Argentina: crisis, revival … and crisis again?[1]

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1) Purpose

After the collapse of 2001, which led to the end of the Dollar Standard, the Argentina's economy showed a substantial increase in its GDP. Though this path was indeed stimulated by very favorable terms of trade, some policy tools seem to have been crucial, preventing a twist toward primary activities (as happened in Chile and Brazil); among them, we can point out an exchange and monetary policy more devoted to promote consumption, exports and investment, rather than to inflation targeting. Up to 2010, this model behaved handsomely, in terms of growth and investment (although inflation was relatively high). A kind of "golden stage" was in place.

But since 2011, Argentina is facing an external constraint, and unrest has been growing in the foreign exchange market.

This paper develops an analysis of this growth cycle, identifying its main features, and asking whether some kind of structural change has happened. It also seeks to determine whether the current situation is attributable to the logic of the growth pattern, or if it is more a consequence of the international context.

We first summarize, as a background, the previous path, under the Convertibility regime issued in the 90's and its breakdown in 2001. Next, we focus on the "new" pattern period, highlighting its main economic policies and the outcomes. Afterwards, a more in-depth analysis is carried out, aiming to identify evidences of some kind of structural change, in terms of productive structure, income distribution and government accounts. The end of the boom and the following adjustment are treated subsequently. The last section presents some conclusions.

1 Agustín Benassi and Lautaro Chitarro, both from CESPA-FCE-UBA, helped a great deal both in collecting the data included in this paper and in the discussion of its content. Julio Ruiz and José Villadeamigo provided useful comments about some of the topics here included. The usual disclaimer applies.

2) The background: the Dollar Standard and the neo-liberal reforms

Following hyperinflation in 1989-1990, Argentina issued in 1991 a currency board regime, named Convertibility. It backed currency (banknotes and current accounts) with the Central Bank external assets; the local currency (peso) was pegged to the (American) dollar on a one-to-one rate. It was a Dollar Standard regime.

This kind of regimes requires that fiscal equilibrium must be assured. This goal was attained through a massive program of reforms, which transferred to the private sector almost all the public enterprises, under different conditions (sale, concession, etc.). Therefore, a coherent and ambitious program of reforms was issued, surely in the mood of the Washington Consensus, but with a wider scope than almost any other country in Latin America[2].

A deep pension reform was carried over, shifting the management of a portion of the pension funds to private firms. At the same time, the Government restrained the backing of the Central Bank to the banking system. More flexible forms of hiring workers were put in place, and there was a general trend towards liberalization of the private sector, removing government regulations.

By 1993, prices finally stabilized, reaching an unknown situation for a large number of Argentinians[3]. At the same time, GDP started a recovery, after a recession of three years, and growth spurred up to 1995, when the Mexican crisis pushed an outflow of capitals. A second stage of GDP expansion took place from 1996 up to 1998. An important share of this growth was due to the financial sector[4], while Manufacturing stagnated (with the important exception of the automobile industry, which enjoyed specific protection from external competition).

Despite growth, unemployment raised quickly, reaching more than 10% in 1994; values of two digits lasted up to 2006, five years after the breakdown of the currency board. Real wages stagnated, and poverty grew steadily. On the other hand, the rate of exchange attained in 1993 was indeed low, while import taxes were substantially reduced. Therefore, the trade balance was negative since 1992 to 1994 and also since 1997 to 1999. It was first compensated by capital inflows, due mainly to the privatization process, where foreign capitals were important partners. The Government fought unemployment through some direct subsidies, but mainly by reducing labor taxes to the private sector.

Eventually, the shortage of fiscal resources (due mainly to the pensions' reform and the reduction of labor taxes) and the increase of the public debt led to an increase of the interest

2We compare in Müller (2012) the scope of the neo-liberal reforms in several countries in Latin America.

3 It must be noted that Argentina, beside the 1989-1990 hyperinflation, underwent a very long inflationary time, which started in 1975. With very few exceptions, the annual grow of prices was well above 100%.

4 The Financial Sector share of GDP was about 4% in 1993, but it accounted for some 22% of growth from 1993 to 2001. It should be recalled that the GDP calculation of the Financial Sector is quite conventional in Argentina.

rate related to the latter. The sovereign risk rocketed, leading to a massive capital outflow, a run on bank deposits and a recession of two digits, never known before in Argentina. In 2001, amidst a deep political crisis, the Currency Board was abandoned, and the peso was devaluated. At the same time, the Government defaulted its external debt. The accumulated drop of GDP 1998 to 2002 was about 18%; Manufacture, already stagnant along the '90s, reduced its GDP by 27%, and Construction 50%. This was by large the most severe economic contraction in Argentina in the last century.

Table 1 shows some indicators about the performance of the Argentine economy during the Currency Board period.

Table 1 – Argentina: economic performance – 1991-2001

Year	GDP	Share of Manufactured GDP	Trade Balance (FOB-FOB)	Real Wage Private Sector	Urban unemployment rate	Population under the poverty line	Tax burden
	Millions of 1993 Pesos	*%*	Millions of USD	2001=100			% of current GDP
1991	205,415	20.5%	4,419	104.7	6.5%	19.1%	18.4%
1992	221,720	21.0%	-1,396	106.1	7.0%	14.3%	21.5%
1993	239,916	19.5%	-2,364	104.7	9.6%	13.3%	21.6%
1994	254,882	19.2%	-4,139	105.5	11.4%	13.1%	21.5%
1995	247,723	18.3%	2,357	104.3	17.5%	17.3%	20.3%
1996	261,880	18.5%	1,760	100.9	17.2%	19.9%	19.7%
1997	283,742	18.7%	-2,123	100.8	14.9%	18.9%	20.6%
1998	296,471	18.2%	-3,097	104.1	12.9%	18.0%	21.0%
1999	286,711	17.3%	-795	103.4	14.3%	19.0%	21.2%
2000	284,582	16.7%	2,452	101.1	15.1%	21.0%	21.5%
2001	270,944	16.2%	7,385	100.0	17.4%	27.1%	16.8%

Source: www.mecon.gov.ar – *Información económica al día*

3) The recovery after the Convertibility.

Year 2002 was surely one of the worst in the modern history of Argentina. After the default, declared at the end of 2001 by a President that lasted just a week, the peso was devaluated more than 250%; inflation was back. Recession reached in 2002 almost 11% (although it took place mostly in the end of 2001, before the default). Population under the poverty line reached some 50%; open unemployment affected 21.5% of active population. Social and political unrest was widespread.

There was almost no external support for Argentina, except some financial help for basic social programs; full dollarization was proposed, as a way to avoid hyperinflation again. New emergency taxes on export trade and banking operations were issued.

Recovery started gradually in the second quarter of 2002. A year later there was the election of the new President; but despite the huge economic crisis, economic policy was not an issue in the political campaign. The political crisis led to an unusual dispersion, for Argentina's standards: the ballot outcome was that five presidential candidates got from 14 to 24% of votes. Although the Constitution prescribed a new election among the two most voted candidates, the first one resigned, and therefore Néstor Kirchner became the president with just 22% of the votes.

When took office, the new President adopted a critical stance, regarding the Convertibility period. This did not mean a full economic program, but just some outlines stressing the need of a high exchange rate, re-industrialization, fiscal surplus, unemployment reduction and poverty alleviation; the trend was that, in an unspecified way, an active Government was back. This gradually meant the partial undoing of the 90's program: the pension funds were nationalized, the power sector was managed under a *de facto* new regulatory frame and a kind of regulation on prices – basically for foodstuff – was issued. At the same time, the tax burden increased.

On the other hand, several privatized enterprises went gradually back to state ownership or control, in such branches as water and sanitation, air transportation, railways, postal services and oil production; this was not a part of an overall explicit program, but more the response to particular situations: financial unfeasibility, violation of concession clauses or huge failures in operations. Almost in all the cases, the enterprises that fell back in State hands were not privatized again. The deepness of these nationalizations, anyway, was quite lower than that of the privatization in the '90s.

Finally, several social programs were issued. The most ambitious meant the almost universal coverage for aged population by the pension system, disregarding the previous contributions to it in the active period. Alas, it included people than worked little or never in the labor market, as housekeepers; this meant that the pensions system assured a kind of universal income for aged population. Later, in 2009, another program assured a basic income for every family with children up to 18 years old, if a minimum threshold of income was not reached.

In 2005, a voluntary agreement was settled with 76% of the foreign Argentina's bond holders. This meant an alleviation of the debt services for the next 10 years. Five years later, this

agreement was accepted by another 16% of the holdouts. This settlement meant a moderate reduction of the amount of the debt, but implied a significant extension of the repayment period (more than 30 years, for some kind of bonds)[5].

Recovery got stronger from first quarter of 2003. GDP growth reached impressive two digit values in the following quarters. Manufacture and construction were initially the leading sectors. Unemployment and poverty dropped; and trade unions and employers gave room to a strong recovery of wages in the formal sector, after the sharp drop due to the inflation that followed the currency devaluation.

