

Economists and Covid-19: The case of Argentina

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1. Introduction

In December 2019, a few weeks before Covid-19 was declared a pandemic, a new Argentine government led by a Peronist coalition was sworn in. The new administration, taking over from a centre-right alliance that ruled between 2015 and 2019, had been elected with the expectations to alleviate the economy from the adverse economic outcomes that characterised the previous four years, such as a steep decline in output and employment and rising levels of inflation. Furthermore, with stagnant exports and an incipient process of import liberalisation, the lack of a persistent inflow of foreign currency led the country to sign off in 2018 a loan with the IMF, the highest in the 70-year long history of this institution¹. It was clear that the task ahead for the new government was mammoth—a successful negotiation with the IMF turned out to be key for any conceivable recovery plan.

Alas, the Covid-19 pandemic hit Argentina in March 2020 and disrupted any feasible plan to put the economy back on the recovery path. Even though negotiations with the IMF and international stakeholders in early 2020 had shown positive signs of better terms for the country, the pandemic radically swayed the helm of economic priorities. The latter, under the new context, turned out to be radically different, aiming for measures to mitigate the most negative consequences that other countries had already started to undergo. Negotiations with the IMF would only resume in late 2021.

How to cope with Covid-19? Indeed, with no tested cures, treatments, or vaccines immediately available in March 2020, the world was doomed to carry on in total uncertainty. Having the new administration defined the central focus on the improvement and enhancement of the health system, the policies implemented were those typical of a war economy: to shut borders, to restrict movements of persons and goods to the essential minimum, to rapidly increase transfers for the most vulnerable families, to provide finance for private firms to keep their employees, implement universal allowance for anybody without a proper job. Expectedly, the economy halted due to the operating effects of supply and demand constraints. The national debate revolved around the extent and intensity of the above measures, which essentially were brought in under three dimensions: i) whether containment measures such as national lockdown and closing borders were to be adopted permanently and if they were the most appropriate; ii) the

¹ The 2018 IMF loan was for a USD 57 billion; for further details, see fn. 19, below.

evaluation of the economic relief policies being implemented; iii) the analysis presented by national economists around the issue of financing under a dollar shortage.

This chapter aims to map out the broad theoretical and economic policies' positions held by some economic experts in the public debate during the pandemic, with a view to discussing the diverging positions and reactions around these three questions by the government's economic team, and associated professional and academic economists broadly following the structuralist/heterodox school of thought, on the one hand; and a group of heterogeneous, influential domestic economists adhering to more orthodox/liberalist economic and political ideas, on the other.

Following this introduction, Section 2 provides an overview of the macroeconomic trends just before the pandemic hit the country. While Section 3 will offer a description of the policies implemented to cope with the pandemic, we will discuss in Section 4 the reception and assessment of those policies by different economic experts dominating the public realm during the pandemic. Section 5 will finally offer some reflections on whether we saw some change in the economic discourse in the wake of the pandemic and suggest some lines for further inquiry.

2. Macroeconomic background

The onset of the Covid-19 pandemic found the Argentine economy in a fragile and vulnerable macroeconomic context. The economy was undergoing a slump due to successive devaluations and restrictive fiscal and monetary policies during 2018 and 2019.

At the end of 2015, a new administration with a pro-market ideology had taken office under the leadership of Mauricio Macri. This administration had among its key economic goals to reduce inflation (around 25% in 2015) and to increase the output growth rate (average 0.4% annual in the previous four years). One of the significant institutional reforms then attempted was the complete deregulation of the capital account and the removal of all types of capital controls in place. Macri's economic team considered that these measures would increase the inflow of investments and, therefore, the supply of foreign currency.

On the other hand, the economic team had thought they could reduce inflation by closing the budget deficit and avoiding its monetisation. Lowering inflation would alleviate the demand for foreign currency (basically, American dollars). The alternative chosen to finance the gradual fiscal deficit reduction was by issuing debt. And, in the foreseen scenario of excess supply of dollars, the administration thought that issuing debt in foreign currency made more economic sense. Under a stable exchange rate, it would have a lower fiscal cost than debt issued in the domestic currency, the Argentine peso (De Lucchi & Vernengo, 2019).

