

The Impact of the Menem Government's Economic Policies on Argentina through a Before-and-after Comparison Method

Junpeng Zhang*

College of Public Administration of Huazhong Agricultural University, Wuhan, China

*Corresponding author: Zhangjunpeng@webmail.hzau.edu.cn

Abstract. In the 1980s, Argentina's economy fell into recession, with inflation at 5,000%, persistent government deficits and high debt, and capital outflows exacerbated by Argentina's territorial war with Britain in 1982. In 1989, Carlos Menem (1930-2021), leader of the Argentine Justice Party, was elected president of Argentina. In response to the economic crisis, he vigorously pursued neoliberalism during his tenure, emphasizing less government intervention and encouraging free trade and financial liberalization. During his first term, Argentina's economy grew by leaps and bounds. Because of his economic success, Carlos Menem won the presidential election in 1995. He defeated his rivals by a wide margin and became the first elected president of Argentina. However, in 2001, Argentina was hit by a severe economic crisis. Many scholars believe that Menem's policies were one of the causes of Argentina's economic crisis. Most scholars focus on the economy during Menem's time, but do not consider the impact of Menem's economic policies on Argentina in the post-Menem era. The subject of this paper is the impact of Menem's economic policies on Argentina. This paper will use a before-and-after approach to analyze the impact of economic policies on Argentina. Menem's economic policy was an attempt to get Argentina out of its economic difficulties. Menem's economic policies did not take into account Argentina's own situation; Menem was responsible for the 2001 crisis, but not all of the blame can be placed on Menem. However, Menem's economic policies during this period completely changed the structure of the Argentine economy, with irreversible results. To this day, Argentina is still unable to escape the legacy of Menem's economic policies.

Keywords: Carlos Menem, Economic Policies, Before-and-after comparison method.

1. Introduction

In 1982, Argentina's total external debt reached US\$43.634 billion, which accounted for 83.8% of GNP and 447.3% of exports of goods and services. In 1987, the international commercial banks stopped providing new loans to Argentina due to its inability to repay the principal and interest in time, making Argentina one of the most heavily indebted countries in Latin America. The debt crisis revealed the serious flaws of the import-substitution industrialization model, and in 1989 Argentina's political situation went out of control and the economic environment deteriorated further, with the inflation rate reaching 24%. The Menem government, which came to power at this time, drastically adjusted its development strategy, abandoning the import substitution industrialization strategy and following the neoliberal reforms of Chile and Mexico. However, in 2001, a serious economic crisis broke out in Argentina. Many scholars, when evaluating the economic policies under Menem, always criticize the unemployment caused by Menem's economic policies, and the high unemployment rate was one of the main causes of the socio-economic crisis in 2001. The neoliberal model driven by Menem (1989-1999) was associated with middle-class consumerism but also with corruption and unemployment, and the advance of neoliberalism in Argentina was marked mainly by the weakening of the public sector and the expansion of private capital, with private enterprises fundamentally driven to maximize profits, creating a suppression of the middle- and lower-income working class, leading to higher unemployment [1]. In 1995, Argentina's unemployment rate rose to 18.4% and GDP fell by 4.6%. The unemployment rate in Argentina has been above 13% since then. Social inequality continued to widen and the number of people below the poverty line soared [2]. In addition, the monetary policy under Menem from was also criticized, as the strength of the US dollar and the peso, which was locked in with the US dollar, followed suit, leading to a renewed deficit in Argentina's

balance of payments trade account and current account, and a rapid decline in the country's foreign exchange reserves to pre-reform levels. Some scholars attribute the 2001 crisis to the Menem administration. In general, the current studies have focused on the "neo-liberal" economic and financial policies of the Menem period and have not taken into account the impact of the external environment on the Argentine economy during the Menem period. This paper discusses the impact of Menem's economic policies on Argentina using a before-and-after approach based on what has been done by other scholars. At present, most of the domestic and international studies on the impact of Menem's policies stay in the Menem period. This paper will explore the impact of his policies on Argentina after Menem left office.

