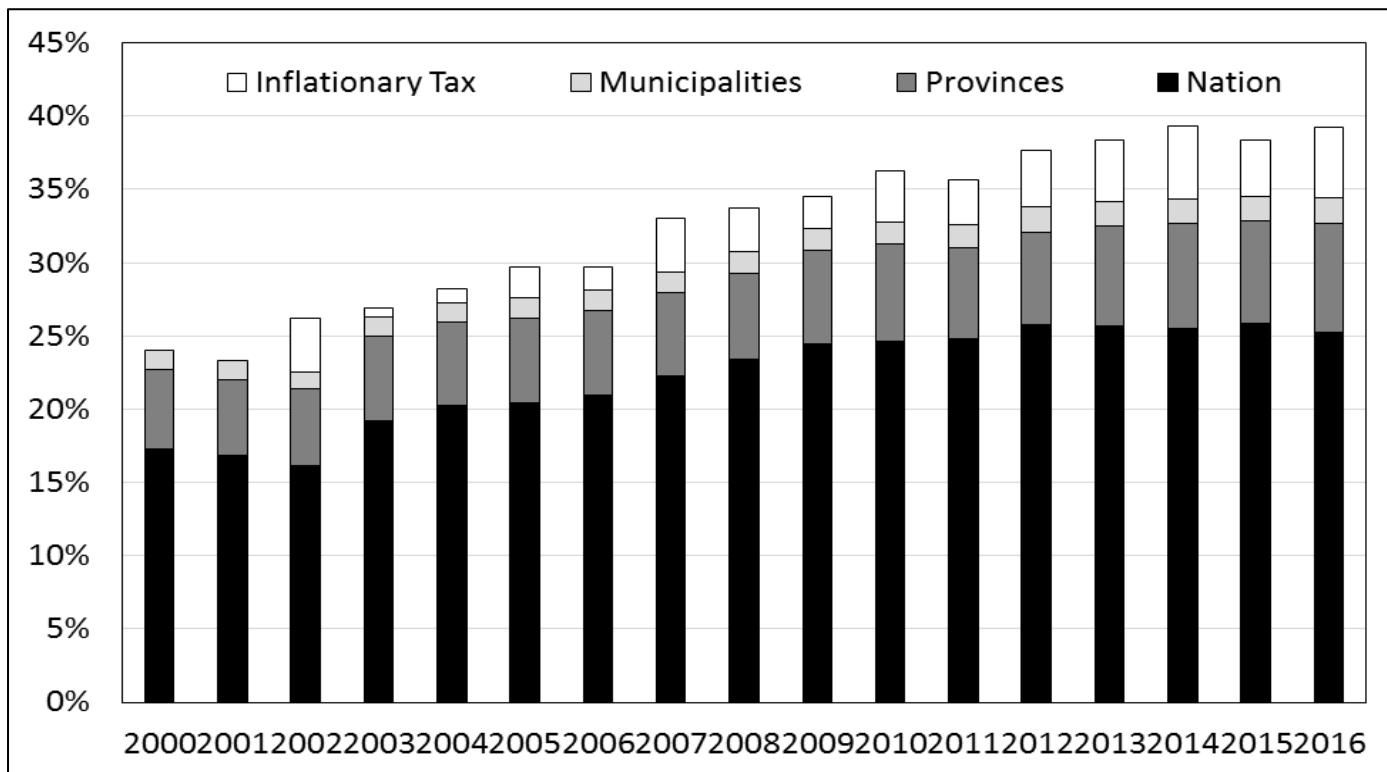
It should be noted that this poor fiscal performance occurred at par of record high price of soy, an important export commodity in Argentina, with the record high tax pressure as well. Such tax pressure did not change with Cristina Kirchner, who took office in December 2007 after Nestor's Kirchner's tenure expired. The tax pressure was that, in 2008, that the agricultural sector and Cristina Kirchner's administration got involved in a high-tense dispute about a tax hike on exports. This conflict became a key event in the Kirchner-Kirchner's administration. Due to special powers given to the Presidency by Congress during the 2001 crisis, the President had the authority to impose tax reforms without need of Congress approval. The escalation of the conflict forced Cristina Kirchner to send the tax hike on exports to Congress hoping that a legislative approval would force the agricultural sector to put down their protests. In what it is remembered as one of the tensest days of the Kirchner-Kirchner's administration, the Senate voted a tie and the Vice-President Julio Cobos, who also serves as the chair of the Senate, voted against the tax hike defying Cristina Kirchner's wishes. The evolution of total tax pressure is showed in Figure 2. By the end of the Kirchner-Kirchner's administration, Argentina had a consolidated tax pressure of almost 40 % of GDP. At the end of Cristina Kirchner's second presidential term in December 2015, her chosen candidate loses the election against Mauricio Macri, leader of the political party