However, to access to international capital markets it was first required to settle the legal dispute with international hedge funds (or 'vulture' funds). These investment pools owned defaulted sovereign bonds back from 2001 that held out from debt restructuring negotiations after 2001 and, therefore, demanded full payment of their bonds' face value. At the beginning of 2016, the

Macri administration agreed to pay without attempting any negotiation, contrary to what the previous administration had attempted in the wake of the 2001-2002 financial crisis. After the 2016 agreements, a sustained indebtedness process in foreign currency lasted until the first quarter of 2018. At that point, Argentina exited international capital markets and experienced the first run against its currency (Bortz et al., 2021). Although through other means, the debt process would continue.

In June 2018, the Macri administration signed a *stand-by agreement* with the International Monetary Fund (IMF). The agreement established the customary conditions of fiscal adjustment, tightened monetary policy, and the setting-up of a floating exchange rate regime. The economic team hoped the deal would reduce market uncertainty, restore confidence, and allow a return to a stable growth path. However, as Bortz et al. (2021) argue, foreign investors interpreted the agreement as an opportunity to disarm their financial position denominated in Argentine pesos and withdraw their investments in dollars. The capital flight speeded up, and the Argentine peso continued to depreciate throughout 2018.

Successive depreciation of the currency and low debt rollover rates forced a renegotiation of the agreement with the IMF, by further toughening fiscal and monetary policies. As it is well known, in small, open economies with unbalanced productive structures such as Argentina's, currency devaluations shrink the economy throughout because of their regressive impact on income distribution (Diamand, 1973).

In this type of economies, the bulk of the imports consists of raw material, fuel, and semi-elaborated products, which are difficult to substitute in the short run by national production and, therefore, are essential to keep the domestic production functioning. On the other hand, most exports have their origins in the primary and natural resource sectors because domestic manufacturing industries' production costs are greater than the average international prices for the same products. On the other hand, agricultural supply does not react immediately to a devaluation since the increase in the yields per land unit requires long-term investments. In general, however, the effects of currency devaluation bring mixed results.

On the one hand, devaluation increases the domestic currency value of imported inputs and so raises the production cost of manufacturing goods. Part of this increase is transferred on to the final sale price. This phenomenon is known as the 'propagation effect.' On the other, it increases the domestic price of agricultural products because exporters tie its domestic value to their earnings in international markets. This outcome is called the 'dragging effect.' In the Argentine case, whose main export products are staples (like cereals, soybeans, and beef), the latter effect is significant because they are relevant in the population's consumption basket. The inflationary impact of both effects increases the cost of living and, consequently, reduces wages' purchasing power. This income loss is transferred to exporters and landowners. The regressive income distribution induces a fall in global consumption and, ultimately, a recession.

The decrease in the demand for manufacturing goods hinders the chance of domestic firms to transferring the increase in production costs on to final prices and, therefore, profitability declines. The degree of capacity utilisation decreases, and firms put on hold their investment projects in the face of adverse expectations, thus exacerbating the recession. Argentina went

through this regressive process in 2019, and it was further aggravated by the IMF's conditionalities of tight fiscal and monetary policies.

Unlike previous historical experiences, when devaluations resulted from the country's inability to finance the current account deficit in the balance of payments, the currency crisis in 2016-19 resulted from complete deregulation of the capital account. Therefore, devaluation pressures persisted even during a slump, with an abrupt reduction in the current account balance.² The increase in capital flights after losing the elections in October 2019 forced the Macri administration to reintroduce capital controls.

The new administration that took office in late 2019 inherited a stagnating economy facing huge challenges, such as high inflation, increasing unemployment and rising poverty. Furthermore, the economy faced payment maturities of previously contracted debt without access to capital markets. The necessity of reactivating the economy and rising real income seemed to conflict with the imperative of raising reserves to meet these payments and avoid default.