In term of aggregated GDP, the peak attained in 1998 was reached already in 2005. By 2009, when activity stagnated (or dropped, according to several analysts) due both to the external crisis and a drought that reduced grains crops by 50%, overall GDP was almost 33% higher than in the former peak of 1998. After 2009, growth started again at high rates in 2010 and 2011 (9% on average), but afterwards it slowed[6].

From 1998 to 2012, Argentina's GDP grew almost 60%. This rate is comparable to that of Brazil (55%) and Chile (69%), although both countries did not undergo any economic contraction, as Argentina did from 1998 to 2002[7].

There was also an amelioration of several social indicators: the unemployment rate reached levels below 8%, the poverty index – although there is much discussion about its calculation – was reduced by more than half, in comparison to 2002.

This revival led to enthusiastic appraisals; the Argentina's growth performance was indeed compared to that of China.

Nevetheless, this kind of "golden stage" of growth came to a stop in 2012, due to the sudden emergence of a constraint in the external sector a year before. We will come back to this point below in this paper.

Table 2 summarizes some indicators of this period.

5See Müller (2013) for an analysis of the 2005-2010 settlement.

6There has been a lot of discussion around the economic statistics in Argentina from 2007, as the Consumer Price Index was modified in a very visible way. National account statistics were also criticized (see Coremberg, 2014); a new series based in 2004 has recently replaced the older one (which had started in 1993), and there has been some convergence with private estimations. We are using here the 1993 based series until 2004, and next the new series.

7 Source of data for Brazil and Chile: databank.worldbank.org

Table 2 – Argentina: some indicators of the "golden stage" – 2003-2012

Year	GDP	Share of Manufactured GDP	Trade Balance (FOB-FOB)	Real Wage Private Sector	Urban unemployment rate	Tax burden
	Millions of 1993 Pesos	*%*	Millions of USD	2001=100		% of current GDP
2002	*239,904*	*16.0%*	*17,178*	*81.9*	*19.7%*	*16.3%*
2003	259,053	17.3%	16,805	81.0	15.6%	19.4%
2004	281,375	17.9%	13,265	86.2	13.8%	22.0%
2005	308,452	17.8%	13,087	90.2	11.7%	22.1%
2006	334,779	18.1%	13,958	95.8	10.3%	22.2%
2007	363,191	18.0%	13,456	97.4	6.5%	23.0%
2008	377,466	18.0%	15,423	93.9	8.0%	24.7%
2009	378,728	17.7%	18,526	98.3	8.8%	25.6%
2010	413,005	18.1%	14,266	97.4	7.9%	26.7%
2011	450,402	18.5%	12,925	99.5	7.3%	27.7%
2012	457,947	18.0%	15,372	101.9	7.3%	29.5%
2013	473,661	17.3%	12,155	102.2	7.2%	30.5%

Source: www.mecon.gov.ar – Información económica al día.

4) About the nature of the "golden stage": growth pattern, trade, distribution and public sector.

Several analyses have been conducted, in order to find whether a new pattern was emerging in this period[8]. The main conclusion was that there is not such a new pattern; a little number of sectors was able to reach the technological boundary[9].

Nonetheless, some indicators show sharp changes that deserve analysis. Among them, we may mention an important growth of agricultural and industrial exports and a great increase in the government size.

We shall try to broaden the scope of the former appraisals of the alleged "golden stage", both in term of the time span to be considered and of the variables to be addressed.

The issues to be considered will be the following:

a) Identification of the leading sectors

b) The new trends in external trade, and the role of the terms of trade evolution

c) Distribution of income

d) The evolution of the public sector

A warning applies here. From 2007 on, Argentina's statistics have been a source of growing questioning, as the price indexes underestimated the real inflation. This underestimation seems to have affected the valuation of the economic growth in several sectors (the main impact was in the financial sector, the real growth of which is calculated through deflation procedures). Therefore, some alternative estimates of both inflation and economic growth have been produced[10]. Regarding growth, very recently a new official calculus of GDP, based in the year 2004, has replaced the former one, based in 1993. This new series is more in line with the estimation carried by the critical analysts, although discussion is still raging[11].

Regarding price indexes, some substitutes for the non-reliable official estimation were commonly used (mainly, price indexes obtained by some Provinces).

We will use the new official series of GDP, with a backward estimation for the most close forme years, and Consumer Price Indexes based on Provincial estimates. On the other hand, the source of the GDP data referred to the 90's will be the former series, based on year 1993.

8 We may quote here Beccaria and Maurizio (2012), Porta and Fernández Bugna (2008), Azpiazu and Schorr (2010), Gigliani and Michelena (2013), Saiegh (2012), Santarcangelo (2013) and Lavopa (2007).

9 Katz and Bernat (2012/13)

10 See Coremberg (2014).

11 The main point at issue is that GDP for 2004 of the new series (based in 2004) is almost 20% higher than the value for the same year obtained by the former estimation. This surprising outcome has no explanation at hand.

a) The growth leader: Manufacture

General appraisal: Manufacture instead of primary sectors.

We will first compare, at a very aggregate level, the growth cycles of 1993-1998 and 2003-2012, in order to envision similitudes and differences, regarding the leading sectors. The latter will be defined as the sectors that are able to reach a share of growth that is 1.05 times the share observed in the first year of each period ("high growth"); if it were less than 0.95, the sector will be considered of "low growth"[12]. The comparison between the two periods will stem in whether a change or not of the leading sectors has taken place[13].

Table 3 exhibits the main figures for this analysis: annual growth rate, share of the sector in GDP and share in GDP increase, for both periods.

Table 3 - Comparative growth patterns - 1993-98 and 2003-12

Sector	Annual growth rate	Share	Growth share	Comparative growth	Annual growth rate	Share	Growth share	Comparative growth	High growth
	1993-1998	1993	1993-1998		2003-2012	2003	2003-2012		
Agriculture, hunting and forestry	4.2%	5.3%	5.3%	Average	0.7%	6.3%	0.6%	Low	None
Fishing	1.6%	0.2%	0.1%	Low	-0.3%	0.2%	0.0%	Low	None
Mining and quarrying	6.0%	1.6%	2.4%	High	-0.5%	2.1%	-0.1%	Low	1993-1998
Manufacturing	2.8%	19.5%	12.6%	Low	6.8%	17.3%	18.9%	High	2003-2012
Electricity, gas and water supply	7.6%	2.1%	4.0%	High	4.2%	3.2%	1.9%	Low	1993-1998
Construction	5.0%	6.1%	7.3%	High	8.7%	4.7%	7.1%	High	Both
Wholesale and retail trade, etc.	3.6%	15.3%	13.0%	Low	9.3%	12.7%	21.2%	High	2003-2012
Hotels and Restaurants	6.8%	2.5%	4.2%	High	6.6%	2.7%	2.9%	High	Both
Transport, storage and communications	7.7%	7.3%	14.3%	High	8.2%	9.2%	13.1%	High	Both
Financial intermediation	12.8%	4.2%	15.1%	High	10.9%	4.4%	9.2%	High	Both

12 Therefore, if a sector's share in the overall GDP was of 10% (in 1993 or in 2003), it will be considered as leading sector if its share in the GDP increase is at least 10.5%. If the relationship between increase share and GDP share is less than 0.95, it will be classified as low growth sector; in the intermediate case, growth increase will be classified as "average".

13 It should be noted that due to the need of compounding GDP series of different basis, we have considered only the growth cycle of the 90's from 1993, and not from 1991. Therefore, the annual growth rate we present are not strictly comparable, as they underestimate the true value (growth was particularly high in years 1991 and 1992, after a three years recession). Anyway, our main interest is not directed to the overall growth pace of both periods, but to the identification of the leading sectors.

Real estate, renting and business activities	3.5%	15.4%	12.4%	Low	3.8%	15.9%	8.6%	Low	None
Public administration and defense	-0.8%	6.6%	-1.1%	Low	4.2%	5.8%	3.6%	Low	None
Education and health	2.8%	8.2%	5.4%	Low	5.0%	9.5%	7.1%	Low	None
Other services	3.8%	5.8%	5.1%	Low	6.2%	6.0%	5.9%	Average	None
Overall GDP	**3.90%**	**100.0%**	**100.0%**	**N/A**	**6.28%**	**100.0%**	**100.0%**	**N/A**	**N/A**

Source: Own elaboration based on INDEC.

The main differences arise in Mining, and Electricity, Gas and Water Supply, which behaved as dynamic sectors in the 90's, *vis-à-vis* Manufacturing and Trade in 2003-2012; the agricultural sector also behaved quite better in the former stage, as it kept pace with the overall evolution of GDP. This is perhaps the most significant change in the trends of the "golden stage": the shift from primary activities to manufacturing.

The behavior of Trade is related to the sales of goods, both national and imported. The huge increase of its value added – quite higher than any estimation of increase in the domestic consumption of goods – arises from imports. Actually, imports (in real terms) of 2003 were the lowest since 1993, except in 2002. That is, the impressive path of Trade is mainly related to the recovery of imports, and it is hardly to be understood *per se* as the outcome of some new dynamical behavior.