4 Ministerio de Hacienda. Boletín Fiscal. (2018)

5 Ministerio de Hacienda. Boletín Fiscal. (2018)

Cambiamos (Let's Change). Due to the high tax pressure, Macri was not in a position to reduce the fiscal deficit through tax increases.

Figure 2 - Fiscal pressure. Federal, provinces, municipal, and inflation tax. 2000 – 2016

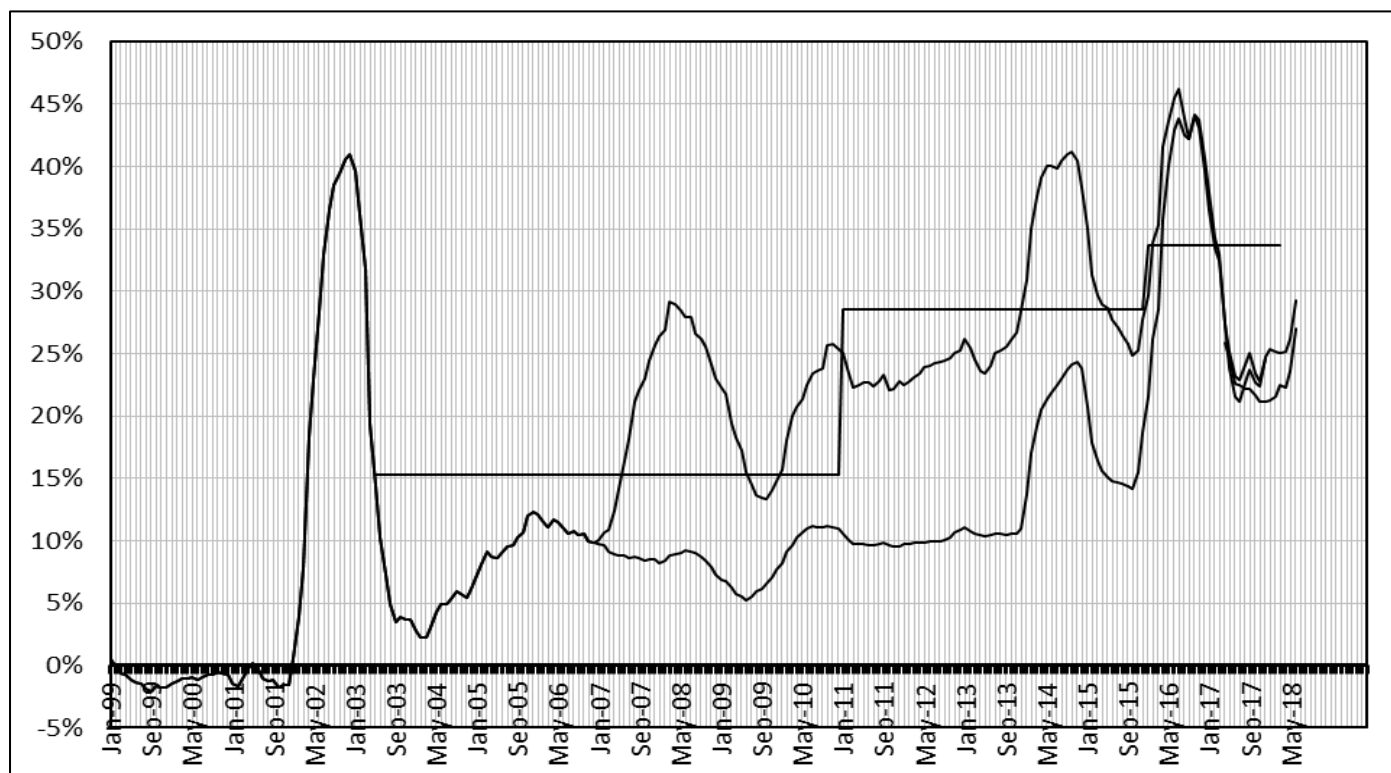


Source: Ministerio de Hacienda, Instituto Argentino de Análisis Fiscal (IARAF) and author's calculations (2017).