3. The policy response to Covid-19

Immediately after Covid-19 was declared a pandemic in March 2020, the Argentine national administration decreed a strict lockdown throughout the country. By that time, while infections in the country were still quite low, the government concentrated their economic efforts on improving and adapting the health system to face the uncertain scenario that Covid-19 opened.³ The primary purpose was to flatten the contagion curve by preventing people from exiting their residencies and thus avoiding further infections.⁴ The lockdown specifically included:

- Stringent quarantine
- Shutting down of non-essential activities
- Closing of borders
- Suspension of almost all commercial flights until the end of September 2020

Like the rest of the world, these measures had a severe economic impact, giving rise to both supply and demand problems. On the one hand, all non-essential firms could not produce or deliver services as people were requested to work from home, except for a few jobs considered 'essential'. Thus, production was severely hit. Under this scenario, firms put investments on hold, shut down their businesses or at most kept them operating at minimum capacity. Further, firms were not allowed to lay off workers during the length of time for which these special conditions were in place. On the other, due to the shutdown of non-essential activities (leisure

² From -5.2 to -0.8 points percentage of GDP between 2018 and 2019.

³ It is worth noticing that the national administration had in 2015 downgraded the until-then health national ministry to a secretary, only to regain back its ministerial status in 2019.

⁴ Cases rose sharply during the long wave of 2020 as well as the rather shorter one in March-July 2021. As of 18 February 2022, after the Omicron variant reached the country beginning in 2022, Argentine positive cases hit 193,918 per million people, while the death rate per million people was 2,755. Source:

<https://covid19.who.int/region/amro/country/ar>

businesses, retail shopping, hospitality, etc.), a large part of income plummeted, and so consumption drastically fell, ensuing a sharp drop in aggregate demand.

As regards the workforce, the Argentine workforce composition is not homogenous. It is estimated that over a third of the working-age population is self-employed (around 4.5 million people, INDEC, 2021), normally in petty businesses under unstable conditions. Many of them are unregistered with the national social security agency (ANSES in Spanish). These jobs range from street vendors and small shopkeepers to self-employed service providers (plumbers, handymen, tree surgeons, etc.). Since almost all these incomes are tied to daily activity, the lockdown measures severely impacted on this large group of workers (known as *trabajadores informales* in Argentina). In the context of the new restrictions to delay the spread of Covid-19, several mitigation measures were implemented, focusing on easing the economic burden suffered by these groups of people. To that end, the government provided financial assistance to firms and households by delivering a comprehensive fiscal package (Ministerio de Economía, n.d.). This essentially included:

- Emergency household allowances (US\$100 circa, targeted at self-employed, domestic personnel, recipients of Child Universal Credit).
- Tax reliefs and subsidies for firms to avoid layoffs (Emergency Assistance Programme for Work and Production, ATP, which postponed or reduced up to 95% of the firms' pension contributions; supplementary salary funded by the government; zero-rate credit for autonomous and self-employed workers).
- Targeted bonuses for health workers, senior citizens, and police and military officers.
- Freezing of housing rents and prohibition of eviction, both until March 2021.
- Suspension of cutting off public utilities due to non-payment (this measure covered Micro-, Small- and Medium-sized firms, MSMFs, producing food).
- A previous law passed in 2019 was extended into 2020 and 2021, establishing a National Food Emergency, which basically set a special compensation regime for the food production and distribution sector so that domestic prices were capped to guarantee broad access by population.
- Financial facilities for consumption spending.

In addition, the Central Bank implemented a series of measures during the Covid-19 pandemic. Credit lines aimed for S&M sized firms were put in place as well as low-interest credit facilities. Financial support to pay wages in the MSM sized firms were also implemented while fees for ATM transactions were dropped (BCRA, n.d.).

Taxation on the richest has also been proposed very eagerly by the government during 2020, and later that year, a bill to that effect (taxing physical or juridical persons with wealth above USD 2.1 million) was passed. The law was implemented in January 2021, and the government levied more than USD 2.4 billion through taxation upon more than 10,000 national citizens. Although huge opposition came from specific taxpayers, the administration managed to collect 77% of the total amount originally aimed for. This revenue was used for medical equipment (20%), subsidies to MSMFs (20%), student grants (20%), social developments (15%) and natural gas projects (25%) (BBC News Mundo, 2021).