Construction, and Hotels and Restaurants are leader in both cycles[14]. This is not a surprising outcome, as a pro-cyclical pattern is to be expected in both sectors. Regarding the trend of the financial sector, it reflects that previous to both growth periods there were severe banking crisis, which included the compulsive reconversion of bank deposits to public bonds, therefore reducing the conventional (and therefore of scarce reliability) calculation of GDP of this sector. As regards Transport, Storage and Communications, its dynamics is strongly driven by the technological revolution in telecommunications, which has been evolving from the early nineties up to nowadays with no interruption[15]. This is clearly a sector with little linkage to the more general economic path.

A comment is due here, related to Agriculture. This sector showed in overall terms a growth path which can be considered as satisfactory in 1993-1998, a bit higher than total GDP. Nevertheless, in the "golden stage" its growth rate dropped substantially. This is partially due to the fact that Agriculture did not undergo the deep contraction in GDP that took place within 1998 to 2002. Anyway, it is surprising the almost stagnation of its value added during 2003-2012, as a virtual "green revolution" is taking place in the Pampean crops, due to technological innovations. This apparent paradox is explained both by a drought that happened in 2012, reducing therefore the cropped tonnage, and by the displacement by soybean and other grains of other activities (as is the case of cattle and cotton).

14In both sectors, the value added estimation is quite precarious. In the case of Hotels, there was an important change in the extrapolation methods in the new GDP basis issued in 2004.

15 Indeed, the very concept of GDP measured in real terms is quite loose in this sector.

Therefore, Manufacturing behavior is the most relevant feature of the 2003-2012 period; the behavior of the other dynamic sectors can be explained both by the economic cycle itself or by specific sector features. However, Manufacturing's growth path is not very impressive: the sector's share increased between both years just from 17.3% to 18% of overall GDP.

Some issues about Manufacture: investment, productivity and sectorial evolution

Do we find new features that suggest some kind of structural change in Manufacture? An interesting pint is the increase in industrial exports; we shall address this subject later in this paper. We will review first some indicators regarding productivity; next, we will focus on the composition of production.

What about labor productivity? The comparative evolution of value added and formal employment, classified according to the size of the firm, is shown in the table 4[16].

Table 4 – Manufacture: evolution of formal employment according to size of firms, in thousands of people – 2003-2012

Year	Size of industrial firms				Overall
	Big	Medium	Little	Microenterprises	
2003	390	196	163	62	812
2004	439	225	183	69	915
2005	489	246	198	73	1,007
2006	535	262	214	77	1,089
2007	580	275	226	79	1,160
2008	620	288	236	81	1,225
2009	608	277	230	80	1,195
2010	625	280	233	80	1,217
2011	663	289	234	79	1,265
2012	677	290	233	78	1,279

Source: Own elaboration based on www.trabajo.gov.ar/left/estadisticas/oede/dinamica_delempleo.asp

Overall formal employment in Manufacturing grew 58% between 2003 and 2012. This employment increase concentrated in the larger firms; their share was 48% of total manufacture employment in 2003, but they comprised 62% of the 2003-2012 increase.

16 The more reliable data about the evolution of employment are those that arise from the Social Security System, and therefore include only formal jobs. Informality is quite high in Argentina (about 1/3 of overall employment, but lower in manufacturing). Informality was very high during the crisis of 2001-2 (about 50%), and afterwards dropped to its historical level. Therefore, the series we are considering here conceals the effect of formalization that surely took place in the manufacturing sector during the "golden stage". In other words, the productivity increase we find is likely to underestimate the real path of this indicator.

When compared with the evolution of GDP, we can state a moderate increase in productivity, as shown in Table 5

Table 5 – Manufacture: evolution of formal employment and value added– 2003-2012

Year	Overall formal employment (thousands)	Manufacturing Value added (million of 1993 pesos)	Productivity (thousand of 1993 pesos)
1998	*984*	*49,525.62*	*50*
2003	812	41,952.37	52
2004	915	46,976.61	51
2005	1,007	51,339.37	51
2006	1,089	56,353.38	52
2007	1,160	60,904.90	53
2008	1,225	62,864.63	51
2009	1,195	61,881.36	52
2010	1,217	68,928.54	57
2011	1,265	76,813.48	61
2012	1,279	75,596.00	59

Source: Own elaboration based on www.trabajo.gov.ar/left/estadisticas/oede/dinamica_delempleo.asp

The productivity increase was of about 14%, and it concentrated in the last three years; in the former years of the "golden stage", productivity does not seem to have been higher than in 1998, the best year of the Currency Board period. Nevertheless, according to some scanty evidences, this value is likely to underestimate the real productivity expansion, as the growth of formal jobs seems to have been greater than that of overall employment. We lack official information, as the national accounts recently published lack of data about employment[17].

This productivity increase is not very impressive, anyway; we may compare it with the increase that took place long ago in Argentina during the best performance decade of the last 50 years (from the middle 60s to the middle 70s), when an annual 5% increase in manufacture value added was reached with an invariant employment.

17Data published for the old 1993 based national accounts state that from 2003 to 2007, overall jobs increased by 19%, while formal employment growth was 40%; therefore, the productivity increase was quite higher than suggested by the estimate using only the latter. But this estimation was interrupted in 2007; therefore we lack information about more recent years. José Villadeamigo has shown to the author his own estimates up to 2011, which suggests a higher increase in productivity (about 25%) than the one we present here. The new 2004 based statistics do deliver figures about functional income distribution, but they do not include the number of workers. A very crude estimation by the author, based on these data and the evolution of real wage, suggests a productivity increase of about 25%.

Anyway, it must be stated that Argentina's manufacture sector seems to have behaved quite better than Brazil's and Mexico's, in the same period[18].

Was investment a significant issue in Argentina's Manufacturing sector? The statistics about this subject are scanty; we cannot therefore know exactly how much investment was made by the industrial sector. Investment in machinery (excluding vehicles) is often used as a proxy, as the manufacturing sector is the main buyer.

Table 6 shows the evolution of investment in machinery, vis-à-vis the valued added by the manufacture sector, comparing the two last growth cycles (we exclude the first years of both, as they are years of recovery).

Table 6 – Investment in machinery and Manufacturing value added – 1993/98-2005/12

Year	Average Share of GDP Manufacturing		
	Equipment	National Equipment	Imported equipment
1993-1998	30.9%	16.1%	14.7%
2005-2012	36.4%	16.1%	20.2%

Source: Own elaboration based on INDEC.

We can state that investment in machinery was relatively higher in the "golden stage", although its incidence does not suggest a qualitative change; by the way, we can also state that the share of local supply decreases, when compared with the Currency Board period, despite the higher exchange rate of the latter.

We turn now to the sectorial composition of growth, comparing again the behavior in the 90s, against the "golden stage"'. We choose –within both cycles – the period that can be considered as of net growth, in order to avoid the effect of cyclical fluctuations as they typically tend to overestimate the performance of sector the demand of which is highly sensitive to income variations. The chosen periods are 1994-1998 and 2006-2012.

In order to assess the growth performance in relationship to the general trend, we qualify it as follows:

- "Average": the rate of growth is within an interval of 0.5% the overall rate
- "Dynamic": the rate of growth is at least 0.5% higher than the overall rate
- "Stagnant": the rate of growth is at least 0.5% lower than the overall rate

18According to the Worldbank databank, productivity of "Industry"– which includes Manufacture, Construction, Mines and Quarries, and Supply of Electricity, Gas and Water – of Brazil and Mexico stagnated in the same period (while it rocketed in the case of Korea). For Argentina this source indicates an increase of productivity higher than the one we found here.

Table 7 shows the data for both periods; they employ a monthly estimator of manufacturing production[19].

Table 7 – Evolution of Manufacturing sectors – 1994-1998 and 2006-2012 – Annual growth rate

Sector	1994-1998		2006-2012		*Growth rate Difference*
	Annual rate of growth	Comparative performance	Annual rate of growth	Comparative performance	
Overall Manufacturing estimator	**2.6%**	**N/A**	**4.5%**	**N/A**	***1.9%***
Food and beverages	2.6%	Average	3.9%	Stagnant	*1.3%*
Tobacco products	0.1%	Stagnant	2.7%	Stagnant	*2.6%*
Textiles	-1.2%	Stagnant	3.6%	Stagnant	*4.8%*
Paper and cardboard	2.4%	Average	2.0%	Stagnant	*-0.4%*
Editing and publishing	6.9%	Dynamic	4.0%	Average	*-2.9%*
Oil Refineries	4.0%	Dynamic	-1.1%	Stagnant	*-5.1%*
Chemical products	6.1%	Dynamic	5.2%	Dynamic	*-1.0%*
Rubber and plastic products	3.3%	Dynamic	5.5%	Dynamic	*2.2%*
Nonmetallic minerals	2.4%	Average	5.7%	Dynamic	*3.3%*
Basic metallic products	5.9%	Dynamic	0.4%	Stagnant	*-5.6%*
Road vehicle manufacturing	2.6%	Average	10.6%	Dynamic	*8.0%*
Metal-mechanic sector (exc. road vehicles)	-2.9%	Stagnant	5.4%	Dynamic	*8.3%*

Source: Own elaboration based on INDEC – Manufacture Monthly Estimator.