3.2 Monetary Policy

Given the size of fiscal deficit and lack of institutional constraints, the Argentine central bank did not excel in independence. The central bank would openly transfer liquidity to the treasury. Even if inflation starts to spike in 2007, rising rates can be tracked back to 2004. The year of 2007 does not only coincide with a rise in inflation rates, it also coincides with the start of the government's tamper of official inflation rates. The difference between the official rates and reality was too large to be ignored. Government threat private firms with legal prosecution in case their estimations were made public. Congressmen from the opposition, with their institutional protection, collected a number of private estimations and made them public in what became to be known as Congress CPI and Congress Inflation. Figure 3 shows yearly inflation rates on a monthly basis. A few issues warrant a comment.

Figure 3 - Yearly inflation and average inflation per presidency. Official and private estimations



Source: Instituto Nacional de Estadísticas y Censos (INDEC), National Congress, and author's estimations (2018).

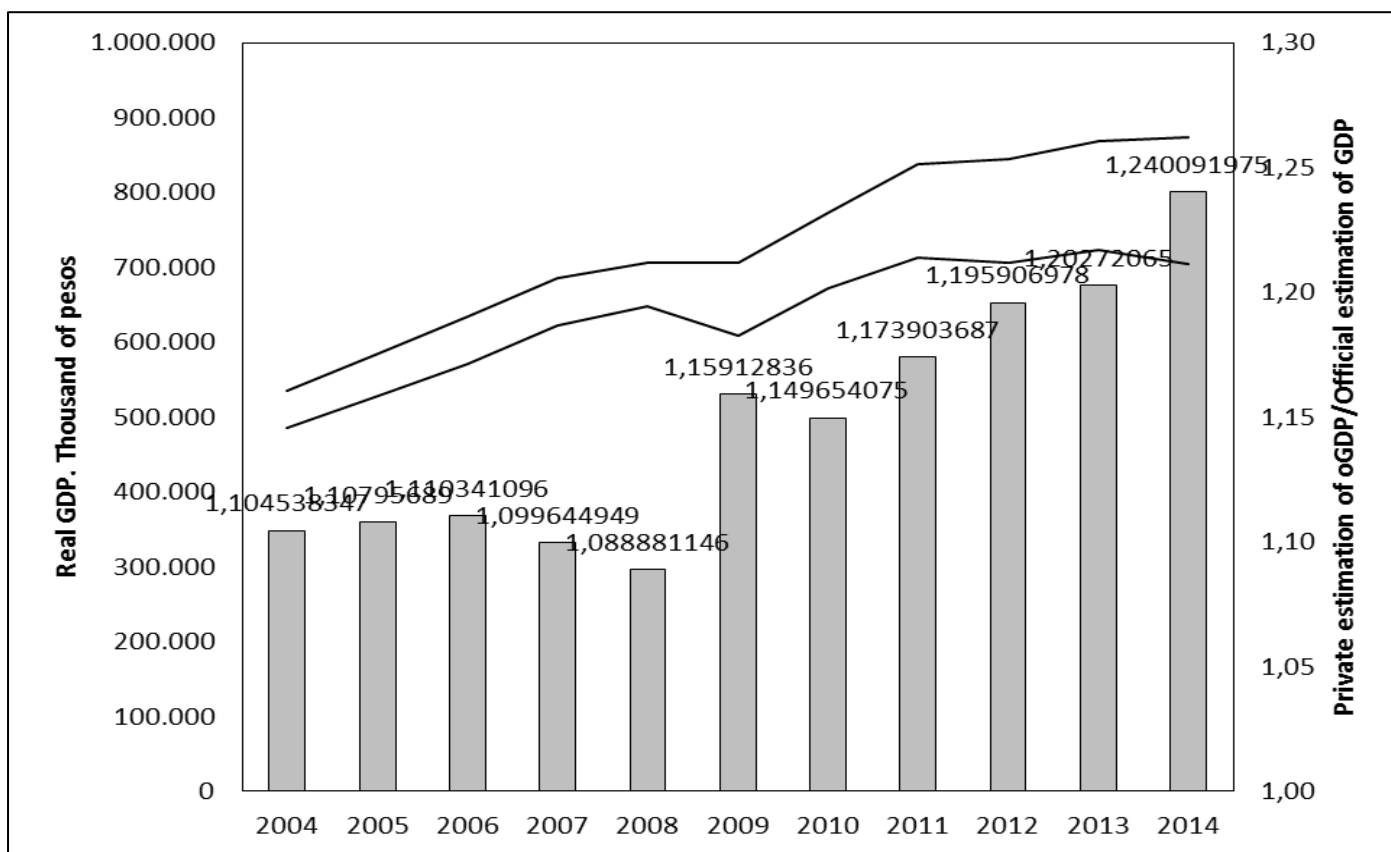
Note first, in late 2002, the impact on the inflation rate of the 2001 crisis. After its rapid fall, a growing trend starts in April 2004. Official measures of inflation start to show a downward trend in early 2006. By the end of that same year, suspicions on the transparency of official data was high. Early 2007 private estimations of inflation start to be reported as a more reliable source of information. While official inflation rates were around 10%, except for the 2008 financial crisis (until 2014), private estimations were more than two times higher.