As the focus of the government was to strengthen the national health system, it was clear that within the context of lockdown and plummeting tax income, the key funding source in national currency would be the Central Bank. The bulk of the financialisation of national expenditure for most of 2020, in the context of several years of fiscal deficit (5% of GDP), was gain transfers and temporary advances (*adelantos transitorios*) from the Central Bank to the national treasury (Gasparín, 2020). While this source of financing slightly changed in the first half of 2021 as more austere monetary attitudes were adopted by policymakers (Strasnoy Peyre, 2021), towards the end of the year that policy was strengthened as the mid-elections approached (Equilibra, 2021). Although a few financing channels through development banks were available for Argentina, this was only a tiny share of the total financial need (Cipoletta Tomassian & Abdo, 2021). Understandably, therefore, given the shutting of capital markets and the unresolved situation with the IMF loan, the national government financed itself via the Central Bank. The ultimate purpose was, and this was clear from the beginning of the pandemic by the government, to use the financial means to mitigate the effects of the disease, attempting to minimise the number of deaths even at the cost of increasing poverty.⁵ Indeed, as the unemployment rate first rose from 9.9% to 11.7% between 2019 and 2020 but then fell to roughly 9% from 2020 to 2021,⁶ the poverty rate (for individuals) rose from 35.5% in second half of 2019 to 42% for the same period in 2020 (INDEC, 2020). In 2021, despite an estimated increase in real GDP of 7.5% (International Monetary Fund, 2021), the poverty rate mildly decreased to 40.6%.⁷

Extraordinary circumstances demanded extraordinary measures. These not only impacted on economic variables but also gave rise to economic discussions about the suitability and soundness of the mitigation measures. Debates about these policies have emerged as soon as April 2020, and they extended further into 2021, a year of mid-term elections. Against the general background described thus far, it is worth discussing how different strands of economists and experts assessed the effects of such policies both on the immediate and the long-term problems of the economy.

4. Reception, assessments, and debates on the Covid-19 policies

At the risk of excessive generalisation, two broad intellectual traditions have shaped and inspired economic policymaking in Argentina. The first is dubbed liberalism⁸, and the second is structuralism (Ferrucci, 1984). This chapter argues that the influence of both traditions was also perceived in the debates around the policies related to Covid-19. Therefore, the distinction serves

⁵ President Fernández [said in an interview](#) held in April 2020 that he would prefer to have ten per cent more poor people instead of 100,000 deaths.

⁶ Data retrieved from INDEC (2021) and the [Under Secretary of Macroeconomic Programming](#).

⁷ Data retrieved from [INDEC website](#).

⁸ To avoid misunderstanding, we use the adjective “liberalist” throughout the text to refer to advocates of this stream of thought.

to group the opinions by influential economists accordingly. Prior to summarising the debates, we briefly describe both intellectual traditions.

The liberalist model practically dominated the national economic policy making between the end of the 19th century and the beginning of the 1940s. However, liberalist ideas and their influence on policymaking did not disappear; since then, their hegemony ended but they have remained relevant in ideological debates.

The central view on economic development of the liberalist model is the specialisation of the country in the global economy as primary sector producer. This strategy was accompanied by a set of ‘orthodox’ policies like adherence to the Gold Standard,⁹ maintaining a balanced fiscal budget, and minimising the role of government in economic activity. The process of development during this period brought substantial transformations in Argentina’s social and political structure. The two World Wars and the Great Depression of the 1930s, along with substantial transformations in the social structure during this period, put the liberal model in difficulties. Facing steeping complications selling commodities overseas and growing difficulties for purchasing imports, the country was under pressure to pursue (and reflect upon) an alternative development strategy. Coupled with this pressure was the growing disbelief that markets self-regulate. This context gave rise to the influence of new ideas in economic policymaking, which were later dubbed as structuralist ideas.

Structuralism was influenced (not always consistently) by Keynesianism, Marxism, economic programming (e.g., Leontief’s input-output analysis), and ‘high development theory’.¹⁰ The fundamental principles of the structuralist approach are that markets are subject to several failures and that government must intervene in the economy to correct them. Argentinean structuralists think that the ‘agro-export’ model makes the economy extremely vulnerable to economic shocks and creates insufficient jobs. The alternative is to develop industrial activities that increase overall productivity and absorb surplus labour. Since these activities take time to become profitable or compete internationally, the government has to deploy policies oriented at nurturing and developing them.