2. Method

Before-and-after comparison method. The before-and-after method is a basic method of public policy evaluation, and it is a basic framework of thinking for evaluation activities. The before-and-after method is a quantitative analysis method that measures the effect and value of public policies by comparing the relevant situations before and after their implementation. In this paper, the impact of Menem's economic policies on Argentina is examined from two perspectives. The first is a before-and-after comparison between the period before and after Menem's administration, and the second is a before-and-after comparison between the period before Menem's administration and the period after Menem's departure from power.

3. Analysis of the economic impact of Menem's government on Argentina

3.1 Comparative analysis before and after Menem's administration

In the 1980s, Argentina was influenced by Peronism and continued the import substitution industrialization model. Because of excessive government spending, rising labor costs, and social underproduction, Argentina's economy fell into recession. It had an inflation rate of 5,000%, chronic government deficits and high indebtedness, and capital outflows exacerbated by Argentina's territorial war with Britain in 1982. Argentina's foreign debt exceeded \$60 billion, and foreign banks and international financial organizations had stopped lending to the Argentine government. A line chart of macro data for Argentina is shown in Figure 1.

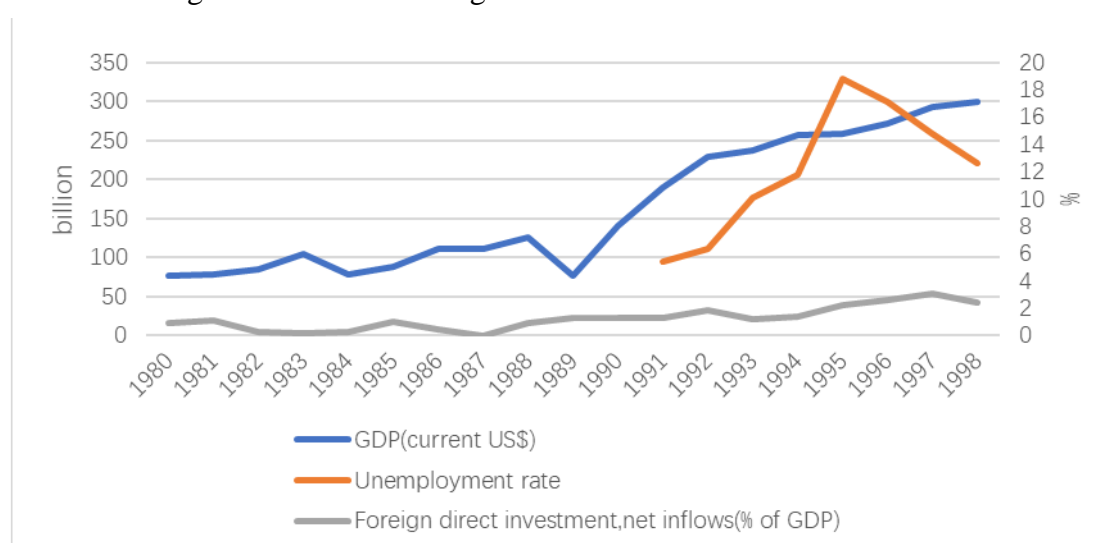


Figure 1. Argentina GDP/Unemployment rate/Foreign direct investment [3]

After Menem came to power in 1989, Argentina's economy improved somewhat. In response to the economic crisis, he vigorously promoted neoliberalism and the "Washington Consensus" economic policy, which emphasized reducing government intervention and encouraging free trade