In 2014, there is a spike in inflation rates, both official and private estimates. This coincides with a new methodology launched by the government. With patently tampered measures of inflation, the government launched a new CPI with a broader base (CPI Urbano/Urban CPI at the National level). As this new CPI is launched, higher inflation rates are reported. The fact that the higher inflation rates are not due to a better measurement of inflation, can be observed with a similar increase in the inflation rate reported by private firms. There is another spike on inflation rates at the beginning of the Cambiemos administration, in early 2016. This is due to an increase in the expansionary monetary policy during the last months of Cristina Kirchner's administration. Before leaving office, the Kirchner's administration executed an expansionary policy that would

affect the prices after they leave office. Inflation rates fall to a similar level to the Kirchner administration to start rising again in early 2017.

The tampering of official data went beyond inflation rates. The fiddling of inflation rates had effects on other official measures such as poverty and real GDP. It is harder in the case of GDP to point to an exact start date of GDP tampered data because the problem was not only using wrong price level data, but also quantities. According to an estimation by ARKLEMS, by 2014, official GDP was overestimating its real value by 24 % (Figure 4). For the government, between 2007 and 2014, the economy grew in real terms at an average rate of 3.5-percent %. But, private estimations points to an average growth rate of 1.8-percent %. The booming economic of the Kirchner-Kirchner administration was built in a statistical effect more than on sound economic policy.