These opposing views on the development strategy and its associated policies have continued in the public discussion up today. Indeed, they can be perceived in the debates surrounding Covid-19 policies. Liberalist economists, on the one hand, disliked extreme restraining measures (e.g., lockdowns) because of their effects on the economy and they are worried about the sustainability of a high fiscal deficit. Structuralist economists, on the other, defended restrictive measures beyond public health reasons and argued in favour of an active fiscal policy. Additionally, they warned about the effects of excessive liquidity in an economy with a dollar shortage. The current Finance Minister Martin Guzman (*PhD* from Columbia University under Joseph Stiglitz) arguably belongs to this tradition. In the following sections we attempt to illustrate how this clash emerged around some debates on the policies to face Covid.

⁹ Although the currency was inconvertible during several periods.

¹⁰ Hirschman (1958), Rosenstein-Rodan (1960).

4.1. Debates on the non-pharmaceutical interventions

One angle that the debate took were the different reflections on the impact of non-pharmaceutical interventions. While liberalists cluster the issues at stake within the limits of a general dilemma between ‘the economy vs public health,’ economists of structuralist orientation considered this a false dilemma. Let us begin with the first group.

The gist of the liberalist position regarding lockdown measures revolved around the negative impact on the economy of having extended the period of restrictions for more than seven months (March-September 2020). Indeed, while some of these economists acknowledged that the restrictions were correct to boost the health system in the first few months, they harshly criticised the successive extensions. Victoria Giarrizzo, from the Interdisciplinary Institute of Political Economy of the University of Buenos Aires (IIEP in Spanish), argued that the lockdown created “serious economic damage”, putting the economy and informal workers specifically at severe risk. Giarrizzo argued that although the country did not see a huge increase in unemployment in the short run thanks to the fiscal policy in place (see Section 4.2 below), these measures have to be scrapped eventually because they harm Argentine business appeal in the long run (Costabel, 2020). Wrapped in the ‘economy vs health’ dilemma, Giarrizzo holds that both phenomena have a distinct temporal nature, arguing that in the long run, it is the former that most interests the population, as health problems should be sorted in the short run.

In the same breath, Enrique Szewach, a former director of Argentina’s Central Bank during the Macri administration (2015-2019), argued that “the extension of the limitations to economic activity worsened” the already-deteriorated economy due to the restrictions. He further held that the situation would exacerbate itself because of the lack of access to debt and low savings. The situation of the most affected in Argentina could only be covered via the expansion of the public spending financed from the Central Bank. Although Szewach timidly praised the fiscal measures implemented to alleviate the poorest and most deprived sectors of the population,¹¹ he acknowledged that the financial help did not reach some small businesses that did not sell their product through e-commerce. Therefore, he stresses, the government aid was “quite inefficient”. As the restrictions dragged on in 2020, this worsened this scenario (Costabel, 2020).

A still more direct and critical stance among experts of liberalist orientation against the official policies can be found in the view held by Jorge Colina (director of think-tank IDESA, Institute for Social Development in Argentina). Writing in mid-2021, he reflected on the effectiveness of the policies by comparing statistical figures on deaths (the health side of the dilemma) and poverty (the economy side of the trade-off) for Argentina, Chile and Uruguay. Since the Argentine government supported the restrictions for seven months since March 2020 with the aim to minimising the health impact, and since the two other countries run more focused and sector-oriented lockdowns, it was no news, according to this expert, that the increase of poverty in Argentina (+7%) was higher than in Uruguay (+4%) and Chile (+2%). What Colina highlights is that the death rate per million people (by August 2021) was higher in Argentina (2,300) than in the other two countries (Uruguay: 1,700; Chile: 1,800). He concluded that Argentina did not actually prioritise health over the economy and, somewhat counterfactually, that the same result

¹¹ The economist comments that the “emergency income to complement the pre-existing subsidies has been relatively effective.”

would have been achieved had the government prioritised the economy over health. According to this expert, the root of this negative outcome was the lack of a comprehensive plan and blamed the “improvised” nature of the measures taken (Colina, 2021).

Roughly similar positions of the cluster of experts of liberalist orientation can be found in other notorious economists (who often appear on the media) such as Juan Carlos de Pablo (from the University of CEMA, see also Section 4.3), Ricardo Lopez Murphy (former finance minister in 2001, and former chairman of Liberal Network for Latin America, RELIAL),¹² and Andres Neumeyer and Constantino Hevia (both from the Department of Economics at Di Tella University).¹³

On the opposite side, economists and experts belonging to the structuralist economic tradition defended, somewhat differently, the measures to mitigate the impact of Covid-19 on the economy.