We can state that the pattern followed by the manufacturing sectors during the "golden stage" is quite different than the one of the Currency Board period. Only four sectors show a similar relative trend, two of the as "dynamic" (Chemical products, and Rubber and plastic Products), and the remaining to as "stagnant" (Tobacco products and Textiles). The other eight sectors show important changes in their performance between the two cycles. The cases of Road vehicle manufacturing and Metal-mechanic are surely most impressive, in terms of the greater dynamic they show in 2006-2012, but also do Textiles and Nonmetallic minerals. Editing and publishing and Oil refineries are quite in the opposite side.

b) The new trends in external trade, and the evolution of terms of trade

19 The quantity indexes used for the extrapolation of Manufacture GDP are not currently available.

The "golden stage" meant an important expansion of trade as a whole. Both imports and exports grew steadily, increasing slightly its incidence in the overall demand, in real terms. Table 8 shows the evolution of trade of goods and services in real terms. As we can see, the economy increased its openness by 5 points of GDP. The trend in real terms shows a greater growth of imports from 2003, as they got to a very low level during the 2001-2 crisis. Nevertheless, when compared with 1993-8 average, exports grew more than imports did.

Table 8 – Exports and imports of goods and services (1993 pesos) – 2003-2012

Year	Exports	Imports	Exports/ GDP	Imports/ GDP	Openness (=(Exp+Imp)/GDP)
1993-1998	***23,638***	***29,308***	***9.1%***	***11.3%***	***20.4%***
2003	35,108	20,376	13.7%	8.0%	21.7%
2004	37,957	28,551	13.6%	10.2%	23.8%
2005	43,083	34,301	14.1%	11.3%	25.4%
2006	46,242	39,575	14.0%	12.0%	26.0%
2007	50,446	47,685	14.0%	13.3%	27.3%
2008	51,030	54,406	13.3%	14.2%	27.5%
2009	47,761	44,055	12.4%	11.4%	23.7%
2010	54,734	59,024	13.0%	14.0%	26.9%
2011	57,064	69,527	12.4%	15.1%	27.5%
2012	53,277	65,887	11.4%	14.1%	25.4%
2003-2012	**47,670**	**46,339**	**13.1%**	**12.7%**	**25.8%**

Source: Own elaboration based on INDEC

The above figures, in real terms, show a deficit from 2010 on. But this was not the case in nominal terms, as Argentina was benefited – as most of Latin-American countries – by a favorable evolution in its terms of trade, during the period under analysis. This is an outcome of the importance of primary goods in its exports, vis-à-vis its imports, where manufactures comprise the main share[20]. As pointed out in Katz and Bernat (2012/13), had the terms of trade been those of year 2002, the trade balance would be in deficit since 2007.

Table 9 shows the evolution of prices of imports and exports.

Table 9 – Terms of trade – 2003-2012

	Exports price indexes	Imports price indexes	Terms of tr

20It must be recalled, anyway, that figures of Table 8 are taken from the national accounts; therefore, they include services. The figures related to terms of trade instead refer to goods only.

												ade
	Overall	Primary goods	Agricultural Manufactures	Non Agricultural manufactures	Fuels	Overall	Capital goods	Intermediate inputs	Fuels	Spare parts of capital goods	Consumer goods	
1998	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
2003	101.6	94.5	89.2	89.1	208.2	92.5	93.4	87.7	184.4	92.5	87.3	109.9
2004	117.4	107.8	99.1	101.9	264.0	99.9	93.6	98.1	279.3	93.3	90.1	117.5
2005	122.9	101.1	94.0	113.0	358.2	107.8	93.2	111.3	388.5	97.2	94.1	114.0
2006	135.5	117.9	98.7	123.3	425.9	113.8	95.6	119.3	431.3	103.3	98.9	119.1
2007	153.8	139.5	120.2	130.5	491.8	121.9	97.2	134.1	477.7	107.8	104.3	126.2
2008	194.4	185.0	164.2	149.2	615.9	137.6	98.2	172.1	729.6	112.2	108.5	141.3
2009	173.1	158.9	151.7	139.3	436.5	121.7	97.4	127.6	486.6	110.5	105.0	142.3
2010	186.4	169.3	158.8	149.7	585.7	126.7	94.8	145.0	568.4	106.3	106.2	147.1
2011	222.1	222.3	191.4	166.9	748.9	135.8	92.4	167.8	789.7	101.7	108.0	163.6
2012	228.1	216.4	205.1	170.0	764.8	133.5	92.3	158.8	935.2	93.8	111.1	170.9

Source: www.mecon.gov.ar – *Información económica al día.*

Despite the betterment of relative prices of primary products, exports composition remained relatively diversified; and, indeed, industrial exports kept pace with the traditional agricultural based exports. Table 10 exhibits the evolutions in current dollars of exports.

Table 10 – Exports evolution – (millions of dollars – current values) - 2003-2012

Year	Total exports	Primary Products	Agricultural based Manufactures	Industrial Manufactures	Fuel and Energy
2003	29,939	6,471	10,004	8,047	5,417
2004	34,576	6,852	11,926	9,616	6,181
2005	40,387	8,111	13,141	11,985	7,150
2006	46,546	8,625	15,265	14,843	7,813
2007	55,980	12,486	19,213	17,333	6,949
2008	70,019	16,202	23,906	22,063	7,848
2009	55,672	9,257	21,225	18,734	6,457
2010	68,187	15,148	22,668	23,846	6,525
2011	83,950	20,213	28,192	28,916	6,629
2012	78,621	18,875	26,580	26,802	6,365

Source: www.mecon.gov.ar - Información económica al día.

There is a contrast here with other similar Latin-American countries, where the importance and/or the dynamic of manufacture exports was quite lower. Table 12 shows the evolution of the share of manufacturing exports for three main countries, beside Argentina.

Table 12 – Share of manufacture exports in Brazil, Chile, Mexico and Argentina – 1996-8 to 2010-2 (current prices)

Country	1996-98	2010-2012
Brazil	54.0	35.4
Chile	15.8	13.5
Mexico	81.5	74.2
Argentina	33.1	32.6

Source: Databank – World Bank

The expansion of non-traditional exports is remarkable; but their growth, when compared with the 1998 (the best year of the former cycle), was not faster than manufacture value added did. Therefore, the external markets did not increase their share in the overall sales of the manufacturing sector in real terms. Table 11 compares the evolution of a set of manufacture exports, defined ad-hoc for this paper[21], with the evolution of Manufacturing's value added.

21Exports in Argentina are traditionally classified in the following groups; primary, manufactures based on agriculture, non-agricultural based manufactures and energy (fuel and electricity). Our definition of exports comprises non-agricultural based manufactures and some selected agricultural manufactures, where we include wine products, dairy products, treated vegetables and other foodstuff, and excludes the traditional productions of Argentina (meat, oil and pellets). Additionally, we exclude from the set of non-agricultural based manufactures the exports of gold and other ores, which are classified as manufactures in the current statistics.

Table 11 – Manufactures exports and value added – 2004-2012 (Index 1998=100)

Year	Industrial Exports from Agricultural Origin	Industrial Exports from Industrial Origin	Industrial Exports	GDP Manufacturing
1998	*100*	*100*	*100*	*100*
2004	108	137	124	95
2005	122	159	142	104
2006	135	177	157	114
2007	149	182	167	123
2008	166	166	166	127
2009	146	160	153	125
2010	168	163	165	139
2011	182	168	175	155
2012	153	148	151	153

Source: Own elaboration based on INDEC

Nevertheless, due to devaluation and to the price increase of industrial exports, the share of exports on overall sales of the Manufacturing sector is nowadays quite higher than was in the 90s. A rough estimation by the author – which does not deserve much credibility – is that this indicator rose from 15% to 30%, between both decades. Manufacturing is nowadays more open to the external markets than was before.

Finally we may refer to the diversification of countries, concerning only manufacturing exports. This is an important issue, as it is a commonplace that main part of them are sold within Mercosur, i.e., to Brazil.

Table 13 includes indicators of concentration of exports related to countries. While on average in 1995-8 the first trade partner bought almost 29% of exports, this share had dropped to less than 21% at the end of the "golden stage"; a similar reduction can be seen for the five main partners. This is a healthy move toward diversification, although Argentina's exports are still heavily concentrated, due to the great importance of agriculture in its exports[22].

Table 13 – Exports and countries

Year	1st. partner	Five main partners	Herfindahl Index
1995-1998	28.7%	52.2%	0.1055
2010-2012	20.7%	43.0%	0.0652

Source: Own estimation based on UN COMTRADE database

22 Our analysis stems on Babones and Farabee-Siers (2012). For a wider approach, see Nemiña and Tussie (2012).

What are the reasons that led to the evolution we observe in the Manufacturing sector? This is not a question that can be addressed in general terms, as the specificities of each sector must be accounted for. It seems clear that the huge increase of the exchange rate that initially took place was an important incentive. But in some cases (wine, chemicals) this is also the outcome of investments that took place before 2003.