Figure 4 - Real GDP. Official vs. private estimations. 2004 – 2014

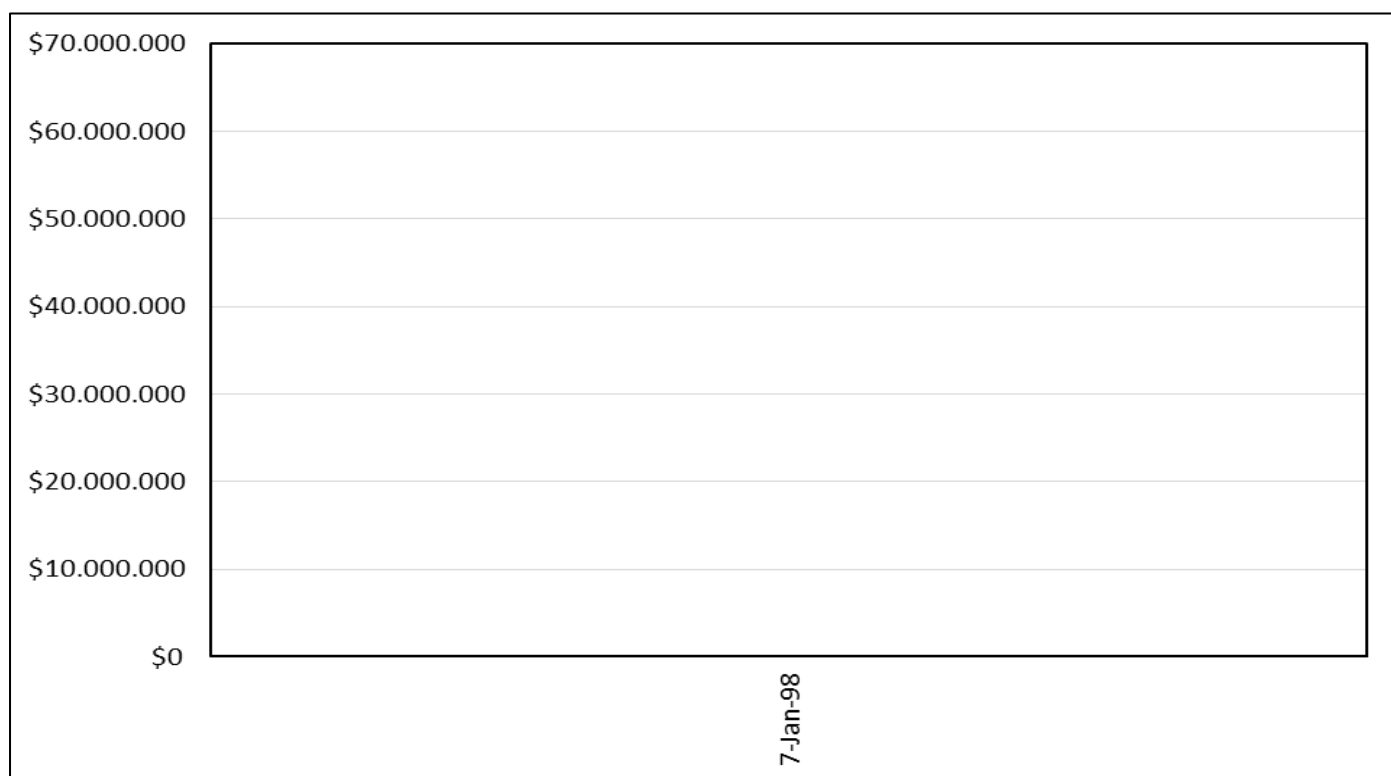


Source: Instituto Nacional de Estadísticas y Censos (INDEC) and ARKLEMS(2017).

At par of high inflation rates, the central bank managed the exchange rate letting the peso appreciate with respect to the U.S. dollar. The appreciated policy resulted in a loss of reserves through imports of goods and services, and also through import of energy. Recall that the

price control on utility services produced a shortage that required to be filled with imports. The loss of reserves became significant enough for the government to impose capital controls. While U.S. dollars were allowed to enter the country, they were not allowed to leave. The effect was a freeze on the inflow of reserves. And since capital outflows could not be completely stopped, the loss of reserves did not stop (Figure 4).

Figure 5 - Argentine central bank gross and net reserves in thousand U.S. dollars



Net reserves: Gross reserves minus bank deposits in U.S. dollar at the central bank.

Source: Banco Central de la República Argentina (BCRA) and author's estimations (2017).

The figure shows the effect of the 2001 crisis and the subsequent recovery of reserves starting in 2003. From peak to trough, the 2001 crisis resulted in a loss of 62 % of reserves, the fall that starts in 2011, suffers a fall of 60%. The recovery is mostly due to the high price of commodities exported by Argentina. This is closely tied to record high price of commodities. A sharp fall in early 2006 consists of full repayment to the IMF of the Argentine outstanding debt. NK argued, in a typical populist rhetoric, that he wanted the country to be freed from the IMF and the imperialist capital funds. When Martín Redrado, president of the central bank at the time, opposed, the issue became a high-intense political dispute between the Kirchner's administration, the

central bank, and the political opposition in Congress.⁶ Figure 2 also shows that starting in 2011, the loss of reserve was larger than the loss in the 2001 crisis.