Emmanuel Agis, former finance deputy minister (2013-2015) and a well-known heterodox economist in the Argentina mass media, became one of the staunchest defenders of the official policies since the very early days of the pandemic. Challenged by the too-often-spread dilemma ‘health vs economy’, Mr Agis did not hesitate to face it in the press. First, like other heterodox local economists,¹⁴ he argued that the dichotomy is “entirely fallacious”. If a society does not enjoy a minimum standard of good health, firms risk not meeting the workforce necessary to run factories and shops. So, his argument goes, health comes before the economy as the latter crucially depends on the former¹⁵. Secondly, he held that, even if the dilemma were not misplaced, their position (his and the government’s) would favour health over the economy. This reflects the straight and much-defended orientation of the whole national government during the heated early weeks of the pandemic (Álvarez Agis, 2020).

From the viewpoint of economic ideas, it is worth bringing forward Agis’s use of Keynes’ essay *How to pay for the war?* originally published in 1939. In that essay, Keynes elaborated a detailed plan for the UK heading to the Second World War. Indeed, Keynes saw that the real challenge the UK was facing was to meet an economy in full employment. Agis denied that the Argentine economy was in full-employment but argued that one of the “key inputs” in the domestic

¹² See Unidiversidad, (2021).

¹³ For example, they wrote: ‘However, [government borrowing from the central bank] is an effective measure only if it is employed once and for all, for it cannot be sustained in time without creating further inflation’ (Neumeyer & Hevia, 2020).

¹⁴ A great proportion of local heterodox economists are currently working for the national finance ministry, the Argentine central bank as well as other government-linked think tanks like CESO, German Abdala Foundation and others (see below, 4.3). Further, those not directly working for the government are academically associated with the public Universities of San Martin, Moreno, Quilmes, and General Sarmiento, all located across the Greater Buenos Aires area.

¹⁵ In this connection, a theoretical reflection defending the measures to mitigate Covid was presented by Eduardo Crespo (University of Moreno and University of Rio de Janeiro) and Ariel Dvoskin (University of San Martin, Argentina’s Central Bank), and which backs up Agis’s position. Crespo & Dvoskin (2020) argued that healthcare is a ‘basic commodity’ in Sraffa’s terminology (Sraffa, 1960). Basic commodities enter directly or indirectly in the production of *all* commodities. Since economic activities require a healthy workforce then healthcare is as ‘basic’ as is energy provision for the normal functioning of the economy.

economy was “fully employed”: the American dollars. As sketched above, the structuralist approach sees the lack of foreign currency as the primary constraint for growth. In a historical comparison, Agis argued that, following Covid-19, the economy was enjoying a dollar surplus due to the restrictions in place, which, to recall, together with the global trade shutdown and international flights, gave rise to drastic drop in demand. This surplus would help the strategy pursued by the government to flatten the infections curve and boost the health system.

Bringing in Keynes (1939) helped Agis defend war-like economic policies. Indeed, Agis advocated for direct government control on health equipment (ventilators, personal protective equipment, medicines, etc.) by jointly planning both the public and the private health systems. Furthermore, the economist defended price controls on food and other necessities (see section 3 above) on the grounds that these resources are essential, so the government must guarantee them to most of the population, especially the most affected ones in the pandemic.

However, Agis considered that the isolation and restrictions would continue, if not forever, at least for an extended period. He noted that “while social isolation lasts, the only demand that could be guaranteed as long as the fiscal stimulus is sufficient, will be food and medicine. (...) The unique economic actor that will be in condition to purchase something will be the government”. Indeed, a position that was much opposed to by the liberalist experts.

4.2. The fiscal policy response: Excessive or not enough?

Another interesting angle where the debates on Covid-19 policies centred around was the expansionary fiscal measures. For some economists, the fiscal measures were deemed as adequate, but for other experts, they were at most a shy response to the pandemic. Still, others stressed the narrow fiscal margins to sustain these expansionary measures.