Nevertheless, other factors must be considered; among them, there were specific promotion policies in the case of the automotive industry, which has enjoyed a special regime since the 90s.In fact, the sector was protected and managed through a special regime from then on, agreed with Brazil under the umbrella of Mercosur.

c) Distribution of income[23]

The "golden stage" meant a recovery of real wages, as we have already seen, after the drop in the 90's, and especially after the breakdown of the Currency Board. On the other hand, there was a reduction of unemployment, from the abnormal rates of 2002 (almost 20% of open unemployment). Both factor led to a recovery of the wage's share in National Income, as can be stated in Table 14.

Table 14 – Functional distribution of Income – current values – 2001-2007

Year	Wage Income	Gross Mixed Income	Gross Operating Surplus
2004	30.6%	5.9%	63.5%
2005	31.9%	5.8%	62.3%
2006	33.4%	5.8%	60.7%
2007	34.6%	5.5%	59.9%
2008	37.8%	5.9%	56.3%
2009	41.6%	6.1%	52.2%
2010	41.5%	5.6%	52.8%
2011	44.7%	5.7%	49.6%
2012	48.9%	6.2%	44.9%

Source: Own elaboration based on INDEC - National Accounts - 2004 base.

From a rather abnormal share of surplus of 63.5%, this share dropped to 45%, a more reasonable value 8 years later.

Wage's growth was quite differential among sectors. It benefited especially the formalized workers. Nominal increases in both formal and informal sector are exhibited in Table 15.

23 Beccaria and Maurizio (2012) purport an in depth analysis about distribution issues in this period.

Table 15 – Evolution of nominal wages – formal and informal jobs

Year	Private formal sector wage		Private informal sector wage	
	Nominal wage index	Real wage index	Nominal wage index	Real wage index
2001	100	100	100	100
2002	108	85	96	77
2003	129	89	97	68
2004	147	98	111	74
2005	173	105	123	75
2006	209	114	146	80
2007	248	114	179	82
2008	294	106	238	86
2009	348	111	305	97
2010	435	112	367	94
2011	574	118	476	98
2012	748	124	623	103

Source: Own elaboration based on INDEC and Province Statistical Institutes

Even inside the formal sector, wage increases differed a great deal, as each union had a particular capacity to negotiate. They were especially high in the case of truck and bus drivers[24] and the financial sector, for example, where increase doubled the average.

Personal income distribution also improved, not only due to wage increases, but also to two important redistribution programs. The most important was the almost universalization of pensions, which were granted with little regard of the former labor histories[25]. This almost not announced program was run from the very beginning of the "golden stage". The other main program consisted of the payment of a universal child allowance, which benefited the non-formally employed and the domestic workers.

24 In the case of urban bus drivers, the Government involvement propelled the wage increases.

25 It must be noted that from the 80's, and especially form the 90's, a large share of the active population had been unemployed or employed in informal conditions. It was therefore impossible to grant pensions on the basis of a normal contributive system.

There were several other programs related to the unemployed; but their coverage was substantially lower. But we must state also an important increase in expenditure in Education; schooling years were enforced from 9 to 12 years.

These redistributive actions had a positive impact on personal income distribution[26].Table 16 shows the evolution of the concentration of family income.

26 Gomez Sabaini et al. (2012/13) find that the net effect of taxing and social expenditure (mainly education, health and social assistance programs lead to a redistribution of 10% of family income from the three wealthiest deciles to the seven low income one. The latter enjoy a net increase of income of 29%.

Table 16 – Evolution of family income

Year	Gap between low and high income
2003	24.42
2004	20.87
2005	18.87
2006	18.15
2007	16.49
2008	15.48
2009	15.38
2010	14.36
2011	13.39
2012	12.67
2013	12.44

Note: the gap is defined as the quotient between the average income of the highest income decile and that of the lowest income quintile
Source: National Household Surveys

The two main programs we mentioned (and a third recent one, the target of which is population from 18 to 24 years old that has not completed the mandatory schooling programs) are likely to be assumed as permanent, as they mean a kind of acquired right. In the case of the pension grants, they are by law adjusted twice a year through a formula that combines inflation and the amount of fiscal resources. They are therefore a structural innovation.

Inflation has been eventually in Argentina the mean to dilute such benefits, especially in periods of economic stress, where anti-inflationary policies meant the reduction of fiscal expenditures. But in the case of the pension system, the universalization will probably last, as a response to the large share of informal employment (it still represents nowadays more than 30% of total employment), and even to the persistence of unemployment; it must be recalled that the unemployment rate was never below 7%, all along the "golden stage"[27].

Despite these achievements, poverty and especially exclusion have still a huge incidence. Due to the distortion in the price indexes from 2007, there are no reliable statistics about the poverty line, which can be thought of as a first approach to appraise which share of population can be classified as excluded. Just as a suggestive indication, 15% of population surveyed in 2010 census lacked of regular sanitary conditions in its homes. This percentage was just a bit lower than the one stated in census 2001.

And anyway, the changes we have stated in the primary distribution of income – especially, the recovery of real wages – cannot be taken for granted, especially when an adjustment seems unavoidable, and it is nowadays in place.

27A warning is due here. In 2003, the definition of unemployment used in the household surveys was widened. As a result, unemployment rate was 2 percentage points higher (from 13% to 15%).

d) The size of the public sector: a brief comment

Traditionally, the size of government was not very large in Argentina[28]. The fiscal burden and expenditure were well below 20% in the 80s; this value was slightly increased up to an average of 20% during the Currency Board. This low fiscal pressure – when compared to other countries as Brazil – was due, in a major part, to the high tax evasion, which reached 30-50% of the nominal tax burden.

The crisis of 2001-2 led to the introduction of new taxes, as the traditional sources broke down with recession, and there was the danger of very high inflation. As a result, two new important taxes were issued: a tax on primary exports and its industrialized by-products, and a tax on bank transactions. These two new fiscal tools turned to be respectively the third and fourth source of fiscal income, and remained as such all along the "golden stage", despite their initial purpose to face an emergency situation.

The other two main taxes – Value Added Tax and Income Tax – increased their incidence on GDP. In the case of the former, this was just the outcome of more fiscal control, as the tax rate and its definition were not modified.

The Income Tax also did not undergo changes in its coverage. Nevertheless, the rates of the lower brackets of personal income became not applicable, due to inflation, and therefore the effective personal income tax rose steadily; in fact, this is nowadays an issue raised by the trade unions. On the other hand, corporate income taxing did not allow for the impact of inflation on the balance sheets; as a consequence, the effective taxation on corporation also was increased.

Finally, the suppression of the private managed pension system in 2008 meant an increase of the fiscal revenues, in an amount that can be estimated around 2% of GDP.

Table 17 shows the evolution of the fiscal burden from 2001 on, for the Federal Government.

28 When referring to fiscal data, we will encompass only the Federal level of Government, because is the only one which has complete and updated information. The Provincial and Municipal level are quite weaker; the largest part of the tax collection in Argentina is within the Federal level, from where a part of it is granted to Provinces and Municipalities.

Table 17 – Federal tax burden – 2001-2012 - % of GDP

Year	Total Tax Burden	Value Added	Export	Banking transactions	Income	Social Security
2000	**17.3%**	5.4%	0.0%	0.0%	3.2%	2.7%
2001	**16.9%**	4.6%	0.0%	0.9%	3.2%	2.6%
2002	**16.4%**	4.0%	1.3%	1.3%	2.5%	2.3%
2003	**19.5%**	4.6%	2.0%	1.3%	3.6%	2.4%
2004	**22.0%**	5.8%	1.9%	1.4%	4.4%	2.5%
2005	**22.1%**	5.7%	1.9%	1.5%	4.5%	2.7%
2006	**22.2%**	5.8%	1.8%	1.4%	4.3%	3.1%
2007	**23.0%**	6.1%	2.0%	1.5%	4.3%	3.6%
2008	**24.7%**	6.2%	2.8%	1.5%	4.3%	4.1%
2009	**25.6%**	6.2%	2.3%	1.5%	4.0%	5.5%
2010	**26.7%**	6.4%	2.5%	1.5%	4.3%	5.7%
2011	**27.7%**	6.7%	2.4%	1.6%	4.8%	6.0%
2012	**29.5%**	6.9%	2.2%	1.6%	5.1%	6.5%

Source: Own elaboration based on National Direction of Fiscal Research and Analysis.

As we can see, fiscal burden raised from less than 17% of GDP up to more than 29%. This increase was of course followed by an increase in government expenditure; the transfer programs we referred above were one of the main demands. The expenditures of the pension system, which meant in 2004 4.3% of GDP, increased up to 7.5% in 2012.

It is worth noting that the "new" fiscal structure is more progressive than before; this is due mainly to the incidence of the export taxes (as the burden of which is shifted to the owners of the crops land) and the increasing weight of the income tax (Gomez Sabaini et al., 2012/13, page 365).

Although public investment has quite a lower size, it is worth noting that the investment financed by the Federal Government, which had reached 0.8% of GDP in 2001, rose up to 2.2% of GDP in 2012.

