Argentina

Another country
Jul 21st 2005 | BUENOS AIRES
From The Economist print edition

The economic collapse is history, but not the scars it left

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NO MATTER where one goes in Argentina these days, evidence of the country's remarkable economic recovery is hard to avoid. In the northern Patagonian province of Rio Negro, the autumn apple crop has given way to hordes of skiers; near the Brazilian border, Chilean-owned factories churn out paper pulp; and in the beach resorts south-east of Buenos Aires, builders race to finish new homes in time for the holiday tenants who will flock there next January. Since its collapse in 2001-02, Argentina's economy has grown by a quarter. According to government estimates, it has finally surpassed its previous peak of May 1998. In another sign that the worst is over, on July 18th the government issued dollar bonds for the first time since its massive debt default of 2001.

But while the economy may have recovered its former size, it is different in many other ways. Some of the imbalances of the 1990s have been fixed: budget deficits have turned into surpluses; devaluation has ignited exports; and the public debt has been restructured. "It's a less risky, less volatile country than it was," says Miguel Braun of CIPPEC, a Buenos Aires think-tank. Yet many ordinary Argentines see a country that is more unequal, less prosperous and less economically secure than it was seven years ago.
Devaluation in 2002 prompted a temporary spike in inflation, and a lasting increase in food prices. As unemployment surged to 25%, real wages fell by an average of 30%. By June 2002, 56% of Argentines had fallen below the official poverty line. But as the economy recovered, so did employment. In the second quarter of 2004, each percentage point of output growth was matched by a full percentage point of new jobs. Unemployment has declined to 13%—or 16% including those on make-work programmes—and poverty to 40%.

Many of the new jobs are in the informal sector: Argentina has the same number of formal-sector employees today as it did in 1980, while the number of informal workers has doubled. Such jobs pay less. Real wages in service jobs are still a quarter below their pre-crisis level. The overall share of wages in GDP has declined by 15%.

Wealthier Argentines have fared less badly: many of those who had withdrawn their dollar savings before a bank freeze poured them into property. That fuelled a construction boom. The rise in informal jobs has also contributed to inequality. According to FIEL, another think-tank, the richest 10% of workers now earn 33 times as much as the poorest 10%, compared with 26 times in 1999.

Devaluation has made travel abroad prohibitive for all but the wealthiest. Home ownership has become harder, too, since property is still priced in dollars. Since banks are weighed down with government debt, they lend little: mortgages and consumer credit are scarce. Reminders of poverty are still everywhere, such as the nightly invasion of some 8,000 cartoneros who comb through the capital’s rubbish. Many are teenagers or children.

![Graph: Argentina's GDP, 1993 pesos bn](image)

Some of what workers lost has been gained by the state. The public sector now accounts for 27% of GDP, compared to 22% before the collapse. It has yet to turn that into better schools and infrastructure, partly because it must run a surplus to
pay its debts. Surprisingly, perhaps, the leftish government has been stingy with its own workers: had it extended to the public sector the same wage rises it ordered for private-sector workers, it would have increased public spending by 3% of GDP.

Profits, too, take a larger share of the economy than in the past. But investment, though higher than it was, remains too low to sustain rapid growth once existing capacity is fully used. The problems of the banks, the government’s disrespect for contracts and hostility to foreign firms discourage big private investments.

Inevitably, the pace of recovery is slowing. Now, for each percentage point of growth, jobs only increase by half as much. Unless companies are encouraged to invest more, and unless the government improves education and training, the social divide will continue to worsen. Inequality, job insecurity and low investment are hardly problems unique to Argentina. As it slowly becomes what the government likes to call “a serious country”, Argentines may find that their problems increasingly resemble those of their Latin American neighbours.