Once again, let us take Emmanuel Agis’s stance, a relevant representative of the domestic heterodox economists’ community. As mentioned above, Agis brought in Keynes (1939) to argue in favour of a massive fiscal expansion and government controls. Indeed, Keynes had argued that the expenditures for the war and those for domestic consumption had to be balanced. To that goal, Keynes envisaged four mechanisms through which the government could plan such a balance: i) universal transfers, ii) forced savings, iii) allowance of necessities, iv) tax on capital for the post-war period. Agis, in turn, argued that Argentina had already created the forced savings due to the restrictions in place, while he did not see room for tax on capital. Policies i) and iii) were put in place since the beginning of the pandemic (see Section 3 above). Approvingly, Agis maintained that all these measures were the correct policies to better protect the most in need. However, at the same time, he flagged that the government may run the risk, when implementing direct money transfers to the most in need, of falling short of what is needed to keep the pace of the domestic demand. In fact, Mr Agis held that the “government’s economic stimulus is unbalanced: a lot of ineffective monetary policy, and little of effective fiscal one” (Álvarez Agis, 2020). Agis distrusted the monetary policy package because it could hardly impact an economy with an underdeveloped financial market like Argentina (e.g., increasing private credits for consumption). Instead, the economist argued for a more significant fiscal

stimulus. Since, in his view, the Covid-19 crisis would leave the country with a surplus of dollars, there was plenty of room for government spending.

Naturally, while accepting the fiscal measures in place as a correct short-term emergency policy, another stream of economists cast serious doubt on the possibility of these fiscal measures being sustainable in time. Interestingly, economists belonging to both approaches sketched above entertained such views.¹⁶ For example, Ricardo Carciofi (a leading researcher in economic development at the think tank CIPPEC, Centre for the implementation of public policies for equity and growth) argued that fiscal measures such as public works and housing had delayed effects on the economy. More importantly, he stressed that the fiscal costs, in the long run, would impact the public budget, thus affecting a “better allocation of public funds” (Carciofi, 2020). According to this economist, while Argentina reacted positively in the face of the pandemic with the war-like economic measures, at the same time, he pointed out that the reduced fiscal and monetary spaces would limit the scope of those same policies (Radonjic, 2020). Concomitantly, economists Martin Rapetti (also from IIEP) and Giarrizzo, introduced above, argued that the fiscal measures financed by the active monetary policy were very much oriented to protecting the people at the expense of overlooking the business sector, which required more help to overcome the crisis (Costabel, 2020; Infobae, 2020).

4.3. Active monetary policy under dollar shortage

As discussed in Section 3, the fiscal package to face the pandemic was primarily financed by monetary financing. Expectedly, this practice raised some concerns among liberalist economists. Based on Friedman’s monetary theory, they claim that excessive ‘money printing’ leads inevitably to increasing inflation.

However, it was challenging to empirically sustain the claim in an economy undergoing a recession, with soaring unemployment and meagre capacity utilisation levels. The intense monetisation process could have hardly created an excessive demand in goods markets to raise prices. Indeed, more sophisticated arguments did not rely exclusively on this transmission mechanism and focused instead on the effects of monetary financing in the foreign exchange market. Juan Carlos de Pablo argued that if the money supply grew faster than money demand, the excess money would buy US dollars. The pace of exchange rate depreciation would accelerate, thus rising prices. Within this argument, the causality continues to go from ‘money printing’ to inflation.

Throughout the third quarter of 2020, there was substantial pressure in the foreign exchange market. To avoid high depreciation rates and lose reserves, the Central Bank reinforced capital control measures beginning in the fourth quarter. However, these measures were not able to stop the drain of reserves because they increased the gap between the regulated exchange rate and other market-determined exchange rates,¹⁷ raising devaluation expectations. Widening the exchange rate gap also limited dollar inflows through the official exchange rate. Expecting a

¹⁶ E.g., Martin Rapetti holds that Argentina needs a low value of the domestic currency to boost exports, and warns of the evils brought forward by fiscal expansionary measures (Sticco, 2020).

¹⁷ These include both the implicit exchange rate for buying assets in *pesos* and selling them in *dollars* in foreign markets, and the black-market exchange rate.

higher exchange rate value, grain exporters do not liquidate crop stocks while firms delay and, if possible, underbill their exports. Additionally, firms producing for the domestic market anticipate and overbill their imports as much as possible. The result is further reserves loss and continued pressure in currency devaluation.