Another source of expenditure – and a very huge one also – were subsidies granted to energy and urban transportation; they required resources of some 4% of GDP, as a high share of the cost of the utilities and urban buses (around 70% or even more) were covered by the subsidies, en 2012. This was the outcome of the political decision to freeze the tariffs, which were adjusted very little through an unusually long period, despite inflation; a kind of vicious cycle took place, as the more the delay to adjust, the higher the impact, and the great the political cost.

As it is, the final outcome of the "golden stage" is a larger government sector; and this seems a feature that has no way back, especially due to the massive transfer programs we mentioned above. The reduction of subsidies will probably go on slowly, as the danger of inflation has

increased recently, due to the external restriction we will mention below; therefore, there is almost no room for a reduction of the fiscal burden.

e) The "golden stage": a new time?

It is hard to asses if the economic performance of the "golden stage" should be considered really an evidence of a new and lasting social and economic pattern. This is a kind of judgment that only historians will be able to address fully, as it requires a longer term perspective. Nevertheless, some provisional conclusions can be reached by now.

When compared with other countries of the region, the evolution of the economy was not that unsatisfactory, especially if we consider the big slump of 1998-2002. Table 18 compares the annual growth rates of some countries of Latin America, from 1998 to 2011.

Table 18 – Annual growth rate – Argentina and other Latin American countries-1998-2011

Argentina	Brazil	Chile	Colombia	Peru	Venezuela
3.3%	3.3%	4.1%	3.5%	5.2%	2.5%

Source: Argentina – see Table 1 and 2 –
Other countries: own elaboration based on Databank-World Bank

On the other hand, a key indicator as the current account balance is not very favorable to other Latin American countries, despite the positive evolution of the terms of trade. Several of them had also hosted huge amounts of foreign financial capitals. Both terms of trade and capital inflows induced the appreciation of their currencies. This explains the trend towards primary exports we have stated above. Table 19 indicates the evolution of the external current account, for the period 2015-2012, and of the terms of trade.

Table 19 – Current account balance and terms of trade – Argentina and other Latin American countries-1998-2011

Country	Indicator	2005	2006	2007	2008	2009	2010	2011	2012
Argentina	*Current Account (% GDP)*	2.88	3.63	2.82	2.07	2.71	0.37	-0.50	0.00
	Terms of Trade (index 2005 = 100)	100	106	110	125	119	118	126	122
Brazil	*Current Account (% GDP)*	1.59	1.25	0.11	-1.70	-1.50	-2.21	-2.12	-2.41
	Terms of Trade (index 2005 = 100)	100	105	107	111	109	126	136	130
Chile	*Current Account (% GDP)*	1.16	4.63	4.31	-1.84	2.05	1.48	-1.31	-3.52
	Terms of Trade (index 2005 = 100)	100	131	136	118	119	146	147	131
Colombia	*Current Account (% GDP)*	-1.29	-1.84	-2.88	-2.81	-2.17	-3.11	-2.92	-3.28
	Terms of Trade (index 2005 = 100)	100	104	112	124	107	121	135	136
Peru	*Current Account (% GDP)*	1.45	3.11	1.36	-4.11	-0.56	-2.40	-1.85	-3.36
	Terms of Trade (index 2005 = 100)	100	127	132	114	108	128	144	137

Source: Databank-World Bank

The productive structure that arose in the last decade does not show a radical change, despite the important recovery of the industrial sector. Investment has not been very large, and few industrial sectors are working in what we could consider the technological edge (as Katz and Bernat, 2012/13, state[29]). Nevertheless, it is worthy to note the good performance of industrial exports, and the diversification of markets they have attained. This is the outcome of an economic policy that prevented the prevalence of the primary sector, as it tried to keep a high exchange rate, while differentiated between primary and manufacturing exports.

It is out of discussion that the evolution of the terms of trade was very favorable, and surely contributes to explain this rather long growth cycle. But the comparison with other Latin-American countries suggests that Argentina has made a good profit. It must be noted on the other hand that the evolution of the terms of trade, from 2005 to 2009, was less favorable to Argentina than the other selected countries[30].

These rather modest achievements are anyway an asset that may deliver in the next future: a quite higher share of the industrial production is nowadays exported, as compared with that of ten years ago. Apart from the question if this is or not an outcome of the government policies – a complex counterfactual issue – these achievements should be protected and capitalized.

On the other hand, the external restriction that the economy is facing from 2011 on does not seem to be related to some adverse situation of the context, but is better understood as arising from the dynamic of the economic pattern that developed since 2003. As we shall see next, the performance of the oil and gas sector has been crucial.

The "golden stage" clearly is nowadays over. Anyway, it had produced some shifts that seem hard to reverse: the reform in the pension system, the grants programs and the strong increase in the fiscal burden. A bigger government sector is in place, and it is likely to remain as such for the next future; the culture of an absent public sector, conceived in the debt crisis of the 80s and grown up during the Currency Board, has been severely contested (although not defeated). On the other hand, the industrial exports growth has shown resilience, even despite the appreciation of the exchange rate that took place during the last years of the "golden stage".

In the next chapter, we address the crisis that is leading the "golden stage" to an end, in order to better understand the limits of this economic pattern.

29 In the paper by Katz and Bernat, as regards the comparative performance during the 90s and the following decade, the growth of most sectors is found to be not very different. We find perhaps too pessimistic the assessment. The authors' analysis seems to be distorted by the periods they define for the comparison, which are 1990-1998 and 1998-2011. The former one compares a trough year (1990) with a peak year(1998); but the latter uses two peak years (1998 and 2011), leading therefore to lower growth rates.

30 As it arises from Table 19, the other Latin American countries show from two to five years where the terms of trade index is higher than the highest value in Argentina.

5) After the "golden stage": the external restriction

The end of the "golden stage"

The growth path started in 2003 (or, more exactly, in the midst of 2002) was interrupted in 2009, when GDP stagnated (or, according to several analysts, when a recession took place), all in line with the "big" world recession. It was also a year when the export crops were affected by a severe drought, leading to a drop of 39% of the normal production of the main grains[31].

Expansive policies were put in place, and growth was back again at a high rate in 2010 and 2011; from then on, GDP expansion slowed down, and from the end of 2013 the economy is likely to be in a recession stage. Which was the factor that triggered this sudden stop? Once again, it was the external sector. In 2011, for the first time since 2001, the current account of the balance of payments showed a negative sign; at the end of the year, the Central Bank reserves had dropped by 20%.

The response of the Government was to try by every means to avoid resorting to a devaluation of the peso. Instead, it placed quantitative restrictions which gradually grew. Imports were submitted to a previous authorization; by the same token, access to foreign currency for trips and for saving was restricted. Government agreed also with the foreign firms to limit the remittance of profits abroad. Meanwhile, some expansive policies were kept, in order to prevent a reduction of the growth rate. The external sector improved a bit during 2012, but it worsened again in 2013, when some huge obligations – related to the external debt – matured; as an example, a unique payment at the end of 2012 lead to a reduction of about 8% of the Central Bank reserves. The possibility of borrowing at reasonable rates of interest was closed, due both to the worrying situation and to the legal action of vulture funds. Therefore, the option was to pay the debt services with reserves, despite the fact that the debt amount had gotten quite small, when compared with GDP (less than 20%). The evolution of reserves is presented in Table 20.

Table 20 –Evolution of the Central Bank reserves – 2007-2013 – Millions of dollars

Year	Reserves (anual average)
2007	46,176
2008	46,386
2009	47,967
2010	52,145
2011	46,376
2012	43,290
2013	30,599

Source: INDEC

31 We include here corn, wheat, soybeans, sunflower and sorghum (source: www.mecon.gob.ar/informaciónecónomica al día)

To make matters worse, as we mentioned, from 2007 on the Government openly (and shockingly) interfered in the production of price index statistics[32]. This meant the disappearance of an official reliable price index (a situation that went on until 2014, when a new index was finally issued). Measurements about inflation and the real value of the exchange rate were therefore left to private analysts, normally with vested interests, which argued that the peso was undergoing a huge overvaluation.

At the end of 2013, there was a stressing situation due mainly to negative expectations, fueled by the relatively bad results the Government party got in the ballots of September, which seemingly strengthened the opposition parties. At the same time, the possibility that Government should pay its original debt to the holdouts increased, as the New York Justice ruled in favor of vulture funds; this event would mean a new default, due to the *pari passu* clause that guaranteed the same treatment to all the bondholders of the defaulted debt, regardless if they had entered or not to the 2005 and 2010 settlements. As a result, the price of the foreign currency at the informal market rocketed.

Finally, there were speculative decisions involving agricultural exports, which were retained as currency devaluation was expected.

Unwillingly, Government devaluated the peso about 23% in the beginning of 2014; at the same time, access to foreign currency was eased and interest rates were raised through policies of absorption of money. The first consequences, as expected, were an acceleration of inflation, a reduction of real wages and the stagnation or drop of economic activity.

Since 2011, therefore, Government has been on the defensive, as never was before since 2003.

