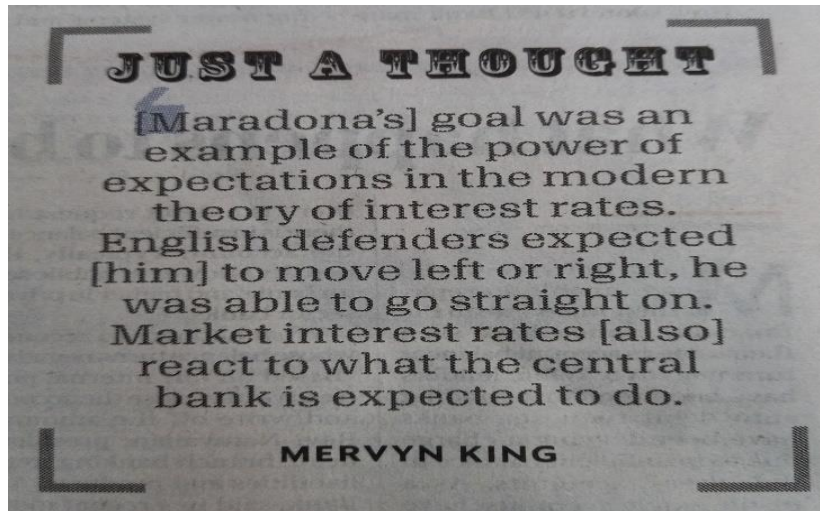


## Maradona's goals and Argentina's economic instability

Vivek Moorthy 28 Dec 2020, 09:41 PM IST

His goals led to inflation policy talk but the big Argentine lesson is about how key officials are appointed

<https://www.livemint.com/opinion/online-views/maradona-s-goals-and-argentina-s-economic-instability-11609171502078.html>



The demise of Diego Maradona last month incidentally brought to the fore the topic of monetary policy in Argentina. The governor of Bank of England in 2005, Mervyn King, in a lecture staunchly supporting inflation targeting, had used Maradona's (invisible) 'Hand of God' goal, and his unexpected tactics in his second goal in Argentina's spectacular 1986 win against England, to elucidate concepts related to inflation expectations. Lord Mervyn King's comments were alluded to in newspaper editorials, and in Mint too, last month.

Since India embarked upon inflation targeting in 2016, it is worthwhile to follow the twists and turns in Argentina's economy over decades, and draw vital lessons from it. Argentina, an economic powerhouse and huge agricultural exporter prior to World War II, was known for its elegant café culture. Buenos Aires before World War II was often compared to Paris.

The Central Bank of Argentina was formed in 1935, the same year as the Reserve Bank of India (RBI). In the 75-year post-War period from 1946 onwards, it has had 60 Bank presidents (equivalent to our governors), far more than its 24 heads-of-state presidents. Under the flamboyant Juan Peron, who ruled from 1946 to 1955, it had four Bank presidents. His policies were in the 1950s' development economics mould: Massive government spending and pro-corporatist protectionism. Inflation reached double-digit rates under his reign, remained at those levels through the 1960s, and then rose to triple digits by the 1970s.

By the mid-80s, Argentina was undergoing hyper-inflation. The inflation rate, based on a reliable estimate, averaged close to 1,400% during the period 1986 to 1990. Ravaged by hyper-inflation, Argentina then sought monetary discipline by anchoring its currency to the US dollar with a currency board arrangement in April 1991, and a chosen exchange rate of one peso to a dollar. One step short of fully adopting the anchor currency for domestic use, such an

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arrangement required its currency to be fully backed by equivalent dollar (anchor currency) reserves. The currency board did work initially, with the inflation rate coming down to low single digits in a few years. At the fixed exchange rate, Argentina's inflation rate had to converge fairly closely to the US inflation rate, or else its dollar reserves would be depleted.

During the Asian currency crisis of 1998, Argentina struggled to maintain its peg to the US dollar. During the Asian currency crisis of 1998, Brazil, which had a flexible exchange rate, let its currency weaken and managed to keep up exports. Argentina's currency board was abandoned in 2002, following a period when it had to cope with runs on banks by anxious depositors. After a huge initial devaluation to 1.4 pesos per dollar, the peso was then slowly made flexible. Needless to say, inflation started creeping up. By 2007, the official rate was close to 10%, while unofficial estimates were over 20%. In 2007, the official heading the country's agency INSDEC, in charge of bringing out inflation data, was fired and replaced.

Martin Redrado was appointed as Bank president in September 2004, by which time the peso had been made flexible. After the financial crisis of 2008, the government badly needed foreign exchange. He opposed the plan of president Cristina Kirchner, wife of the former president Nestor Kirchner, to use up some of these reserves by first opening a \$6 billion account with the central bank. Redrado was dismissed; reinstated by a judicial order, he continued for some time, and then resigned in 2010.

While Argentina has not regressed to hyper-inflation, it has reverted to its bad old ways. As of November 2020, its inflation rate (year-over-year) was 37%, expected inflation close to 50% and the monetary policy interest rate was 38%, with the peso wholesale rate at about 81 per dollar. As of end-November 2020, central bank reserve money had risen by 44% from a year earlier, while total money supply was up by 95% (all data taken from Central Bank of Argentina website in mid-December).

The vital lesson from Argentina is that the technicalities of monetary policy and the choice of exchange rate regimes (fixed versus floating) matter less than the terms and conditions of the appointments of those in charge. The average length of tenure for the Bank president from 1945 to December 2020 has been about 15 months. By contrast, Joseph Yam was chief of the Hong Kong Monetary Authority for 14 years. While it may be coincidental, under his stellar stewardship, Hong Kong weathered the Asian currency crisis of 1998, without abandoning its currency board and the dollar peg, unlike Argentina.

Longer terms for central bankers in office are clearly better than shorter ones. However, for sound monetary policy, it is best that the central bank's head should not just have a non-dismissible appointment, but also a non-renewable one. Argentina is not the only country that would greatly benefit from such an appointment rule.

Many great travel writers were fascinated by Argentina and wrote about it, including Jan Morris, who died just before Maradona. In *Falling off the Map* (1994), Pico Iyer wrote about Argentina "It has the urbanity to reflect on its steady loss of all that urbanity entails." Let us substitute the word 'legality' for 'urbanity'. Then one could rephrase Pico Iyer's elegant sentence as a rhetorical question. Perhaps that question applies to many other countries at present, India included.

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