Juan Manuel Telechea, director of the Economy and Labour Institute of the German Abdala Foundation, identified at the root of the problem the measures taken by the central bank to expand liquidity (Telechea, 2020).¹⁸ In addition to financing the increase of government expenditure and transfers, the central bank set a cap on the stock of *Leliqs*—a short-term peso-denominated debt instrument—that commercial banks could keep in their portfolio. The central bank expected to raise loanable funds to the production sector. Liquidity in the banking system indeed increased. However, due to high uncertainty at the dawn of the pandemic, neither commercial banks loaned to firms nor firms borrowed. Instead, the increasing liquidity lowered the interbank rate. There lay the “original sin”, according to Telechea, of the growing pressure in the foreign exchange market. Lower bank rates affected this market through three channels: cheaper funding for speculative leverage; the rebalancing of portfolios because of lower returns in peso-denominated assets; and increased devaluation expectations that turn into a self-fulfilled prophecy (OCEPP, 2020). Telechea draws two main lessons from his analysis. First, the management of liquidity in the banking system is also crucial for the exchange rate dynamics. Second, monetary policy was not an adequate tool to boost economic activity. Instead, fiscal instruments were more effective.

5. Concluding remarks

At the time of closing the present chapter (February 2022), the Argentine government has signed an outline deal with the IMF to restructure USD 44.5 billion of the total debt (USD 57 billion). While the agreement has yet to be confirmed by both the IMF executive board and the Argentine parliament, some have argued that it is a recognition of earlier errors made by the financial institution back in 2018. True, the agreement will imply a series of payments over the next few of years which will further overstrain the Argentine economy¹⁹; at the same time, it does not, in principle, entail the classical IMF oriented policies of diminishing social expenditure, privatisations, labour market and pensions reforms. In that sense, this is indeed a novelty in the IMF long history in financing developing countries with its facility loans. The national administration, not without cracks within the governing coalition, has presented this deal as a new form of relationship with the IMF. Domestically, rising inflation has not been weathered and while the economy grew in 2021 the reduction in poverty was meagre. Politically, the government was hit in mid-term elections with the triumph of the centre-right coalition in most big cities and districts. Indeed, we believe, the policies implemented to mitigate Covid, and their effects, shared a great chunk of this election outcome.

¹⁸ See: <https://centraldeideas.blog/administracion-de-la-liquidez-durante-la-pandemia/>.

¹⁹ See: <https://www.ft.com/content/9ac4d53c-fafe-4e08-969d-d2ae927bc912>

The government has swayed on the 'health' side of the 'health vs the economy'-dilemma since the early days of the pandemic, arguing in favour of saving lives at the cost of increasing poverty. These measures dragged on for more than seven months in 2020, and in 2021 several such restrictions were put in place during March-June. True, Keynesian-oriented fiscal and monetary policies helped an already stagnant economy getting through the last two years, by helping the lowest pockets of the population in the social pyramid as well as by enjoying dollars surplus from 2020. The debate between the liberalist and structuralists economists in the national debate much centred on the strength, accuracy, and effects of the measures to mitigate Covid.

Stimulus packages of different sort and kind have been the issue of contention. On the one hand, liberalist economists argued that these policies should only be the content of a robust orthodox-oriented budgetary plan for the short run, while easing these restrictions in due time to guarantee to bring the economy back to business as usual. They basically argued that money-printing and excessive public spending were the culprits of the hiking inflation and so these were at the root of all the socio-economic problems of the country. The reaction from the government officials and some heterodox economists linked to them, on the other hand, has not been unanimous, although all recognised that any further fiscal expansion would crash with the lack of dollars and thus raising inflation. To this new dilemma, the official policy has apparently been to timidly start freezing (not decreasing) social expenditure and monetary expansionary policies, while attempting to increase public fiscal surplus to meet the forthcoming payments if the deal with the IMF is ratified. Far from arguing the final say on this debate is over, the battle over broad economic ideas to derive policy measures has seemed to be inclined on the side of caution and moderation, thus indicating the more orthodox oriented economists of the debate, both within and outside the national administration, would have presumably prevailed, at least for the next few years. If this is the case, then it will become apparent that ideas and ideologies traverse differing school of economic thoughts.