Monetary policy during the Kirchner-Kirchner's administration was also carried in another controversial way that imposed constraints to the Cambiemos administration. Starting in 2006, the central bank starts to accept non-transferable bonds from the Treasury. The non-transferable quality means that the central bank cannot sell these bonds in the open market. The asset side of the central bank's balance sheet becomes increasingly illiquid. By the end of 2015, these illiquid bonds represent 35% of total assets. Other significant illiquid asset component is the transitory advancements to the treasury, a 18% by the end of 2015. More than 50% of the central bank assets are not eligible for open market operations. Furthermore, the central bank computed the non-transferable bonds by its nominal value, rather than by its market value. This inflated value results in an overestimation of the bank's equity⁷.

Given the illiquidity of the assets held by the central bank, the bank started to issue its own short-term bonds, the Letras del Banco Central (LEBACs). The instrument was designed shortly after the 2001 crisis. The use of this instrument was moderated for most of the Kirchner-Kirchner administration. There is an increase in 2014 with Cristina Kirchner, but a major spike starts with the Cambiemos administration.

During the Kirchner's era, the central bank was comfortable with letting the treasury reduce the liquidity of its asset composition. But, when the Cambiemos administration took office, rather than fixing this issue, the new administration of the central bank decided to increase the sterilization through LEBACs. An easy way to increase the central bank's liquidity could have been for the Treasury to swap the non-transferable bonds for transferable bonds. This way the Treasury's debt would not have increased and would have allowed the central bank to sterilize its monetization by selling assets rather than issuing its own bonds. This became a serious issue for Cambiemos. The increased issuance of LEBACs increased the nominal interest rate in pesos, incentivizing a carry-trade against the U.S. dollar. As long as the nominal interest rate in pesos is higher than the expected peso depreciation (against the U.S. dollar), then investors will be willing to keep its position in pesos to increase their U.S. dollar earnings. This situation became untenable in the first half of 2018, when Argentina suffered a run against the peso (and other

⁶ [Redrado \(2010\)](#) recalls the political decision to cancel the debt with the IMF and the legal obstacles due to the Argentine unsolved default.

⁷ In 2018, as part of an loan agreement with the IMF, the central bank was required to compute the non-transferable bonds with an estimated market price. The value in the balance sheet fell by 23 %. This implied a 44% fall in the equity of the central bank.

argentine financial assets) producing a depreciation of the peso and a last moment fall to the IMF by the Cambiemos administration⁸.