and financial liberalization. During his first term, first, Menem implemented the Economic Stabilization and Reform Plan, which fixed the exchange rate between the peso and the U.S. dollar at 1:1, secured by the Central Bank's foreign exchange and gold reserves, and restricted the Argentine central bank to a passive monetary policy, i.e., its monetary policy could only be a passive adjustment and response to the demand and supply of money. Second, Menem privatized state-owned enterprises to enhance their dynamism. Before Menem's administration, Argentine state enterprises held an important position in the national economy. After he came to power, within a short time, the Argentine government sold off state-owned enterprises such as telecommunications and electricity. Third, to improve the investment environment, Menem's government actively pursued economic development policies to encourage foreign investment. From 1991 to 1994, there were 3,500 foreign companies investing in Argentina. The domestic business environment improved [4]. By 1992, Argentina ranked among the top 10 countries in the world in terms of foreign investment. However, during Menem's second term, the Argentine economy encountered difficulties and the unemployment rate continued to rise, once exceeding 108.1%. At the end of Menem's second term, affected by the Asian financial crisis and the financial turmoil in Brazil, international capital withdrew from Argentina, which led to a decrease in Argentina's foreign exchange reserves.

After Menem came to power, Argentina's economic indicators tended to be positive. In terms of GDP, Argentina's economy was at a standstill from 1980 to 1989, and shrank sharply by the year before Menem took office. During the first term, Argentina's economy grew by leaps and bounds. Although in the second term, the Argentine economy suffered difficulties, it was still in a growth phase. In terms of foreign investment, although the percentage of GDP remained low, the century amount of foreign direct investment continued to increase, considering the rapid growth of GDP and the increase of the percentage. But the unemployment rate was at a high level during the Menem administration. There are two main reasons for the climbing unemployment rate, the first one is the rapid privatization of state-owned enterprises, and a large number of laborers lost their jobs in the wave of privatization. Secondly, the reduction of tariffs and trade liberalization policies have filled Argentina with imported goods. This led to a sharp increase in pressure on domestic exporters and the collapse of national companies. This exacerbated labor unemployment and further pushed up the unemployment rate.

3.2 Comparative analysis of Menem before and after he stepped down

At the end of Menem's second term, Argentina suffered economic difficulties due to the influence of domestic and foreign circumstances. After the end of Menem's administration, Argentina's borrowing conditions in the international financial market deteriorated significantly and its financing cost increased significantly. Because Menem's fixed exchange rate caused the peso to appreciate, international competitiveness was significantly reduced. Worsening imbalances in international payments; Consumption and production indices continued to fall; Tax revenues shrank, the fiscal balance deteriorated, public debt soared, solvency was severely weakened and the economy fell into recession. In November 2001, a financial market panic in Argentina triggered a violent bank run, which was exacerbated by the government's financial control measures to limit savings withdrawals, sparking massive social unrest and bloodshed. The crisis spread to all parts of the country, leading not only to the chaos of the financial system, the paralysis of economic activities, nationwide social unrest, but also triggered a serious crisis in the political system and the public's confidence in the political system and all politicians. The crisis caused serious consequences and serious regression of social and economic development. The incident caused a deep recession in Argentina. Kirchner came to power in this environment, he advocated the reconstruction of "state capitalism", in the economy will gradually move away from the direction of neoliberalism, choose Keynesian state interventionism to save Argentina; Attach importance to the development of national industry; Cultivate domestic enterprises and scientific and technical personnel; He actively promoted social employment and fair distribution. In 2005, after three years of high growth, Argentina's economy returned to its 1998 level. The well-being of ordinary people has also improved greatly. It was not

until Macri came to power in 2011 that he repudiated Kirchner's left-wing policies in general and began a "rightwing" liberal economic policy, especially an unregulated one on the dollar, just as Menem had done 30 years earlier. However, during his four years in office, Macri's free-market economic policies have not only failed to lead the country out of the crisis of the new century, but also led to the worsening living conditions of the middle and lower classes. The center-left opposition candidate Cristina Fernandez was elected Argentina's new president, defeating incumbent Mauricio Macri. He advocated controls on foreign exchange, especially the dollar, greater state intervention in the economy and protection of workers' rights. From Table 1, it is clear that Argentina's GDP is experiencing a "V" shape. In 2019, Argentina's economy also declined.