Why and how did the external constraint appear? Several issues are at stake:

- An abrupt reversal in the trade balance of energy (mainly oil, gas and its oil subproducts) happened during 2011; until 2010 this balance was positive, but it became strongly negative a year later, and this would be its sign the following years.
- Some specific sort of imports increased hugely, among them, the spare parts for the road vehicle industry, and machinery and equipment.
- Stemming from a political crisis in 2008 and meager outcomes in the ballots of 2009 for the Government, a significant capital outflow took place from then on.
- There was a sharp increase in the earnings of foreign enterprises. Although a part of them was reinvested, they anyway meant an additional pressure on the current account.
- When restrictions to the access to foreign currency were imposed in 2011, the possibility of gains in the currency market led to increased expenditure in terms of trips abroad, affecting again the current account.

32 The purpose of this intervention was perhaps to reduce the debt burden, as more than 40% of it was nominated in local currency and indexed to the consumer price index.

- The external debt demanded growing payments of interest, and even of capital, as government was unwilling to roll the debt at very high rates of interest.

We must add to the former list the possibility of an undervaluation of the real exchange rate. Inflation, which started after the huge devaluation of 2001, kept in relatively high levels, while the exchange rate was not corrected accordingly.

On the other hand, complications arose in the finances of the public sector. Until 2008, the federal government enjoyed a financial surplus; but from then on, the result of public transactions was negative. The deficit is by now manageable; the primary deficit represented 0,7% of GDP, while overall financial deficit was less than 2%. In itself, this is not a major problem.

We will address now the external sector itself, as the issue of greatest interest.

The evolution of trade

As mentioned, there were some trends in the trade balance that may help to explain the external constraint. Table 21 summarizes the behavior of some key items of the trade balance, which contribute to explain the reduction of the trade balance.

Table 21 – Trade Balance – Evolution and major deficit items – 2004-2012

Year/Period	Trade Balance						
	Overall	Energy Balance*	Telecomm. sound equip **	Electric machines**	Power generating machines**	General ind. machines*	Vehicles spare parts ***
2004	**12,130**	5,178	-1,364	-922	-440	-941	-305
2005	**11,418**	5,605	-1,958	-1,278	-603	-1,295	-490
2006	**12,393**	6,081	-2,345	-1,595	-932	-1,579	-849
2007	**11,073**	4,104	-2,739	-2,066	-1,476	-2,087	-1,216
2008	**12,557**	3,514	-2,938	-2,230	-2,027	-2,497	-1,770
2009	**16,886**	3,830	-2,274	-1,762	-1,359	-1,378	-1,252
2010	**11,395**	1,760	-3,191	-2,609	-2,242	-2,107	-2,248
2011	**9,732**	-2,784	-3,810	-3,167	-2,669	-2,936	-2,843
2012	**12,420**	-2,901	-3,685	-3,214	-1,942	-3,017	-2,696
Average 2006-2010	**12,861**	3,858	-2,697	-2,052	-1,607	-1,929	-1,467
2011	**9,732**	-2,784	-3,810	-3,167	-2,669	-2,936	-2,843
Variation	**-3,129**	-6,642	-1,113	-1,115	-1,062	-1,006	-1,376

Source: own elaboration on *INDEC, **2-digit SITC Rev. 3 (COMTRADE) and ***3-digit SITC Rev. 3 (COMTRADE)

As we can see, the energy sector is the main responsible of the reduction of the trade balance in 2011, when compared with the average balance of 2006-2010[33]. The remainder sectors were already in a deficit during all this period, and their aggregate contribution to the 2011 gap was lower than the one from energy.

But the case of the spare parts for vehicles also deserves attention, as its deficit grew heavily in the period; actually, there has been much discussion in Argentina regarding the deficit of the automotive industry, as it is a sector that has enjoyed a special protection regime (during the Currency Board and afterwards)[34].

We have performed a specific calculation in order to appraise how has evolved the external balance of the automotive industry as a whole, from the 90s on. Table 22 shows the balance of imports and exports of vehicles and spare parts, in 1998 and 2012, related to the volume of vehicles (produced domestically or imported) accrued to the domestic stock each year.

Table 22 – Trade balance per vehicle sold to the domestic market – 1998-2012 (dollars 1995)

	Trade balance per vehicle
1995-1998	-3,793
2010-2012	-2,007

Source: own estimate on the basis of COMTRADE database and data about vehicles fleet

As it can be stated, the negative balance per vehicle dropped in real terms by 47%, while the volume of production increased dramatically from the 90s. This better performance is explained by the increasing share of the domestic production that was exported; currently, some 50% of domestic production of vehicles is sold abroad, mainly to Brazil. Although the balance is still negative nowadays, due to the deficit of spare parts, the automotive sector has showed an improvement, and therefore it can be relatively blamed for the 2011 episode[35].

To conclude: the worsening of trade balance is mainly to be attributed to the energy sector, that is, to the dropping production of oil and gas. We cannot dwell about this subject here; but we can assert that this is the outcome of decreasing reserves of conventional oil and gas, the peak production of which seems to have been achieved respectively in 1998 and 2004.Despite higher

33 We adopt as a comparative reference the period 2006-2010 as its records correspond to a more "normal" operation of the economy, after the recovery from the 1998-2002 slump, which took place from 2003 to 2006. It should be recalled that during the 2004-2010 period, oil underwent a very huge price increase. Therefore, the balance we state in Table 18, if deflacted, would show a stronger reduction. The decreasing volume of the surplus was therefore compensated by higher prices.

34 An analysis about the issue of spare parts can be found in Schvarztein (2012).

35 Actually, if Argentina gave up its automotive industry and imported the whole of its fleet, the deficit would be higher. An interesting question arises here, on the other hand: why did the sector produce a deficit, while the rate of exchange – especially in the first 6-7 years of de "golden stage" – was so high, when compared with Brazil (the main commercial partner for this industry)? This question suggests that the exchange rate was not an incentive enough to relocate activities from Brazil to Argentina. We don't have a clear cut answer by now. We can guess that medium or long term financing, which was available in Brazil and was almost non-existent in Argentina (which was emerging from a huge bank crisis), may be part of the explanation.

oil and gas prices, when compared with the 90s (and despite the fact that Government assured the full international price to production coming from new wells), production went on diminishing; there seem to be no room for an expansion of conventional gas and oil. Another factor that contributed to the deficit was a huge increase in the price of imported liquefied natural gas in 2011 (around 60%)[36].

What about the real exchange rate? May it help to explain the trade performance? That is to say: could we expect that devaluation would restore competitive conditions? This question can be answered, in a first step, just by analyzing the trade balance without the energy sector, as this item is independent of fluctuations of the exchange rate.

We first focus on the evolution of the real exchange rate[37]. Table 23 contains an estimate of the evolution of the real multilateral exchange rate that is, taking into account the real exchange rate of the main trade partners of Argentina.

Table 23 – Real multilateral exchange rate 2001-2013 – Index: 2001=100

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Index	100	240	220	229	233	239	227	200	200	180	166	143	140

Note: local currency deflacted by the real exchange rate
Source: own estimation based on BCRA and Province Statistical Institutes

The exchange rate was appreciating from 2009 on; but nowadays is still much higher than it was during the Currency Board. On the other hand, as we have seen before (Table 9) the Argentina's prices of manufactured exports (both based and not based in Agriculture) raised steadily. If this feature were taken into account, the real exchange rate would be even higher. It does not seem, therefore, that there has been any excessive appreciation of the local currency.

Next, we present (Table 24) the trade balance of the whole trade except energy, in order to get a closer view about the behavior of the non-energy items, from 2010 on, as the deficit in the energy trade appeared in 2011

36A comment is due here. As mentioned above, increasing subsidies were granted to power and gas consumers during the "golden stage". It has been argued that they stimulated consumption, and therefore they would have contributed to the energy trade deficit. This is an argument of low appeal, as the energy consumption is relatively inelastic in relationship to prices. An international comparison performed by the author (Müller, 2012), on the basis of data of the databank of the World Bank, does not indicate an abnormal energy consumption, when related with per capita GDP.

37This is not a trivial issue because there are difficulties from 2007 due to the intervention of Government in the price indexes. Our procedure has been as follows: we took the index of multilateral real exchange rate published by the Central Bank, and next we corrected form 2007 on, employing the correction that arises from the comparison of the more reliable consumer price indexes of seven Provinces of Argentina with the one calculated by the Federal Government.

Table 24 – Trade balance excluding the energy sector and overall balance

	Energy trade excluded			*Overall balance*
	Exports	**Imports**	**Balance**	
2010	61,662	52,027	**9,635**	*11,395*
2011	77,321	64,524	**12,797**	*10,013*
2012	74,044	59,241	**14,803**	*12,419*
2013	76,529	62,245	**14,284**	*8,003*

Source: www.mecon.gov.ar/información económica al día

We can state that the trade surplus when energy is excluded is pretty higher in 2012 and 2013, when compared with 2010 (more than 50%). It is true that from 2011 on quantitative restriction for imports were in force; but on the other hand, it is likely that imports for precaution or speculation reasons increased, as restrictions were in place[38]. On the other hand, it is noteworthy that exports grew 22% from 2010 to 2013, despite a 22% decrease in the exchange rate.