4 THE INSTITUTIONAL COST OF POPULISM

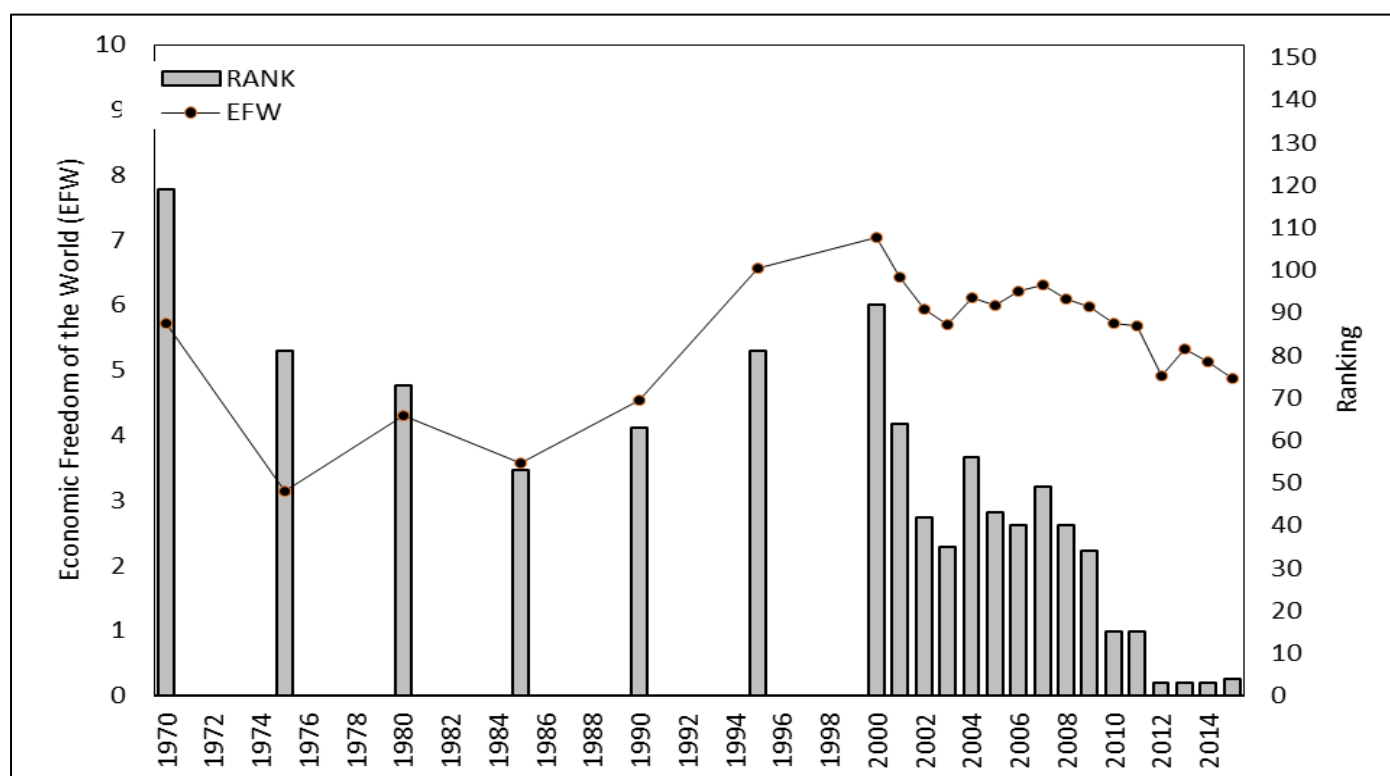
As expected from a type of government that gets inspiration from an ideology with a weak approach to a robust republican framework, the institutional deterioration of Argentina observed during the Kirchner's administration is significant. Argentina suffered a strong institutional shock with the 2001 crisis. However, besides this level effect, the Kirchner administration deepened the trend of institutional weakening.

From the discussion in the previous section, it is no surprise to see a loss of economic freedom in Argentina. Between 2003 and 2015, Argentina percentile ranking fell from 37.8 to 2.6 in the Economic Freedom of the World (EFW) index. Since 2012, Argentina ranks in the bottom-10 of free economies in the world⁹. The loss of economic freedom is so rapid during this time frame that, if Argentina were to start as the most free country in the world, it would only take it 26.7 years to fall at the bottom of the list. This means that in just one generation the economic institutional framework goes through a significant transformation. This new generation would have no experience or knowledge of what it meant to live in free market environment. Figure 5 shows the evolution of the index and rank of Argentina's economic freedom. An increase is observed during the 1990s reforms, followed by a sharp fall during the 2001 crisis and then a downward trend.

⁸ The run against the peso coincided with two other events. First, a hike in international interest rates as the Federal Reserve increased its Federal funds rate target. Second, a tax on LEBAC earning on non-resident become affective as well. These two events together (plus a loss in the central bank's perceived independence) triggered the run against the peso.

⁹ Starting from the bottom, according to Fraser's Economic Freedom of the world index, the 10 countries with the less free economies in 2015 are: Venezuela, Central African Republic, Republic of Congo, Algeria, Argentina, Libya, Syria, Myanmar, Chad and Iran.

Figure 6 - Economic Freedom of the World index. Value and ranking. 1970 – 2015



Source: James Gwartney, Robert Lawson and Joshua Hall (2017); Economic Freedom of the World: Annual Report. Fraser Institute (2017).

The institutional weakening goes beyond the economic sphere. Three out of five components of the World Governance Indicators show a percentile fall during both Kirchner’s presidencies (Table 1). The two components that show some improvement are Government Efficiency and Voice and Accountability. These improvements, however, should be read in the context of coming out from one the economic largest crisis in the Argentine history.

Table 1 - World Governance Indicator percentile, 2002 vs. 2015

	2002	2015	Difference
Control of corruption	39.4	33.7	-5.7
Government efficiency	47.4	50.0	2.6
Political stability	22.2	46.2	24.0
Regulatory quality	19.4	17.3	-2.1
Rule of law	27.7	24.0	-3.7
Voice and accountability	56.2	60.1	3.9

Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank.