Table.1. Argentina Economic Data [5]

Years	GDP (current US\$) billion	Unemployment, total (% of total labor force)	Foreign direct investment, net inflow (% of GDP)
2001	268.7	17.3	0.8
2005	198.74	11.5	2.6
2010	332.98	7.7	2.7
2014	526.32	7.3	1
2015	594.75	7.5	2
2019	452.82	9.8	1.5

After Menem's ouster, Argentina's attitude toward Menem's policies was "no-yes-no". Argentina's economic reforms were highly praised by international financial institutions as a "successful example of American-style capitalism", "The Success of Neoliberal Reform in Latin America". The economic reform has brought ultra-high inflation under control, eliminated the excessive intervention of the state in the economy, and abolished the protectionist policies in the fields of trade and finance. At the same time, the pressure of fiscal imbalance has been reduced, and external capital has flooded in. Its market competition has been strengthened. Its microeconomic environment has undergone major changes. But the impact of economic reforms and flaws in the economic model is more profound. Argentina's economic crisis began in 2001, and it took until 2007 to recover to 2001 levels. Menem's policies had a profound impact on Argentina. Neither those for nor against his policies have changed from those of the Menem era. As 2019 enters, anti-neoliberal protest movements are spreading across Latin America. Argentine Foreign Minister Felipe Sola said at the annual meeting of the Council of the Americas that neoliberal ideas lead only to disintegration and separation. Neoliberalism, he argued, was a false idea that meant disintegration and separation because it focused only on individual merit and opposed the state. He also sees neoliberalism as Argentina's enemy, bringing nothing but corruption and inefficiency. Menem's policies were thoroughly consigned to history [6].

4. Discussion

4.1 Analysis of the impact of Menem's economic policies on Argentina

First of all, Menem's economic policies reflected the search for a new political and economic reform in Argentina, which brought a new economic philosophy, and in the 1980s, Latin America, including Argentina, experienced a debt crisis and an economic crisis. These two crises made the 1980s the "lost decade" of Latin America. Although the government responded by cutting fiscal spending and reducing foreign imports. But they did not completely reverse the crises. For these crises, the developmentalist theories that had influenced Latin America for decades could not solve the problem, so "the neo-liberal economic reform" in Latin America is a reform process based on Hayekian neo-liberalism and Friedmanian monetarism, with the aim of replacing the socialist and nationalist import substitution model of industrial development in Latin America and establishing an externally oriented free market economy [7]. Menem has been following this theory to carry out economic and social reforms in Argentina since he came to power. Subsequent successors have

opposed his theory, and some have accepted and continued it. Menem's economic theories have profoundly changed Argentina.

Second, the Argentine privatization reform changed Argentina. In order to promote the privatization process, the government enacted the National Reform Law and the Economic Emergency Law, which were the two guiding laws to carry out privatization. The National Reform Law refers to the privatization of all public institutions (except universities) and the transfer of all or part of state-owned enterprises by means of separation, consolidation, elimination and transformation. During Menem's first term, he pushed for privatization reforms, and in just four years, from 1991 to 1994, more than 110 state-owned enterprises were privatized. From telecommunications, tourism, oil and other sectors to gas, electricity, railroads and other public sectors were all sold [8]. It is worth noting that in 1994, the privatization process extended to the social security sector, and in October 1993, Argentina enacted the Uniform Retirement and Pension System Act, a reform of the privatized pension system that introduced individual account pension plans, retaining the old system for political reasons and implementing the old and new systems in parallel, which was officially launched in July 1994 [9]. However, the reform of pension insurance privatization was not satisfactory, and problems such as declining participation rates and fund deficits led to overwhelming the government. On October 21, 2008, President Cristina submitted to Congress a draft law to abolish the individual account pension plan, nationalizing the funds managed by private pension companies and implementing a pay-as-you-go system managed by the state. The privatization of pension insurance ended. However, privatization reforms were thorough in other industries. Menem's privatization policy changed the country's corporate structure and, as a result of privatization, the situation of state-owned enterprises in Argentina changed radically. By 1999, only a few important enterprises, such as the National Bank, the Mint, and the nuclear power plants, remained in state hands.

