

Weekly Asado



Wilson Center

Argentina Project

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Honey, I shrunk the state: A Macri legacy

Argentina's economy is in rough shape after a year of crisis sparked by market jitters about debt sustainability that led to a dramatic plunge in the value of the peso last year. The knock-on effect was a painful economic recession – the second in the last three years. GDP [declined](#) by 2.5 percent in 2018, and [unemployment](#) stood at 9.1 percent in the fourth quarter, up two percentage points from a year earlier. Meanwhile, thanks to persistently high inflation, *real wages have [declined](#) by 12 percent*. Unsurprisingly, consumer confidence is [near](#) the all-time low. Amid these struggles, President Mauricio Macri is struggling to find positive economic news. Fortunately for his reelection campaign, there is some.

After three years in office, Argentina's government has made progress in its efforts to reduce the size of the state, both in terms of public spending and the tax burden.

One of the biggest distortions left over from the Kirchner era was the remarkable increase in the role of the government in Argentina's economic life. From 2011 to 2015, public spending increased from 34 percent of GDP to 40 percent. A main driver of that higher spending was rapid public sector hiring. In former President Cristina Fernández de Kirchner's second term (2011 to 2015), for example, *public employment expanded by 580,000 positions*. In all, the number of public sector employees in Argentina, including in provincial and municipal governments, rose from 2.3 million to 3.9 million from 2001 to 2014, according to the International Monetary Fund. In 2015, salaries for government employees accounted for 12.5 percent of GDP in Argentina, compared to an average of 8.4 percent in Latin America, according to the Inter-American Development Bank.

Supporters of Ms. Fernández de Kirchner say the increase in public spending reflected the government's increased role in public life, including its management of nationalized industries, such as the state-owned oil company. But outside observers appear sympathetic to Mr. Macri's complaints of a "*pesada herencia*." A 2018 [IDB report](#) calculated that wasted government spending in Argentina had reached 7.2 percent of GDP, the highest level in the region.

In response, Mr. Macri has dramatically slowed the growth of state employment, adding only 69,000 positions. But his most effective approach to reduce the government's wage bill was not lightening the payroll, but rather addressing labor costs. *Spending on personnel has fallen by 17 percent in real terms*, according to newly released government data. The government has also managed to reduce the growth in pension costs, with spending on retirees increasing by only 0.6 percent of GDP from 2016 to 2018, after exploding under the Kirchners.

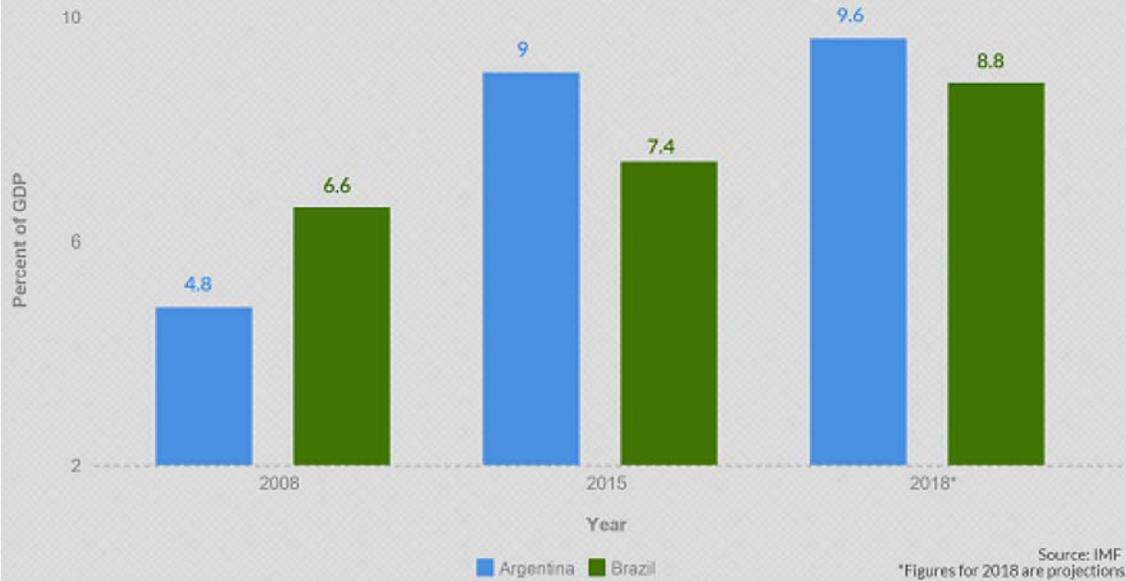
The government's austerity has allowed it to lower taxes; federal taxation, at 18 percent of GDP, is at its lowest level since 2008.