Source: World Governance Indicators, The World Bank.

A third indicator of the institutional environment during the Kirchner populist governments is the loss in freedom of the press. According to the World Press Freedom index, Argentina also fell in its percentile position from 52.1 to 48.0. Major falls press freedom, however, are seen under other populist governments in the region such as Bolivia (since 2006), Ecuador (since 2007), Nicaragua (since 2007), and Venezuela (since 1999). The populist experiment in Argentina did not result only on economic losses, but also on a serious institutional weakening.

It should be noted that populism in Argentina, and the region in general, have been present for a long period of time. With a similar analytical framework to [Acemoglu and Robinson \(2012^b\)](#), [García Hamilton \(2006\)](#) shows that the institutions of Latin American countries were historically designed to extract rent, rather than be inclusive. Democratic elections were added on top of these extractive institutions where republican constraints are weak, and the courts of law work slow and erratically. The result was a mix of [\(OLSON, 2000^a\)](#) bandits; where the level of corruption and expropriation makes *stationary bandits* look like *robbing bandits*.

5 THE CHALLENGE OF LEAVING POPULISM BEHIND

Argentina has serious, serious / deep (?) economic policy problems as well as institutional problems. However, the common factor of most governments is that they try to solve the institutional problems only through economic policy. The numerous economic crisis that Argentina is known for suggesting that this approach is ineffective. Institutional reforms are difficult. For reasons discussed above, a reduction of the oversized government spending is not easy. However, these difficulties do not make the problems go away.

There are three reasons that explain institutional reforms, for better or for worse. One is historical accidents. As many cases studied by [\(ACEMOGLU; ROBINSON, 2012^c\)](#) good or bad luck and play an important role in the rise or fall of countries in the long-run. Another way is through a supply of reform. The supply side consists of policy makers and political leaders capable of driving a change. This type of leader does more than follow polls, they are able to lead the way. The third way an institutional reform can take place is through demand. This is the case when voters demand that policymakers carry on certain changes in policy and their institutions. If we accept this set of options, this means that the way ahead and out of populism of Argentina depends on having good luck, the presence of a political leader with significant influence, or change in the median voter big enough to trigger an institutional reform.

Furthermore, the way ahead faces a number of typical public choice challenges. Voters are rationally ignorant, voters are subject to rational irrationality, voters are myopic, rent seeking

by group of interest that diffuse the cost through all population, etc. Argentina offers a case where a populist government was voted out of office before a total collapse of its economic system. Nevertheless, is still too soon to forecast the future of populism in Argentina.

CONCLUSION

Populist governments are known to develop a strong presence in the country, gain electoral support, but they fail in terms of economic policy and to weaken the institutional framework. The case of Argentina is no exception. Many Argentine scholars argue that the Argentine trend of falling economically behind is due to an underlying populist ideology in most of the political parties. While Juan D. Perón, the populist father of Argentina, is associated with the Partido Justicialista, his ideas impregnate most of the political spectrum. In this sense, the Kirchner-Kirchner's administration is an exaggeration of the Argentine typical populist policies.

The Argentine case also shows that, when studying the performance of populist government, a closer look to official statistics is warranted. Argentina's government did not hesitate to tamper with official data and prosecute who dared to put the government in evidence. A closer look can show that what seems to be a successful policy is either in an unsustainable path or just a statistical effect.

The Argentine case offers an opportunity for more focus and detailed research. On the institutional angle, for instance, it could be explored why populist leaders, even if democratically elected, are associated with high levels of corruption. In [Olson \(2000^b\)](#) terms, why *stationary bandits* behave as if they were *robbing bandits*. In the area of monetary economics, Argentina offers the challenge that a fixed exchange rate (the convertibility of the 1990s) is correlated with a better economic performance than a flexible exchange rate, which arguably works as cushion from external shocks ([CALVO; MISHKIN, 2003](#)). The Macri administration is also facing difficulties to reduce inflation rates despite the formal application of an inflation target regime. Finally, how does the Argentina experience with inflation targeting compare with other cases as the ones studied by [\(BERNANKE, et. al., 1999\)](#).

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