Argentina's monetary policy also had a profound impact on the country. In the face of severe inflation, the Menem government began to implement the "Exchange Plan" in August 1991, abolishing the government's jurisdiction over currency and foreign exchange and establishing a fixed exchange rate of 1:1 between the Argentine peso and the U.S. dollar to forcefully curb inflation by keeping an eye on the U.S. dollar, with remarkable results. From 1993 onward, Argentina's annual inflation rate fell from four digits in 1989 to single digits, and even went negative for many years. However, this monetary policy soon ran into problems. The economic crisis that erupted in 2001 led to increased social unrest as banks were unable to settle their debts in a timely manner. The Argentine government turned to the IMF for help, but the IMF demanded that Argentina implement a tighter, zero-deficit program. However, the IMF was unable to help Argentina because of the contradiction between the "exchange plan" and the IMF's proposed policy. In order to save itself, Argentina announced the mandatory conversion of all foreign currency deposits into Argentine domestic currency and restricted depositors from withdrawing cash from banks. Due to social pressure, Menem's monetary policy was cancelled and depositors were allowed to withdraw money at a lower rate than the market rate. To compensate depositors for their losses, the Argentine government issued a ten-year bond, "Boden 2012". The Argentine government used the bonds to pay off the difference, and because of this, Argentina was left with a huge debt [10].

4.2 Evaluation of Menem's Economic Policy

Menem's neoliberalism brought great changes to Argentina. Although Menem was responsible for the 2001 crisis in Argentina, it cannot be denied that Menem brought some prosperity to Argentina. Argentina has developed in both economic and social aspects [11]. Menem's government solved the problem of hyperinflation in Argentina. However, Menem's administration created other problems, such as rising unemployment. During his ten-year presidency, Menem was controversial and received a lot of criticism, but it is undeniable that he had outstanding contributions to Argentina and left a rich political legacy for the country. The government cannot simply rely on the market to operate in the process of national governance, nor can it rely on total government control. A good economy needs to rely on the "invisible hand" and the government. During the Menem administration, he

voluntarily abandoned the government-led macro-control instruments, which was undesirable [12]. It is undeniable that developing countries can only obtain development opportunities and possibilities with the help of foreign capital, technology and markets, but a country's development should be based on itself, fully mobilizing domestic resources, human resources and markets, and fully concentrating on development. Of course, participation in globalization and integration into the international community is also the general trend, but a country should be "moderate" in opening up, and should have its own "strategic exclusion zone", not to let foreign capital "rampage". The dependence on external resources and markets should also be "moderate", to fully exploit the potential of the country [13]. Of course, the deterioration of the international environment is not negligible. The Asian financial crisis as well as the financial turmoil in neighboring Brazil had an impact on Argentina, including a decrease in foreign exchange reserves. The decade of Menem's administration was short compared to the history of the Argentine state, but it was profoundly long term. Argentina's economic situation is not the result of Menem's economic policies, but of multiple factors. In terms of the scope and intensity of reforms, Menem's government has implemented market-oriented, open and non-regulatory reforms in almost all-important areas of economic life. In general, Menem's economic policy was an important innovation to save the Argentine economy, and although it ended in failure, it still had a profound impact on Argentina.

4.3 Limitations

This paper only discusses the impact of Menem's economic policies on Argentina. However, other policies of Menem also had an impact on Argentina. Second, the data cited in this paper are macroeconomic data, including unemployment rate and GDP, but other indicators such as finance, debt, and domestic happiness index are not considered. This paper utilizes a simple "before-after" comparison analysis, in which the value that can be measured after the public policy is implemented is determined and then subtracted from the value that can be measured before the public policy is implemented. The advantage of this approach is that it is simple, convenient and clear. The disadvantage is that it is not precise enough to distinguish the effects of public policy implementation from those caused by other factors such as the public policy target's own factors, external factors, episodic events, social changes, etc.