Now, however, pressure to comply with the conditions of the IMF's \$56 billion bailout has led the government to increase export taxes – a levy the government has previously criticized as highly [distortionary](#). The government insists the "*aumento es transitorio*," but with Mr. Macri's reelection far from assured, it is not clear whether Argentina will continue reducing the country's heavy tax burden. Indeed, the history of export taxes is not a good one for exporters. Argentina imposed heavy export taxes in the aftermath of the 2001 economic collapse, and at the time, the government also described them as temporary. Yet after the export boom in the mid-2000s ballooned export tax revenue, the Kirchner governments were unwilling to let go of their new and flexible income.

In any country, shrinking the state is an incremental and thankless job. For Mr. Macri, it is particularly perilous, after 12 years of Kirchner rule changed expectations for public services and subsidies. Meanwhile, even as he slashes public spending over all, the recession has forced Mr. Macri to *increase* social spending, including for conditional cash transfer programs such as the Asignación Universal por Hijo. Nevertheless, he is delivering. The latest IMF report, [issued March 18](#), said Argentina's fiscal policy was "in the midst of a significant correction," as the authorities demonstrate "their resolve to eliminate the vulnerability associated with Argentina's fiscal imbalance." If nothing else, Mr. Macri will bequeath his successor a balanced budget. Now, the only question is whether that success will bring his successor to office four years earlier than he had hoped.

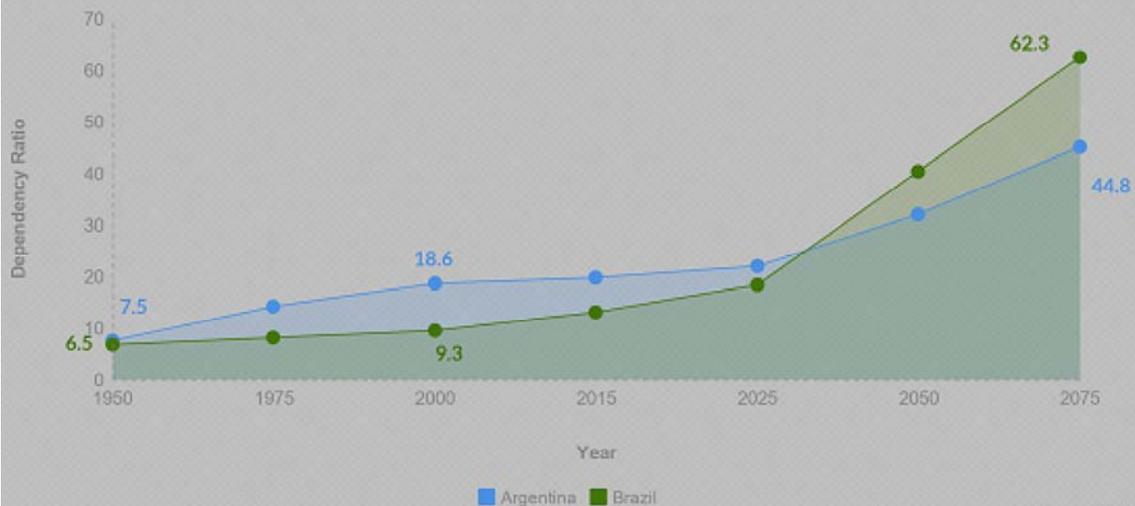
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| equaled 3.1% of GDP. | 4.2% of GDP. |
| Retains the pay-as-you-go model. | Workers would choose between the existing pay-as-you-go model and a new 401-k-style model. |
| Does not address the structural imbalance, worsened by the Kirchner-era expansion in coverage. | The reform would increase the retirement age and the number of years workers must contribute to the system. |
| Expected to save Argentina 0.6% of GDP in annual public spending. | Expected to save Brazil 1.3% of GDP in annual public spending. |

Pension Spending



Dependency Ratio

The dependency ratio is the number of individuals aged 65 and over per 100 people of working age (aged between 20 and 64).



Regional Outlook

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