Our conclusion is therefore that the exchange rate, despite its appreciation, cannot be pointed as the main reason of the performance of the external sector. In other words, it is not to be expected that the devaluation will bring up a short term solution. A higher exchange rate is not able to increase the oil and gas reserves.

Other items of the balance of payments: services, profits and the capital flows

Table 25 summarizes the evolution of some key components of the balance of payments, relating the average of the "normal" period 2006-2010 to the "critical" period 2011-2013.

Table 25 – Evolution the current account and Non-financial Private Sector – 2006-2013

Period	Trade Balance	Services Balance	Interests on Loans	Profits and Dividends	Current Transfers	Total Current Account	Capital: Non-Financial Private Sector
Average 2006-2010	15,126	-949	-1,625	-6,726	657	**6,419**	-1,345
Average 2011-2013	13,484	-3,572	-3,095	-8,383	-559	**-2,184**	-1,553
Variation	*-1,642*	*-2,623*	*-1,470*	*-1,656*	*-1,216*	***-8,603***	*-208*
2013	9,023	-1,971	-2,933	-7,719	-673	**-4,330**	-4,928
Variation	*-2,970*	*-4,155*	*-1,308*	*-993*	*-1,331*	***-10,749***	*-3,583*

38The comparison with GDP may be appropriate. The average GDP of 2012 and 2013 is 12% higher than in 2010, while imports (excluding energy) are 27% higher. The elasticity is therefore about 2.25, which can be considered as near to the elasticity we observe when we compare growth and imports between 2005 and 2011 (although these calculations do not exclude the energy sector).

Note: the sum of the items of the current account does not match exactly with the total, due to the omission of some minor items. Due to methodological reasons, the trade balance is presented here valuating imports at CIF value.
Source: own elaboration based on INDEC.

Overall, the current account shows a huge reversal. As we can see, the trade balance is only partially the cause, as its share in the overall negative variation is about 30%. The remainder is distributed in similar parts in the other items.

Regarding Services, the huge increase of the negative balance is explained mainly by two factors: a strong increase in the trips of residents to foreign countries (perhaps as a means to get a profit by buying foreign currency at the official price), and an increase in the remittance in payment of royalties. The latter seems to be just another mean of sending profits to foreign countries. Therefore, we may conclude that the behavior during 2011-2013 of the item Services is closely related to the particular macroeconomic situation, and therefore it seems to have acted as an accelerator, more than as an independent cause.

The increase in the Interests on Loans is just a consequence of the 2005 settlement of the external debt, accrued by the incorporation of the holdouts that entered the agreement in 2010.

Profits and Dividends is an item that must be treated cautiously. It reflects, as such, the gains obtained by the affiliates of foreign firms; these gains are not necessarily to be remitted to headquarters, as they may be reinvested. Therefore, this item must be analyzed jointly with the Non-financial Private Sector capital item. We refer to it below.

Regarding current transferences, the value of the average 2006-2010 is strongly influenced by a SDR transfer by the International Monetary Fund in 2009, as a countercyclical policy. Besides this exceptional fact, the years before 2009 showed a surplus; between 2004 y 2010 it was on average of 405 million of dollars. This balance was suddenly reversed from 2010, an unexpected change, as the main part of this item is the remittance of migrants, the behavior of which is relatively stable. There is no explanation for this change in the official publications of the balance of payments; we suggest that it reflects some shift in the methodology of collecting and processing information[39]. We do not assign significance to this item, therefore.

Finally, what about autonomous capital flows? As suggested by the figures, there was a huge reversal, especially in 2013. There is a trend component here, as net outflows started in 2008; since then up to 2013, the accumulated net amount summed 14,5 billion dollars. This was not as high as the capital outflow that preceded the breakdown of the Currency Board (some 27 billion), and indeed the economy is quite bigger in dollar terms than in 2001; but this is a clear factor that led to an increased macroeconomic instability.

Last, but not the least, we must account for the services of the public debt. As we said before, Government was not able to roll the debt at reasonable interest rates; therefore, huge payments were made. During the years 2011 to 2013, a total of 18.2 billion dollars were paid,

39 Indeed, this item of the balance of payments is estimated with rather crude procedures.

involving capital, a special payment related to the GDP performance and interest charges. Table 26 exhibits the figures.

Table 26– Evolution the current account and Non-financial Private Sector – 2006-2013

	2011	2012	2013
Interest	3,292	2,900	2,713
Special payment-GDP performance	1,965	2,654	-
Capital amortization	2,245	1,470	973
Total	**7,502**	**7,023**	**3,686**

Source: Own elaboration based on INDEC

This payments were not compensated by new debt; therefore, they affected the reserves of the Central Bank; this situation was different than in 2006-2008, when fresh debt was issued, partially by means of the same kind of bonds used to the settlement operation of 2005.

Conclusions

The end of the "golden stage" must be explained analyzing both the real and the financial sector.

Chronologically, the external constraint was perceived in 2011, as a result of a reduction in the trade balance, due to the energy deficit. The evolution of the real exchange rate does not seem to be a crucial instance. The balance reduction was important, but not dramatic.

This new situation – and perhaps a not very insightful reaction by the government – led to behaviors that worsened this initial scenario, paving the way to new reductions in the current account, through accrued service imports. On the other hand, capital outflows, which started before 2011, fueled the reduction of reserves. Government, on the other hand, paid big amounts of debt services, without rolling, perhaps as a way to buy credibility.

The next months will tell us if this situation of macroeconomic stress will be successfully managed. Our interest now turns to the conclusions of our analysis about the "golden stage" and its end.

6) Concluding remarks

How can we assess the behavior and evolution of the economy during the "golden stage?

The economic dynamics of the period was quite different than that of the previous one. Manufacturing reached a leadership, *vis-à-vis* primary activities, we did not find before. In addition, growth of the different branches was also different, in most cases.

On the other hand, the size and role of Government changed. The fiscal burden is nowadays substantially higher, and wide social programs were put in place. Besides these issues,

Government placed itself in quite a different position, when compared with the subsidiary status it assumed during the Currency Board. Of course, we do not mean that this new role has been satisfactorily performed.

Finally, due both to the dynamics of labor markets and the transfers programs, distribution of income turned to be more balanced, after the disastrous effects of the 1998-2002 depression and devaluation. However, poverty and exclusion are still there, involving non less than 15%-20% of overall population.

Is there any evidence of some structural change, at the productive level and in terms of the macroeconomic regime? Or we may conclude that the "golden stage" was merely the outcome of a favorable context, mainly due to the improvement of the terms of trade?

As we have seen, we cannot expect to find evidences of great changes at the productive level. The productivity increase of the Manufacturing sector does not seem to be very impressive, and investment, though it grew especially during the last years of the "golden stage", did not reach very high levels. We therefore agree on this with most of the assessments we find in the literature. And anyway, we cannot expect nothing like a "structural" change in a relatively short span of time: if we disregard the period from 2003 to 2006 as it just may be understood as a recovery, the effective grow years went from 2007 to 2012.

Nevertheless, in one sense the present Manufacturing sector is different than before, mainly due to the growth of exports. They kept pace with the production, and thanks to the devaluation of the peso, they may represent nowadays as much as two times the share they had in the 90s. Indeed, in the case of the automotive industry, we have found that its external balance improved.

This suggests that in some extent, the economy capitalized the terms of trade betterment, and was probably able to redistribute part of its benefits, mainly through the export taxes. This is a rather modest asset, but it is an asset indeed. Next years will tell us if it really meant a change.

Now, the growth obstacles that arose in 2011 and led to the devaluation and macroeconomic adjustment of 2013-14 show the limits of the economic pattern of the "golden stage", beyond the issue of the real exchange rate. It is clear that it relied heavily on the energy surplus, despite the fact that oil and gas productions were decreasing steadily.

The economy was therefore unable to fully substitute this source of foreign currency. This episode – on the other hand – seems to have been managed with little expertise – as a moderate imbalance turned to be a huge one. Anyway, the access to voluntary financial markets was a problematic issue for Argentina, due to the 2001 default; and it is by no ways obvious that a more friendly approach to markets would have been more successful.

The final question to address is if it was possible a more sustainable outcome. We cannot give a clear response. Nevertheless we can point to two aspects that suggest a negative answer.

On the one hand, a better performance would have required an aggressive entrepreneurship, which is surely missing in Argentina. The Currency Board and the "golden stage" are two

opposite experiences, in terms of macroeconomic context and incentives: strong liberalization, economic openness and a passive Government; or state intervention in a rather protectionist mood, and redistributive policies which assure a strong internal market. In both contexts, and especially in the first one, investment did not exceed 21-22% of GDP, and the outcome was not sustainable. On the other hand, it must be noted that among the first biggest 500 enterprises, some 350 are foreign owned; this is the vivid portrait of the abdication of the Argentina's bourgeoisie.

On the other hand, Government needs to develop skills in its intervention. If during the early 70s it can be argued that some of these skills were in place, giving room to the best performance the industrialized Argentina was able to reach in its history, this was no more the case at the beginning of the "golden stage". A state deprived of tools with a minimum of sophistication is unable to lead a development process. The Government that took office in 2003 seemed only partially aware of this condition for sustainability.

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