5. Conclusions

Overall, Menem's economic policies were an attempt to find a new economic development model for Argentina, and at the same time a reform that revolutionized the country. The economic reforms during Menem's government brought about a new Argentina, although his policies were criticized by many. After Menem's administration, all economic indicators improved. He reduced inflation and boosted Argentina's domestic economic growth rate. In addition, he has continued to improve the investment climate, driving a large number of foreign companies to invest in Argentina. His policies did have some problems, the most serious of which was the rising unemployment rate. At the same time, the rigid monetary policy bypassed Argentina's monetary autonomy. All these problems indirectly led to the economic crisis in Argentina. His successors also have different views on Menem's economic policies, some continue his neoliberal economic policies, while others actively adjust the policies. However, Menem's reform of Argentina is comprehensive, and the adjustments made by his successors cannot completely eliminate Menem's influence on Argentina, especially in the area of privatization of state-owned enterprises. How to actively participate in economic globalization while avoiding going with the tide of liberalization and finding a development model suitable for oneself is the primary issue for developing countries seeking development. Obviously, Argentina did not do this during the Menem period. Menem's relevant policies have strengths and weaknesses. While he solved some problems, Argentina created new problems, such as unemployment. Argentina's academic and political circles are taking stock and evaluating the economic policies of the Menem period. Today's Argentina, with the left wing in power, has criticized

neoliberalism, overturned neoliberal reforms in all aspects, and repudiated Menem's economic policies. As Argentina's economic reform progresses and lessons are learned, the country will be able to enrich and develop a new development theory that suits its national conditions and guides its economic and social development.

References

- [1] María Garzón Rogé. Historia de la Argentina contemporánea: de Perón a Kirchner [J]. Estudios de Filosofía Práctica e Historia de las Ideas, 2006(8).
- [2] Xie Yumeng. An analysis of the failure of neoliberalism in Argentina and its revelation [J]. Modern Economic Information, 2016(12): 96-97.
- [3] Argentina GDP, Unemployment rate, Foreign direct investment [DB]. World Bank public data. Retrieved from <https://data.worldbank.org.cn/>. 2020.9.22
- [4] Fang Ning. The Dying of the Dream: The Washington Consensus and the Latin American Dilemma [J]. Social Watch, 2005(03): 11-12.
- [5] Argentina GDP, Unemployment, Foreign direct investment [DB]. World Bank public data. Retrieved from <https://data.worldbank.org.cn/>. 2020.9.22
- [6] Liu Yang. The Tendency of Argentina after Menem's Re-election [J]. Modern International Relations, 1995(09): 32-35.
- [7] Hao Xuemei. Introduction to Latin American Economy [M]. Beijing: University of International Business and Economics Publishing House 2010.
- [8] Nie Mingjun. Lessons and Insights from the Privatization Reform of Pension Insurance in Argentina [J]. China Social Security, 2018(12): 16-17.
- [9] Wu Tingting, Wang Cenyi. The origins and revelations of Argentina's economic predicament [J]. Southwest Finance, 2020(02): 77-87.
- [10] Yu KaiHe. The political legacy of former Argentine President Menem [J]. World Knowledge, 2021(06): 50-51.
- [11] Song Xiaoping. The Argentine Crisis and the Implications of Neoliberalism in Latin American Practice [J]. Latin American Studies, 2004(02): 29-32.
- [12] Wu Hongying. Success or failure of neoliberal reforms and social transformation in Chile and Argentina [J]. Latin American Studies, 2005(05): 17-22+80.
- [13] Hu Weijun. The Imbalance and Crisis of Modern Development: Rethinking the "Neoliberal" Reform in Argentina [J]. Fudan Journal (Social Science Edition), 2006(02): 19-25.